

Quotas – A Glossary of Terms

IMF Quotas – The IMF’s permanent financial resources come mostly from quota subscriptions. Each member country of the IMF is assigned a quota based broadly on its relative size in the world economy.

When a country joins the IMF it is assigned an initial quota in the same range as the quotas of existing members that are broadly comparable in economic size and characteristics. The IMF uses a quota formula to guide the assessment of a member’s relative economic position.

Quota formula – A new quota formula was agreed as part of the 2008 reform. It is comprised of the following: a weighted average of GDP (50 percent), openness (30 percent), economic variability (15 percent) and international reserves (5 percent). The formula also includes a “compression factor” of 0.95 that reduces the dispersion in calculated quota shares across members. The quota formula typically plays an important role in allocating new quotas in the context of the regular general reviews of quota (see below). The four variables of the quota formula are defined as follows:

- **Blended GDP** – For the purpose of the formula, a country’s gross domestic product (GDP) is measured as a blend of GDP based on market exchange rates (weight of 60 percent) and on PPP exchange rates (40 percent).
- **Variability** - This measures the volatility of current receipts (for example, earnings from the export of goods and services, as well as receipts on foreign investments) and net capital flows to an economy. (The data series used is derived by a three-year moving average over a 13 year period and the variability is measured by the standard deviation of this time series.)
- **Openness** – This measures how open an economy is to international trade and financial flows. It is based on the annual average of the sum of current payments and current receipts (goods, services, income and transfers) for a five year period.
- **International reserves** – This measures the average stock of international reserves held by a country. It is based on the twelve month average over one year of official reserves (foreign exchange, SDR holdings, reserve position in the Fund, and monetary gold).

PPP and market exchange rates - usually countries report economic data in their own currencies. However to make comparisons across countries, the data must be converted into a common currency. To do so, either the market exchange rate is used or the purchasing power parity (PPP) price. The market rate converts currencies into the exchange rate prevailing in the open market. PPP are calculated by dividing a country’s nominal GDP in its own currency by the PPP price level index, and provides for comparisons of the volume of goods

and services produced by a country relative to other economies. The PPP-based GDP data which tend to be higher for developing and emerging markets than their market-based GDP data reflects the fact that goods and services that are not traded internationally tend to be cheaper in these countries than in advanced countries.

Calculated quota share - This is the quota share that results from applying the formula using the latest data available for all member countries. The most recent data set is based on *International Financial Statistics* data through 2008.

Under/Over-Represented Members - These terms refer to the relationship between a member's actual and calculated quota shares. If a member country's actual quota share is below its calculated quota share, it is under-represented and if its actual quota share is larger than its calculated quota share, it is over-represented.

Allocation of new quotas - The Fund's quota resources are subject to a general review at least every five years. If there is a decision to increase quotas shares, these are allocated based on one or a combination of following mechanisms: selective, ad hoc and equiproportional.

Selective increase in quotas - This is an increase in quotas that is distributed to all members in proportion to their calculated quota share (i.e. based on the quota formula).

Ad hoc increase in quotas - This is an increase in quotas that is distributed to a subset of members and allocated as agreed by the members, based on specific criteria.

Equiproportional increase in quotas – This is an increase in quotas that is allocated to all members in proportion to their existing quota share.

Voting Share – A member's voting power in IMF decisions is determined largely by a member's quota. Each IMF member has 250 basic votes (i.e. irrespective of quota size) plus one additional vote for each SDR 100,000 of quota. Accordingly the United States (the largest share holder) currently has 371,743 votes (16.74 percent of the total), and Tuvalu currently has 268 votes (0.01 percent). In order to enhance the voice and participation of low-income countries the number of basic votes will roughly triple once the April 2008 reforms become effective.