The Chairman's Summing Up
Quota Formula Review—Additional Considerations

September 28, 2012

Executive Directors welcomed a further exchange of views on the quota formula review. They reaffirmed their commitment to complete the review by the January 2013 deadline, in a spirit of cooperation and compromise, and reiterated that the current review should continue to be underpinned by the principles agreed as part of the 2008 reform. The discussion highlighted several areas where a broad consensus is emerging as well as areas where views continue to diverge.

Many Directors representing a majority of the Board could support dropping variability from the formula in view of the shortcomings of the current measure and challenges in finding an alternative that better captures members' potential need for Fund resources. A number of Directors continued to see a role for variability, possibly with a reduced weight, and a few considered it too early to conclude that variability should be dropped pending agreement on other issues, including how its weight should be reallocated.

Directors reiterated that GDP should continue to have the largest weight in the formula. Many Directors argued for an increase in its weight, including through redistributing part or all of the weight of variability. A number of these Directors continued to favor a GDP-only formula or one that is essentially based on GDP. A number of other Directors, emphasizing the need to maintain a balance between the multiple roles of quotas and avoid an undue concentration of quota shares, preferred not to increase the weight of GDP either at all or relative to other variables, particularly openness.

Views continued to diverge on the composition of the GDP blend variable. Many Directors could support retaining the current blend, noting that it had been a difficult compromise that should not be reopened. A number of Directors argued for a higher weight for PPP GDP, which would increase the share of emerging market and developing countries. Some others continued to see methodological and data problems with PPP GDP, and called for eliminating it or reducing its share in the blend, particularly if the weight of GDP is to increase.

Different views were expressed on the role of openness in the formula. Most Directors noted that openness captures members' integration into the global economy and, in the view of a number of them, is consistent with the Fund's mandate. These Directors therefore favored retaining the openness variable, with some supporting the current weight, and a number calling for a higher weight, including from a possible elimination or reduced role of variability. A number of these Directors also supported a higher weight for financial openness, while many others could not support retaining or increasing its weight. A number of Directors reiterated their view that the current openness measure is seriously flawed, reflecting both conceptual and measurement issues, including with respect to intra-currency union trade. These Directors called for eliminating this variable from the formula entirely. A number of the Directors who supported retaining the openness variable in the formula could consider modifications to its measurement, with some open to use of a cap or compression. However, a number of other Directors failed to see the rationale for limiting the boost that members receive from openness relative to that from GDP. Others opposed such approaches on the grounds that they are arbitrary and would add complexity to the formula.

Most Directors could support retaining reserves in the formula at its current weight. While a few Directors favored a higher weight to better capture members' financial strength and ability to contribute to global safety nets, a significant minority of the Board argued that the variable could reward excessive reserve accumulation and favored eliminating its role in the quota formula.

Directors recognized the importance of financial contributions to the Fund. Many Directors favored, or were open, to including a measure of such contributions in the formula. Many others continued to view its inclusion in the formula as inconsistent with the Fund's role as a quota-based institution. Nevertheless, a few of these Directors were open to recognizing particularly generous contributions outside of the formula, as had been done in the past.

Most Directors supported retaining compression in the formula. Many of these Directors noted that the current level of compression had been a difficult compromise, while a number suggested that compression should be increased, which would give greater voice to small members, as well as to emerging market and developing countries as a group. A view was expressed that compression should be eliminated given that it disproportionately benefits many small advanced economies.

Directors agreed that measures should be taken to protect the voice and representation of the poorest members. Most considered that this should be addressed outside of the quota formula as part of the 15th General Review of Quotas. Some Directors noted that this protection should be extended to the smallest members. Some pointed out that greater use of PPP GDP and/or compression in the formula would benefit the smallest and low-income countries in a meaningful way, and a few suggested that the quota shares of the poorest countries could be protected by including a compressed population variable in the formula.

Many Directors noted that the distribution of quotas based on the formula is expected to result in an increase in the quota share of emerging market and developing countries as a whole in line with their relative positions in the world economy. In that light, a number of them considered that the current formula does not reflect members' relative economic positions and is flawed. A number of other Directors, noting that the current quota formula could be expected to deliver such a directional shift, were not convinced that the formula is in need of drastic reform, with a few cautioning against prejudging the outcome of the review. A number of Directors expressed the view that reaching a compromise on the quota formula would require consideration of all the relevant issues together in a balanced package. Others saw scope to move the discussion forward by seeking early understandings in the areas where positions have converged, while recognizing that final agreement on each and all elements would only be possible at a later point.

To conclude, today's discussion has shed further light on the areas of common ground as well as those areas where further work is still needed. As Directors have again stressed, completing the review by January 2013 will require constructive engagement and a spirit of flexibility and compromise from all sides, with the Fund—with input from IMFC Deputies—being the center of the deliberations. Many Directors welcomed complementary discussions at the G-20 and the commitment of its leaders to complete the comprehensive review of the quota formula by the agreed deadline.