THE 16th GENERAL REVIEW OF IMF QUOTAS

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Abstract

The text talks about a general review of International Monetary Fund (IMF) quotas, to be paid by member countries. It is necessary to talk about it because quotas and votes determine the disputes for power within the organization and because another round of funding was closed in December 2023, within the scope of the 16th Quota Review.

Quotas and voting power are two variables that should go hand in hand. The current situation is different because emerging countries have changed their relative importance in the world order and want their new position of relevance to be reflected in their voting power. To overcome resistance, it is necessary to discuss the formula for calculating quotas and, subsequently, face the issue of conditionalities imposed on access to the Organization's resources.

Introduction

In the final months of 2023, the IMF accelerated to conclude a discussion process for the 16th General Review of Quotas of its member countries. These reviews occur at least every five years, which is compatible with the age of the Organization, which turns eighty in 2024. The subject seems boring, and it is, because it involves restructuring the weight of quota holders and, consequently, their power to vote. Therefore, revisions imply relative gains and losses for the whole. And the losses are felt most when there is no increase in total capital.

This note is based on work by the Boston University Global Development Policy Center (GDPC), from October 2023, and begins with estimates for the volume of resources needed to maintain an acceptable level of global security and the steps that the IMF should take to achieve this objective. In the second section, the difficulties faced in recent quota revisions are described. In the third, a few words are spent on the formula for calculating quotas and the resulting voting power. The fourth shows barriers faced in past reviews. Then, final considerations.

1. The composition of the Global Financial Security Network (GFSN) and the IMF's lending capacity

The need for GFSN loans was estimated by Boston University at around US$3.5 trillion distributed as follows: US$1.5 trillion in the form of bilateral swap agreements, US$1 trillion in regional financial arrangements and US$926 billions in loans made by the IMF.

Kring & Gao (2023: 9) stated that the IMF had failed to keep pace with global economic indicators. For example, in 2022, the global GDP narrowly exceeded US$100 trillion. The external debt service of emerging markets and developing economies (EMDEs) was more than US$4.4 trillion, and the total debt, public and private, reached US$235 trillion; US$200 billion more than in 2021. The Organization's US$926 billion would not be sufficient for its estimates of future needs, because less than half of it (US$411 billion) were resources effectively coming from permanent quotas from member countries. To meet the demands, US$370 billion in multilateral loans (New Arrangements to Borrow) were needed, in addition to an additional

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US$145 billion in bilateral loan arrangements (BBAs). Considering this situation, the IMF proposed a substantial increase in quotas.

2. The latest quota revisions

In 1994, the IMF celebrated its fiftieth anniversary in beautiful Madrid. The speeches were not so beautiful. For the first time, the Brazilian delegation to the meeting heard the expression “it is time to get more from less”. The international flow of private resources was growing visibly and, following neoliberal trends, advanced countries intended to reduce public flows to emerging countries. They also wanted them to become their partners in the effort to help poor and vulnerable countries. This amounted to reducing resources transferred from the developed world to the entire developing world, not just emerging markets.

This new spirit of the time (zeitgeist in the original German) revealed itself strongly during the 14th Quota Review, whose discussions began in 2010 and whose formula was deepened in the period of Aug.2011 to Jan.2013. Some of the main emerging countries, particularly the BRICS components, were those that most advocated a reform that would consider the strong increase in their participation in world business. As a result, President Barak Obama's administration approved the proposal that would lead BRICS to have a voting power very close to 15% of the total, an important number in the Organization where central issues need to be approved by 85% of the states' votes members; that is, to the vicinity of giving it a veto power.

The project was strongly opposed in the American Congress, even though the country had not reduced its quota, which would have affected European countries more. To face the global economic crisis that began in 2007 to 2008, BRICS, for example, was convinced to make a temporary loan to the IMF in the amount of US$75 billion: US$43 billion from China, US$10 billion from Brazil, Russia, and India each and US$2 billion from South Africa. In August 2013, 73% of the credit in circulation in the IMF's General Resource Account was loaned to Greece, Portugal, Ireland, and Cyprus. In other words, there was a concentration of IMF loans on the European periphery, the Europeans maintained their disproportionately high voting power and the emerging countries were unable to transform their growing participation in the organization's destinies into expanded voting power, an issue that the North American Congress kept him paralyzed. The increase was approved in December 2010, but became effective in January 2016.

The 15th Quota review covered the 2016 to 2020 period but did not bring any increase in resources. Given the growing loan needs, already highlighted in the first section, the 16th, one of its basic principles was the revision of developing permanent funds (quotas) and ending the practice of taking temporary loans. On November 7, 2023, the IMF Executive Board proposed a 50% increase in quotas to the governors of member countries. The numbers speak of SDR 238.6 billion or US$320 billion, which will bring the total quotas to SDR 715.7 billion or US$960 billion (IMF Press Release 23/459; December 18, 2023). These values are consistent with Boston University GDPC estimates. The proposal was approved by the Governors on December 15, 2023, with favorable votes representing 92.86% of the total. This increase will reinforce the organization's permanent resources, but, at the same time, the loans that the IMF made to member countries (NAB and BBA) will be reduced by almost the same amount. In other words, permanent resources are increased, and non-permanent resources are reduced. Result: zero effective increase in financial availability for loans.

3. The formula for calculating IMF quotas and changes in voting power

The current formula for calculating quotas was defined in 2008. It considers economic indicators: 50% for GDP (in current dollars and dollars adjusted by the purchasing power parity criterion), 30% for the degree of external openness, 15% for the volatility of capital flows and 5% for international reserves.

IMF QUOTAS, VOTING POWER, POPULATION, AND GDP (ADJUSTED BY PPP)
Total percentages in 2022

	QUOTAS	VOTOS	POPULATION	GDP(PPP)
G-20	81,2	78,0	80,4	63,8
G-7	43,4	41,3	10,1	30,0
BRICS	14,8	14,2	42,2	31,6
NOVO BRICS	19,3	18,6	46,0	35,0
G-20 VULNERÁVEL	4,0	5,3	16,6	5,5

Sources: Kring &Gao (2023:12), IMF/WEO and IMF Finances

The imbalances are evident. The G-7, for example, has more than 40% of quotas and votes, but around 10% of the world's population and 30% of GDP (PPP). BRICS has just under 15% of quotas and votes, but more than 40% of the population and 32% of GDP (PPP). Its numbers will be even greater with the likely entry of five new countries into the group: Saudi Arabia, the United Arab Emirates, Egypt, Ethiopia, and Iran. The new Argentine government has already declared that it will not join the bloc, so its data is no longer considered. The most vulnerable countries, including to climate shocks, are the most unbalanced, because their quotas and votes are much lower than the population and at the same level as their GDP (PPP).

Most importantly: figures extracted on 17.09.2023 from WEO/IMF show that, in 2022, advanced economies (EAs) accounted for 41.7% of the world economy by GDP (PPP), while emerging markets and developing economies (EMDEs) reached 58.3%. In terms of population, according to Kring & Gao (2023:12) the EAs would have around 13.6% of the world population and 59.1% of the votes in the IMF. The EMDEs, in turn, would have 86.4% of the population and only 40.9% of the votes.

The decision of the Fund Governors, on December 15, 2023, also postponed the discussion about the realignment of the quota formula until June 2025, when the 17th Quota Review will be discussed. The issue is seen as urgent mainly by emerging markets and developing countries (EMDEs), as they aim to realign quotas to better reflect the relative positions of countries in the world economy.

4. Main criticisms

The results of the quota formula point to the great changes that have occurred in global economic power, despite its conception receiving repairs. For example, criticisms can be made of the criteria adopted, particularly regarding the joint impacts between the degrees of external

openness and the volatility of private capital flows (the greater the commercial and financial openness, the greater the volatility of emerging countries), which add up to 45 % of influence on quotas. Furthermore, the weight given to external opening (30%) seems overestimated.
The following table shows the current status of quotas and voting power for the ten largest member countries. The sum of this group is 55.29% of the quotas and 52.55% of the total votes. As the IMF has 190 member countries and only 24 boards, there is a need for them to be accommodated in constituencies or groups that have some affinity with each other. Among the ten largest, the United States, Japan, China, Germany, France, and the United Kingdom occupy an isolated seat on the board. Italy, India, Russia, and Brazil form constituencies. Saudi Arabia is the other country that occupies a seat on the board alone, although it is not among the top ten.

TEN LARGEST CONTRIES IN THE IMF
In total percentages

	Quotas	Voto
Estados Unidos	**17,43**	**16,50**
Japão	**6,47**	**6,14**
China	**6,40**	**6,08**
Alemanha	**5,59**	**5,31**
França	**4,23**	**4,03**
Reino Unido	**4,23**	**4,03**
Itália	**3,16**	**3,02**
Índia	**2,75**	**2,63**
Rússia	**2,71**	**2,59**
Brasil	**2,32**	**2,22**
total	**55,29**	**52,55**

Source: IMF Members

Kring & Gao (2023: 16) point out that, among the ten largest countries, with 2022 numbers, current quotas are always higher than the calculated quotas. This is certainly due to the weight of external openness, which could reduce the participation of countries like Brazil. The only two exceptions are India and China, not coincidentally two Asian giants. India because its economy has been growing rapidly in recent years. China because its history of growth and monetary and financial openness is noteworthy. It will certainly overtake Japan and occupy second place in importance. This can already be seen in another indicator: Special Drawing Rights (SDR). As of 08/01/2023, the new composition of the Fund's currency defined the following weight for the currencies that comprise it: 43.38% for the US dollar, 29.31% for the euro, 12.28% for the renminbi (yuan) Chinese, 7.59% for the Japanese yen and 7.44% for the English pound. The Chinese currency already has a much higher weight than the Japanese currency.

The work mentions numerous suggestions for changes to quotas.
I. Some are quite general. Paulo Nogueira Batista Jr, who was once a Brazilian director at the organization, proposes that a fixed base of quotas be given to everyone, over which a variable distribution would be made. Others involve changing the degree of openness of the formula. Some prefer to remove it from the formula, in favor of a mix of GDPs (current and purchasing power parity) to make decisions more equitable. Still others are more punctual and understand that something must be done for the most vulnerable countries, such as, for example, giving them support to face climate issues.

II. It is common to see liberal critics pointing out Brazil as one of the most closed countries in the world. Zeidan (Folha de São Paulo, 30.9.2023: A27) states that the percentage ratio of Current Trade (exports plus imports of goods and services)/GDP, in the period 2010/22, was less than 28%. This level would be worse than the 47% in Latin America, the 48% in middle-income countries and the 56% in poor and indebted countries.

EXTERNAL ACCOUNTS IN US$ BILLIONS IN 2022
Five largest countries in the world by territorial extension

	X goods	M goods	X serv	M serv	Current Trade(CT	GDP	CT/GDP %
USA	2.089.924	3.272.935	928.533	696.709	6.988.101	25.462.725	27
China	3.346.875	2.678.242	365.953	461.256	6.852.326	17.886.331	38
Brazil	340.328	296.175	40.291	79.909	756.703	1.920.023	39
Russia	592.064	276.509	48.623	70.865	988.061	2.244.249	44
Canada	599.565	581.882	123.766	137.457	1.442.670	2.137.939	67

Source: WEO/IMF and BOP/IIP, October 2023

There is no point in disputing the accuracy of Zeidan's numbers here, but it does not appear that they accept certain structural characteristics of different countries. The table shows the five largest countries by territorial extension. Brazil has a large territory, with a diverse internal supply of products, which brings it closer to relative self-sufficiency. For this reason, it is different from a small country, with low local production and in need of imports. Without going too far, its 2022 data points to around 40% degree of external openness, measured by the percentage ratio Trade Flow/GDP. Practically the same level as China, which has been leading international trade indicators for years. Russia (44%) is not far behind. The United States, which no one would accuse of being illiberal and closed to the world, is another large country with a varied range of production. The US presented a degree of commercial openness of just 27%, the lowest in the group and Canada (67%) has the highest. Finally, if we consider the five largest nations in the world by territorial extension and which have a combined GDP of practically 50% of the world's GDP, the criticisms of commercial closure do not seem to be sustainable.

Anyone who wants data from the smallest nations will find that their degrees of openness are much greater. A clear structural issue, particularly when considering emerging Asian countries. With data from 2021, countries with an average GDP of around US$400 billion have the following degrees of trade openness: Malaysia (134%), Philippines (178%) and Thailand (119%). In emerging Latin America, with an average GDP of around US$300 billion, there are Chile (64%) and Colombia (64%). Ecuador, with a GDP of US$106.2 billion, shows 54% of external openness. Taking, at random, three small countries, Cambodia with a GDP of US$26.6 billion has a degree of openness of 199%, Paraguay with a GDP of US$40 billion points to 73% and Bolivia with a GDP of US$40.7 billion to 54%.

It is clear that emerging small and medium-sized companies in Asia are much more open than those in Latin America, but their numbers should not be compared with those of large countries in terms of territorial extension and significant population. The reality is different.

Final considerations

The document on which this note is based originated at Boston University, which participated in a workshop of finance experts from different parts of the world. The nature of the arguments presented is critical of the imbalances in the internal game of power at the IMF. A game that, in a way, has been getting worse since the final years of the 20th century and, more intensely, since the 14th Review of quotas in 2010.

In practice, IMF Governors approved an increase in permanent quotas, which will meet the expected needs of the Global Financial Security Network (GFSN). There is no new money in this financial arrangement. Bilateral bridging loans from NAB and BBA will be converted into quotas. It is clear, however, that borrowing capacity will not change. Therefore, the only benefit will be to make IMF loans more stable.

In a sense, he wouldn't even need more resources. Its borrowing capacity of about $960 billion would be more than enough for outstanding loans. It is estimated that these would be around US$147 billion at the end of October 2023. The distance between the numbers is such that it draws attention. Is there no need for resources on the part of developing countries or is it their inability to access them given the conditions imposed?

Taking into consideration that the discussion of the quota calculation formula has been postponed until 2025, the Boston University GDPC (December 12, 2023) asks whether a crisis of confidence is emerging? For him, the IMF, the anchor of the GFSN, would not be fulfilling its role of realigning its governance structure with the realities of the current global economy. "...it appears that little to no progress will be made during this quota review cycle [with this] perpetuating the inequalities in IMF Governance that leaves emerging market and developing economies (EMDES) underrepresented in the decision-making process".

The very formula that defines the quotas of each member country points to a very large weight for the degree of external openness (30%) and the volatility of international capital flows (15%). Added together, they reach 45%, almost the same weight given to GDP (50%). Considering the Fund's history, which has always defended the opening of economies to the outside world, it is not difficult to see that the strong crises that are shaking the developing world have a lot to do with poorly executed openings, particularly in their financial systems, in environment of strong speculation and volatility.

Opening up is seen as good, but the same cannot be said about facing the strong volatility of international private financial flows, if the country does not have a convertible currency, which has negative impacts on the autonomy of its monetary policy. The situation worsens when the lender-of-last-instance makes the macroeconomic readjustment process difficult, with its conditionalities.

To conclude, I will allow myself to make a reflection that is not part of the topic under discussion, but that has everything to do with it. The old liberal order of Bretton Woods, from 1944, was clear in defining its objectives: the resumption of international trade, shaken by the First World War and the 1929 crisis, and the strengthening of National States. The basic pillars were the determination of administered exchange rates, fixed interest rates and control of short-term international financial flows. The instruments were the creation of the International Monetary Fund (IMF), aimed at correcting imbalances in the balance of payments of member countries, and the World Bank (IBRD), which was intended to rebuild Europe and Japan.

The environment at the time sought to stabilize markets, opening the doors of trade to the entire world, and thereby burying the remnants of colonial privileges. To achieve this, a strong national state was needed. Macroeconomic variables - interest, exchange rate and capital flows - should be fixed or controlled. The fight against all forms of speculation in trade was done by controlling short-term international financial flows. Keynes once said that a drop of speculation could be accepted only if it occurred in an ocean of stability.

On the long road from there to here, this liberal order was abandoned by the process of building neoliberalism, whose roots can be traced to the beginning of the 1970s. Otherwise, let's see: (I) Who tried to weaken the National State and replace it with international organizations such as the WTO, the IMF and the World Bank, in an environment of globalization?; (II) Wasn't it the Nixon government that ended the fixed dollar exchange rate between 1971/73, starting a process in which all exchange rates became floating?; (III) Didn't fixed interest rates also disappear as a result of the two crises in oil prices, which occurred in 1973 and 1979, filling the coffers of countries that export the product?; (IV) Towards the end of the 1990s, didn't the IMF and the World Bank begin to reduce their loans on the grounds that international financial markets were very liquid and that they had opened their floodgates to developing countries and emerging markets? Since then, negotiations for new resources have not shown appreciable increases and loans to countries in crisis have suffered due to excessive conditionalities and increasing volatility of private flows? Does this not diminish the very role of these institutions?

One last question is: is there anything left of the Bretton Woods order? The liberal agreement of strong states was replaced by neoliberal flexibilities of exchange rates, interest rates and international flows. Widespread instability generated not a new order, but a non-order. Is it possible to disapprove of developing countries and emerging markets beginning to move in search of new safe havens? And they may be emerging in Asia, Europe and even the BRICS, a non-regional institution. Will they be a solution? I don't know. I just know that, as they say, politics doesn't like voids. Anyone who expresses a desire to withdraw opens the door to a replacement.

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