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PROGRESS ON THE FIFTEENTH GENERAL REVIEW OF QUOTAS—REPORT OF THE EXECUTIVE BOARD TO THE BOARD OF GOVERNORS

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- The **Report**, discussed and adopted by the IMF Executive Board on September 21, 2018.

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International Monetary Fund
Washington, D.C.

Progress on the Fifteenth General Review of Quotas Report of the Executive Board to the Board of Governors

1. In December 2016, the Board of Governors adopted Resolution No. 72-1 on the Fifteenth General Review of Quotas (hereafter the "Fifteenth Review"), which, inter alia, (i) called on the Executive Board to work expeditiously on the Fifteenth Review in line with existing Executive Board understandings and the guidance provided by the International Monetary and Financial Committee (IMFC) on October 8, 2016, and with the aim of completing the Fifteenth Review by the 2019 Spring Meetings and no later than the 2019 Annual Meetings; and (ii) requested that the Executive Board report to the Board of Governors on progress on the Fifteenth Review semi-annually.

2. On October 4, 2017, the Executive Board discussed and adopted its first semi-annual report on progress on the Fifteenth Review.[1] The report covered issues related to the quota formula and realigning quota shares as well as issues related to the adequacy of Fund resources, discussed in informal meetings on September 1 and on September 15, 2017, respectively.[2] On April 3, 2018, the Executive Board discussed and adopted its second semi-annual report on progress on the Fifteenth Review.[3] The report covered issues relating to both the adequacy of Fund resources and the quota formula and realigning quota shares, discussed in an informal meeting on February 2, 2018 and building on the earlier discussions in the fall of 2017.

3. This third progress report seeks to reflect the broad outcome of a further informal discussion by Executive Directors on issues for the Fifteenth Review. Directors met as the Committee of the Whole on July 30, 2018 and, building on the earlier discussions, covered issues relating to both the adequacy of Fund resources and the quota formula and realigning quota shares.[4] As on previous occasions, no formal summing up was issued, given the informal nature of the discussion. Rather, the Chair provided informal remarks reflecting her understanding of the views expressed. The summary below draws heavily on these remarks but does not purport to capture all nuances that have been expressed to date.

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[1] *Progress on the Fifteenth General Review of Quotas—Report of the Executive Board to the Board of Governors* (10/4/17).

[2] As is customary for general reviews of quotas, the forum for the discussions is the Committee of the Whole. The Committee of the Whole for purposes of the Fifteenth Review was established by the Executive Board on January 30, 2013.

[3] *Progress on the Fifteenth General Review of Quotas—Report of the Executive Board to the Board of Governors* (4/3/18).

[4] As background for this discussion, staff prepared *Fifteenth General Review of Quotas—Additional Considerations and Data Update* (7/3/18).

Adequacy of Fund Resources

4. Directors reiterated their shared commitment to a strong, quota-based, and adequately resourced IMF at the center of the global financial safety net. Many Directors again underlined that the issues of the quota formula and the size and distribution of any quota increase under the Fifteenth Review are closely interlinked and will ultimately need to be agreed as a package. A number of Directors reiterated their call for clarification on prospects for a quota increase as soon as possible to facilitate further progress. Many Directors also reaffirmed the view that IMF bodies should lead the process and determine the outcome.

5. Directors reiterated the importance of ensuring that the Fund has sufficient resources available to respond to actual, potential, or prospective financing needs in line with its mandate. Most Directors noted that the outcome of the Fifteenth Review will likely determine the Fund's permanent resources through at least the middle of the next decade, and that this perspective implies growing potential resource needs over time, as well as larger uncertainties. Many Directors also pointed to recent market pressures in emerging markets, which highlighted the downside risks to the global economy and further underscored the importance of ensuring that the Fund remains adequately resourced.

6. Directors welcomed the robustness checks for the scenario analysis, noting that the two additional considerations—related to the catalytic role of the Fund and the resource assumption for regional financing arrangements—further widened the range of staff's resource estimates without substantially changing the overall results. A number of Directors reiterated their call for a clearer distinction between resource needs under normal circumstances and in severe shocks, some considered that the analysis should give more prominence to post-crisis reforms that could reduce the demand for Fund resources, while others saw little to be gained from further technical refinements of the staff's analysis.

7. Directors generally agreed that the traditional model of relying primarily on quota resources, supplemented by standing borrowing arrangements, has served the Fund well. The critical role played by the bilateral borrowing agreements as the third line of defense for the Fund to respond to the global financial crisis was also again underlined. Many Directors argued that quotas should provide the bulk of the Fund's lending resources. A few Directors stressed that bilateral borrowing provides a flexible mechanism for boosting Fund resources and should continue to play a role when warranted by global conditions. Most Directors reiterated that discussions on the adequacy of Fund resources should not pre-suppose future discussions on the possible renewal of bilateral borrowing agreements. A few Directors called for further reflection on options for making borrowed resources more standing and flexible.

8. Many Directors supported, or were open to, a quota increase that would at least maintain existing Fund resources after the bilateral borrowing agreements expire. Some Directors could support a larger quota increase, while a few saw merit in a moderate increase as part of a broader compromise that would facilitate a realignment of quota shares. A few other Directors reiterated

their view that the Fund's current quota and NAB resources appear sufficient to handle a range of scenarios and hence to meet the needs of the membership over the medium term.

Quota Formula and Realigning Shares

9. Directors welcomed the update of the quota database through 2016. They noted that overall out-of-lineness has increased further since last year's data update, and reiterated the importance of ensuring that quota shares reflect members' relative positions in the world economy. Many Directors called for a meaningful reduction in out-of-lineness as part of the Fifteenth Review. Many of these Directors also called for a significant shift in quota shares from advanced economies to emerging market and developing economies in order to preserve the legitimacy and credibility of the Fund. A number of other Directors stressed that a realignment of quota shares should not be guided by a predefined target for a possible shift in shares for any particular group of countries.

10. Directors took note of the illustrative simulations of possible reforms of the quota formula, which had been updated using the latest data. Views on the quota formula remained broadly unchanged. Most Directors reiterated that the principles that guided the 2008 quota formula reform remain valid. Most Directors continued to support working toward a new formula that is broadly acceptable to the membership, building on the progress already made, including the outcome of the quota formula review in 2013. However, views continued to differ in a number of areas, including among those who believe the current formula is working well, those who consider that it requires only limited reform, and those who consider that a more streamlined formula with a larger weight for GDP would better capture members' relative economic positions.

11. Against this background, Directors welcomed staff's exploration of alternative approaches to distributing quota increases under the Fifteenth Review that could be considered to help facilitate an agreement. In this regard, many Directors supported a combination of selective and ad hoc increases, as in the Fourteenth Review, although a few would not rule out an equiproportional element. Directors took note of staff's work on the possible introduction of a "soft GDP anchor" to prevent large divergences between quota shares and shares in the GDP blend, while preserving the quota formula as the principal allocation tool. Most Directors were open to further exploring such an approach, and encouraged staff to undertake additional work on this and other possible approaches, such as dilution limits, that could help build a broad consensus. A few Directors were not in favor of approaches that would increase the role of GDP in quota allocation and hence the concentration of voting power.

12. Views remained divided on whether, and if so how, to recognize voluntary financial contributions. Many Directors supported, or were open to, taking account of such contributions in distributing quota increases under the Fifteenth Review, with a few preferring their inclusion in the quota formula. Many other Directors continued to oppose such approaches.

13. Directors reiterated their commitment to protect the quota and voting share of the poorest members under the Fifteenth Review. Views continued to vary on the precise definition of countries to be protected. Many Directors reiterated their call for protection of all PRGT-eligible members,

with many also in favor of extending protection to small developing states. Some other Directors preferred a shorter list, limited to the poorest based on an update of the criteria used in the Fourteenth Review.

14. Many Directors called for full implementation of the 2010 governance reforms by completing the reduction by two in the number of Executive Directors representing advanced European countries in favor of emerging market and developing countries.

Next Steps

15. Looking ahead, Directors noted that considerable technical work has been done and further progress will require important elements of judgment and compromise. In this regard, the Executive Board remains committed to working constructively on the Fifteenth Review, based on IMFC guidance, in line with the agreed goal of completing the Fifteenth Review by the 2019 Spring Meetings and no later than the 2019 Annual Meetings.