

The contents of this document are preliminary and subject to change.

GRAY/21/2512

CONFIDENTIAL

September 7, 2021

**Statement by Mr. Bhalla and Mr. Goyal on Committee of the Whole: Sixteenth General Review of Quotas—Initial Considerations on Quota Formula and Realigning Shares and Quota Data Update
(Preliminary)
Committee
September 10, 2021**

1. We thank Staff for the detailed and helpful report presenting updated calculations and scenario analysis to take forward the work on 16th GRQ. Our observations and views on results presented by the Staff are as below:
2. We fully support the broad principles set out in the Board of Governors Resolution of February 2020. It states that 16th GRQ should revisit the adequacy of quotas and take the process of IMF governance reform further. A new quota formula, that ensures the primary role of quotas in IMF resources, and increases quota shares of dynamic economies in line with their relative positions in the world economy, while protecting the voice of the poorest members, should be discussed.
3. We note that out-of-lineness is increasing over time. As observed in the report, as per 2019 data, the aggregate out-of-lineness increased to about 14 percentage points (pp), which compares unfavourably with the aggregate out-of-lineness of 5.3 pp after the implementation of 14th GRQ. Across country groups, AEs are over-represented and EMDCs are under-represented by 7.7 pp, highlighting the rising relative weight of the emerging market economies in the global economy.
4. We do not agree that the current quota formula is robust and valid, delivering the required shift in Calculated Quota Share (CQS), and only requires minor modification. The major structural shift in the global economy towards the EMDCs would warrant a much larger shift in CQS.
5. As per simulations presented by the Staff, most of the underrepresented countries benefit from an increase in the weight of PPP GDP within the GDP blend variable; and given the persistent rise in out-of-lineness over the years, we prefer that the weight of PPP GDP in the GDP blend should be increased.

6. While realignment of quota shares could be done using any combination of the three methods, *viz*, selective increases, equiproportional increases, and ad hoc increases, to achieve significant reduction in the out-of-lineness, there is a need to give more prominence to formula based selective and *ad-hoc* methods as done during the 14th General Review of Quotas. The equiproportional increases would leave the existing quota shares unchanged, and do not reduce out-of-lineness.

7. The calculations provided by the Staff show that AEs account for nearly 80 percent share of Voluntary Financial Contributions (VFCs). Therefore, the impact of inclusion of VFC in the quota formula will be to reduce the size of the shifts from AEs to EMDCs, which will worsen out-of-lineness of quota shares. Further, it would provide incentives for substituting quota increase by non-quota contributions through borrowing arrangements. This would be tantamount to buying the quota share by high-income economies at the expense of the EMDCs and LICs, Hence, we are not in favour of including VFC in the quota formula.

8. We support updating the country classification used for quota related discussions and aligning it with the current WEO classification. It would better reflect the shift in quota share toward emerging market economies.