

EU Representation and the Governance of the International Monetary Fund

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Forum Section

EU Representation and the Governance of the International Monetary Fund

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ABSTRACT

The introduction of the euro and closer coordination of economic policies in the European Union are fuelling a debate on Europe's representation in the international financial institutions. A single EU representation at the International Monetary Fund (IMF) would affect the balance of power in the institution through a fundamental reallocation of quotas and executive directors among its membership. A reduction in the number of European executive directors, and in the total voting power of Europe and in its contribution to the Fund's general resources, could go hand in hand with an increase in the Union's impact on IMF decision-making. Such a change would also weaken the cooperative nature of the Fund through a reduction in the number and impact of mixed constituencies.

KEY WORDS

- balance of power
- European Union
- governance
- IMF
- voting power

Introduction

The introduction of the euro and the institutional strengthening of the coordination of economic policies in the European Union (EU) are fuelling a reflection on the representation of Europe in the international financial institutions. Both in Europe and elsewhere, calls are mounting for European position taking and representation in international forums to be streamlined, a process that could end in a single EU representation, as in the World Trade Organization. The outcome is – at least in the view of many current member states of the Union – a long-term objective of the EU.

In the light of the establishment of a single monetary policy, the question of a single external EU representation is of particular relevance with regard to the International Monetary Fund (IMF), which is at the core of the international financial system. Through its almost worldwide membership, the surveillance it exerts over its members' policies, and the assistance and conditional emergency financing it provides, the Fund is a major instrument contributing to macroeconomic and financial stability.

The establishment of a single EU representation would constitute a historical change in the IMF membership, and would raise major governance issues. Although this article focuses on these issues in relation to the IMF, it also touches on 'spillover effects' for the governance of other international financial institutions and forums.

These matters have to be approached within the perspective of the ongoing, broad debate on the governance of the IMF. With the collapse of the Bretton Woods system of fixed exchange rates in the early 1970s, the Fund had lost its core function with regard to balance of payments crises, and thereby also – in the eyes of many – its *raison d'être*. The institution has nevertheless returned to the foreground, in particular as an instrument for the prevention and resolution of financial crises. However, since the succession of crises in the 1990s, which were primarily capital account driven, the effectiveness of the Fund's surveillance and its governance have been increasingly questioned. Basically, the Fund has been under criticism for being insufficiently transparent, independent and accountable, as illustrated by De Gregorio et al. (1999). The organization was able to react positively to many of these reproaches, in particular increasing transparency.

It follows from the analysis developed in this article that the creation of a single EU chair might affect two of the major ongoing controversies: the excessive politicization of the Fund's decision-making, and the unbalanced representation of its members. First, critics point to the current disproportional influence of IMF staff on the one hand, and of the Group of Seven (G7) on the other hand, on the Fund's decision-making. The G7 countries are

believed to bring into the IMF decision-making process their own geopolitical considerations, which can be at odds with sound governance of the institution. Although many acknowledge that political considerations are difficult to discard when deciding whether or not to provide Fund financing, it is often stressed that the IMF's surveillance activities should be exerted in a more objective and independent way. We demonstrate that establishing a single EU chair could, on the one hand, provide a countervailing power for the perceived imbalances. On the other hand, it might further exacerbate the trend towards polarization in IMF governance, because the result could be a duopoly of big creditors at the head of the IMF, whose ability to provide real leadership remains to be demonstrated. We will further argue that the extent to which the EU will be willing and able to define a common external policy could be crucial in this respect.

A second criticism of the IMF is the insufficient voice, both in terms of voting power and in terms of number of executive directors (EDs), that is given to emerging economies and developing countries, while industrialized countries, and Europe in particular, are deemed to benefit from excessive representation. In this respect, the establishment of a single EU chair could provide a window of opportunity for bringing the actual quotas in the Fund more in line with newly calculated quotas. The quota of the EU chair could indeed be set significantly below the sum of the actual quotas of the EU member states, and there might be a fundamental reallocation of quotas and EDs among the Fund membership. A single EU chair might involve the interesting paradox that a reduction in the number of European EDs, in the global voting power of Europe and in its contribution to the Fund's general resources could go hand in hand with an increase in the Union's impact on IMF decision-making. Additionally, it would also affect the cooperative nature of the Fund. Originally, this nature was underpinned by the possibility for each member to become both a Fund creditor and a Fund debtor, depending on that member's needs. Over the years, the relative economic development of IMF members has led to a growing separation between creditor and debtor countries. Nevertheless, EU countries, through their involvement in mixed constituencies, have so far mitigated the detrimental effects on the cooperative nature of the IMF of too strong a division between creditor and debtor chairs. The number and impact of mixed constituencies in the Fund could, however, be reduced significantly by the establishment of a single EU chair.

Undoubtedly, member states' political will is a vital prerequisite for the process to be set in motion and the effective impact would very much depend on the governance of the EU chair itself (i.e. the way in which its positions are determined and, more broadly, how its functioning is organized). It can be argued that a common EU foreign policy constitutes a prerequisite for an

effective leading European role in the decision-making process at the IMF. However, a unique EU membership might be arranged before a binding consensus is reached on the establishment of a common foreign policy. The recent decision to appoint a president of the Eurogroup for a two-year period points in that direction. EU positions at the Fund should then be prepared either through coordination mechanisms between national authorities (which already function today, be it – evidently – within a different framework, the Fund remaining a country-based institution), or via a more independent EU institution (existing or newly created).

A single EU chair, by profoundly affecting the balance of power at the IMF and through its inextricable links with the internal governance of the Union, would inevitably lead to a further and comprehensive debate on the governance of the international financial system. What could be seen as a positive step on the long road to further European integration would undoubtedly have major implications extending far beyond the borders of the Union and the functioning of the IMF as such. Hence, the European Union has to consider carefully all the implications of possible actions in this field.

The remainder of the article is structured as follows. First, we analyse the potential impact of a single EU chair on the IMF members' quota shares. We then focus on the likely consequences for the governance of the IMF, assessing the impact on decision-making at the IMF and the importance of EU internal governance in this process. Finally, we consider the impact on other international organizations.

The establishment of a single EU quota

A member's quota is at the core of its relations with the IMF. In addition to fixing its contribution to the general resources of the Fund, a member's quota determines its voting power,¹ affects its borrowing capacity and determines its share in the allocation of Special Drawing Rights (SDR).

A single EU chair could be set up in various ways. In a first scenario, all EU countries could remain Fund members individually, while also being grouped in a single EU constituency. Or, as in the United Arab Republic case (1958–61), there might be a single EU chair that would take over the actual quotas of the countries it replaces but with the basic votes of a single member. Both possibilities would imply a status quo for the actual quota shares of all other IMF members, while the EU chair would inherit a vast voting power. Bini-Smaghi (2004) however considers a single EU constituency with an adapted quota share.

In a second scenario, the EU as such could become a member, for which

a new 'fully fledged and single' quota would need to be established. The starting point for the determination of a Fund member's quota is its calculated quota. This number is the outcome of formulas based on economic variables related to the different functions that quotas perform. First, a country's potential contribution to the IMF's general resources is determined by its economic size, its foreign reserves and the strength of its balance of payments position. Second, the quota formulas are intended to reflect a country's economic and financial impact on the rest of the world. Third, because quotas also determine normal access limits to Fund financing, the formulas relate to the potential borrowing needs of a country, which in turn are a function of the size of the country, its openness and current account imbalances, the variability of its receipts, and the amount of its reserves.

The actual quota shares of the IMF members were last adapted on the basis of calculated quotas computed for the eleventh general review of quotas (CQ11).² However, owing among other things to the primacy of equi-proportional adjustments (distributed to all members according to their existing, actual quota shares) in general quota reviews, there still exist relatively substantial differences between the calculated and actual quotas.

The quota calculations for a single EU chair would logically be based on data for the EU as a whole, excluding intra-EU flows. The outcome of these calculations, as a percentage of total Fund quotas (see Figure 1), would be smaller than the sum of the former individual (calculated and actual) quota shares of the EU member states. It should be kept in mind that any change in the EU quota share logically and inevitably entails a change in the quota shares of the other IMF members.

We have computed new calculated quota shares (NCQS) for the option under which a new single quota would be attributed to the EU chair, representing the current 25 member states of the Union. Our computations are based upon the five existing quota formulas and use the data from the twelfth quota review. Although there have been in recent (and earlier) years many discussions on a revision of the current quota formulas, it is very likely that any future alternative formula will still largely be based on gross domestic product (GDP) and balance of payments data.

The left-hand bars of the figure show the calculated quotas (CQ11) as they were computed for the eleventh quota review for the largest members and for various relevant groups of countries. The middle bars indicate the actual quota shares of these members (Actual), which for various technical and political reasons differ from the CQ11. The right-hand bars give the newly calculated quota shares (NCQS).

It appears from our computations that the EU and the US chairs have a similar new calculated quota share.³ This mainly follows from a downward

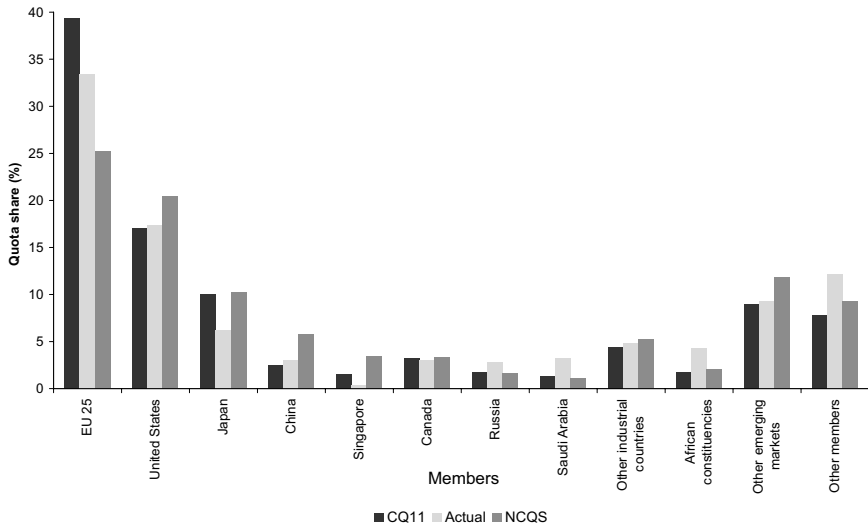


Figure 1 IMF members' quotas.

Sources: IMF, NBB.

Notes: CQ11 = calculated quota shares computed for the eleventh quota review and based on 1982–94 data. NCQS = new calculated quota shares based on 1987–99 data, used for the twelfth quota review.

adjustment of the single EU quota share, as compared with the aggregate quota share of the 25 EU countries, largely owing to the exclusion of current account flows among the members. Every non-EU country gains a part of the difference. In addition, the recent relative economic development of the Fund members also plays a role in the adjustment, because the NCQS are based on economic data that are more recent than the data underlying the current quotas. These effects may be substantial for China and other emerging countries, but for European economies they are almost negligible at present, because the recent growth rate of this group of countries is relatively close to the world average growth rate.

Once the European quota share is adapted/reduced towards its new calculated quota share, the other IMF members will gain a part of the difference. This redistribution could be done in an equi-proportional way, according to existing actual quotas. However, the adaptation of the EU quota share might also trigger a general reshuffle, with the quota shares of all IMF members being adapted towards their new calculated quota shares.

Between the 'status quo' option (one EU constituency) and a full alignment of actual quota shares with calculated quota shares, there are many scenarios. History shows that, on the road from calculated quota to actual quota, political considerations play an important role. There is a very strong probability that such considerations will play an equally prominent role in

deciding the voting power of a single EU chair. Specific points concerning that topic will be discussed below.

Implications for the decision-making process at the IMF

A single EU chair at the IMF would have important political implications. It would obviously affect the composition of the executive board. Moreover, changes to the quotas of IMF members and thus their voting power would affect the political governance of the IMF.

Changes in the composition of the IMF executive board

Article XII Section 3b of the IMF Articles of Agreement provides for 5 appointed and 15 elected executive directors (EDs) for the IMF executive board.

The five IMF members with the largest quota (currently the USA, Japan, Germany, France and the UK) each appoint one ED representing their country. With a single EU chair, Europe would give up two appointed EDs. If we stick to the NCQS ranking, these could be transferred to China and Canada or Singapore,⁴ whereas the actual quotas would rank Saudi Arabia fourth and China and Canada equal fifth (Figure 1). Such a transfer would be welcomed by critics who claim that Europe is overrepresented vis-à-vis emerging markets. Alternatively, the number of appointed EDs could be cut, by changing Article XII. A reduction could indeed be appropriate in view of the gap in voting power between the EU/USA and the country ranked third.

As to the number of elected EDs, the board of governors may, by an 85% majority, reduce or increase it. At the moment, there are 19 elected EDs. Four of them are EU representatives: the Nordic,⁵ Belgian, Dutch and Italian EDs. They represent 4 constituencies totalling 37 countries. These include all EU countries except Spain, Ireland and Poland.⁶ The creation of a single EU chair would require a rescheduling of these constituencies: 15 countries would need to change places;⁷ they might either become members of existing constituencies or form new constituencies. In the process, the total number of constituencies could be reduced. Alternatively, one or two additional EDs could be made available to the rest of the membership, in particular to the less well-represented developing countries.

The decline of mixed constituencies

Saudi Arabia, China and Russia elect EDs who represent only their own country. The other 16 EDs are elected by constituencies of several countries.

Some of these multi-country constituencies are very homogeneous; others are much more heterogeneous – these are the so-called mixed constituencies. There is no clear definition or exact list of mixed constituencies. Authors usually refer to constituencies comprising countries with different interests. Some also mention geographical or economic criteria, and others vaguely refer to the creditor/debtor distinction.

A first criterion consists in comparing the GDP of the countries within a constituency. GDP per capita figures offer a more accurate reflection of the heterogeneity of economic development than do absolute GDP figures, because the latter depend too much on the population size of the country. A constituency with one large country and several small countries may then be classified as mixed although it may be economically homogeneous. Measuring the relative deviation of GDP per capita within constituencies, the following constituencies may be considered as mixed: Australian (Australia versus the others), Belgian (Belgium, Austria and Luxembourg versus the others), Dutch (the Netherlands versus the others), Indonesian (Singapore and Brunei Darussalam versus the others), Spanish (Spain versus Latin America), English-speaking and French-speaking Sub-Saharan, and Swiss (Switzerland versus Central and Eastern Europe). Although the two Sub-Saharan constituencies comprise only economically poor countries, they are still heterogeneous because the GDP per capita differences between the poor and the very poor remain substantial. The relatively strong growth of countries such as Gabon and Mauritius, for instance, is a major factor in the economic heterogeneity of the French-speaking African constituency.

Secondly, dividing the world in broadly geographical terms, we could classify the following constituencies as mixed: Australian, Belgian, Canadian, Dutch, Indonesian and Swiss (see Table 1).

Thirdly, we could consider the creditor/debtor status of the member countries. This criterion best reflects a country's IMF status because creditor and debtor countries have very different interests in the IMF. We define as debtors those countries that used IMF resources during a 10-year time-span (1992–2001). There were, of course, many more countries that were debtors between 1992 and 2001 than exclusively in 2001. But a 10-year analysis takes greater account of the vulnerability/fragility of borrowers. Under this criterion only one constituency (French-speaking African) is entirely homogeneous. All other constituencies include both debtor and creditor countries. We hence fix a threshold and define constituencies with at least 75% debtors or creditors as homogeneous constituencies. Using this criterion, the Australian, Belgian, Canadian, English-speaking African, Indonesian, Italian and Nordic constituencies can be considered as mixed (see Table 1).

Table 1 Heterogeneity of multi-country constituencies

Constituency	Criterion		Composition
	Geographical	Share of debtors ^a	
Indian		75	India and 3 neighbouring countries
Iranian		86	Iran, Ghana, Afghanistan, Pakistan and 3 Maghreb countries
Brazilian		78	Brazil and 8 South American countries
Argentinian		83	Argentina and 5 South American countries
Nordic		38	5 Scandinavian and 3 Baltic countries
Italian		29	Italy, Greece, Portugal, Albania, San Marino, Malta and Timor-Leste
Canadian	Mixed	58	Canada, Ireland and 10 Caribbean countries
Egyptian		23	Egypt, Maldives and 11 Arab countries
Belgian	Mixed	70	Belgium, Austria, Luxembourg, Czech Republic, Hungary, Slovak Republic, Slovenia, Turkey, Belarus and Kazakhstan
Australian	Mixed	43	Australia, Korea, Mongolia, New Zealand, the Philippines and 9 Pacific countries
Spanish		75	Spain, Mexico, Venezuela and 5 Central American countries
English-speaking African		68	South Africa, Nigeria and 17 mainly English-speaking African countries
French-speaking African		100	24 mainly French-speaking African countries
Dutch	Mixed	83	Netherlands, Cyprus, Bulgaria, Romania, Israel, 3 Balkan and 4 CIS countries
Indonesian	Mixed	58	Indonesia, Brunei Darussalam, Malaysia, Singapore, 6 Asian and 2 Pacific countries
Swiss	Mixed	75	Switzerland, Poland, Serbia-Montenegro and 5 CIS countries

Sources: GDP per capita (authors' calculations based on historic IMF and World Bank data).

^a Share of debtor countries between 1992 and 2001 in the constituency.

Mixed constituencies have an important role in the governance of the IMF. They fulfil a bridge function between the interests of rich and poor, industrialized and less-developed, northern and southern, creditor and debtor countries. Executive directors of mixed constituencies have to take into account the interests of all the member countries of their constituency and, depending on their importance and involvement in the issue at stake and on the internal governance mechanisms of their constituency, EDs will have to make up their mind and express the opinion of their authorities. The consensus built within the constituency may already prepare or prefigure a consensus on the board, since the different interests within the executive board may be represented, on a smaller scale, within the constituency.

The heterogeneous composition of mixed constituencies may occasionally also push the EDs of these constituencies to a more politically independent stance. This was illustrated in the approval of Mexico's Stand-by Arrangement in February 1995 and in various recent board decisions on Argentina, where EDs of mixed constituencies abstained. Mixed constituencies thereby may contribute to balanced political positions within the IMF. In several cases, the EDs of mixed constituencies have played a decisive role in striking a balance between the interests of industrial and developing countries. Although sharing industrial countries' views on many issues, they have also often taken the same position as developing countries, and even helped to outvote industrial countries. Van Houtven (2002) illustrates, for instance, how during the 2000 review of Fund facilities several mixed constituencies supported the EDs of developing countries in resisting an increase in the rate of charge advocated by the G7.

In the end, mixed constituencies may often be a better mouthpiece for developing countries than are constituencies of less-developed countries, because the influence of the former is generally much higher. The creation of a single EU chair at the IMF would greatly reduce the number of mixed constituencies. According to geographical and debtor/creditor criteria, an EU constituency would be a homogeneous constituency. With 25 or 28 countries, the EU would have a debtor ratio of only 8% or 18%, respectively. There would thus be fewer institutional bridges between industrialized European countries and other countries at different levels of development.

The growing political importance of the EU

In 1958, when the European Economic Community was established, its six founding members held 15.75% of total IMF voting power, and the USA held 25.78%. Until now, the aggregated quota share of the EU members has been

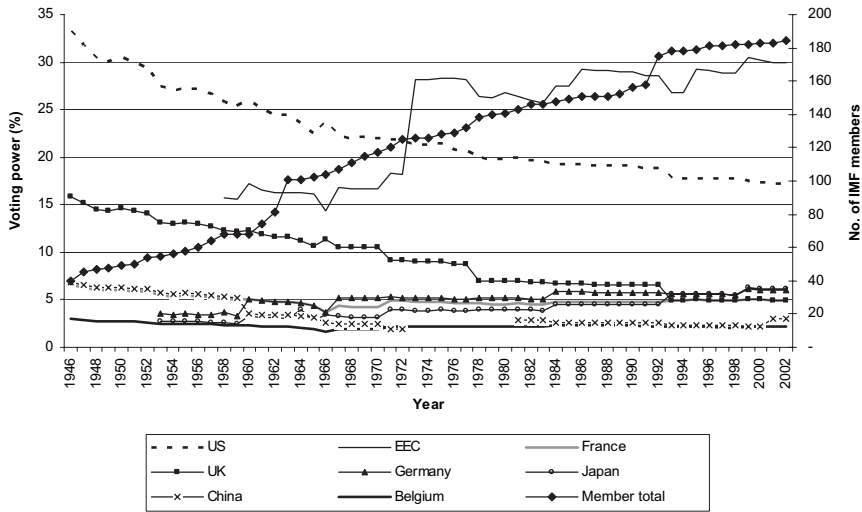


Figure 2 The evolution of IMF voting power.
Source: Authors' calculations based on historic IMF and World Bank data.

growing: not only has the number of Union members risen to 25, but their overall share in the world economy, and thus their calculated quota, has also increased. The growth in the number of IMF members (from 45 to 184) is the main reason why the share of the USA has decreased to 17.4% (see Figure 2).

Nevertheless, the USA remains the only member with a veto right on votes requiring an 85% majority⁸ and is by far the largest member (almost three times bigger than the next largest). The nation's political and economic power obviously reinforces this position. Moreover, since the IMF headquarters are located in the territory of the member having the largest quota, US ideas and opinions are relatively influential because they are close at hand. In practice, the single US position at the IMF has only seldom been confronted with a strong and single European voice. However, helped by shared values and reinforced coordination mechanisms since the advent of economic and monetary union, EU countries increasingly find themselves on the same side on essential issues, such as the establishment of a mechanism facilitating sovereign debt restructuring, analysed by the National Bank of Belgium (2003).

A scenario in which a single EU chair inherits the actual quotas of the EU membership and thus would have a veto power on votes requiring a 70% majority⁹ may not seem very plausible from a political point of view. Since

the economic data relevant for quota calculations are similar for the USA and the EU, there are objective arguments in favour of a convergence of the actual quotas of the two chairs. The quota for the EU chair could hence be significantly below the sum of the actual quotas of the EU member states. One element in the forthcoming – ultimately political – discussion might nevertheless be the observation that, in the process, Europe would be ready to give up six of its current seven EDs.

An interesting paradox in this field is that a reduction in the number of European EDs, in the global voting power of Europe and in its contribution to the Fund's general resources could go hand in hand with an increase in the Union's impact on IMF decision-making. A single EU chair would indeed have both the power to veto important decisions and substantial constructive power to foster decisions. Leech (2002) illustrates this by calculating power indices for IMF members. His results prove that, for ordinary IMF decisions requiring a 50% majority, the USA currently has political power far in excess of its voting weight, since it does not need many other members to form a winning coalition. According to such indices, a single EU chair would have more power than the EU members taken together.

Note that adapting actual quotas towards calculated quotas for the entire Fund membership might go against the current trend of strengthening the voices of the low-income countries. One way of compensating for this might be to increase the basic votes, i.e. the number of voting rights each Fund member automatically receives, regardless of its quota.

The increased polarization of IMF governance

The creation of a single EU chair would drastically change the balance of power at the IMF. The EU chair and the USA, each with a veto power for 85% majority votes, would together also be able to veto 70% majority decisions. And, for simple majority decisions (50%), an alliance of the USA, Europe and Japan (or China in the near future) would be sufficient. Once the large chairs agreed on a specific issue, it would be difficult to reject or block their agreement. However, it remains a moot point whether in real life a Fund with two main players would function better than under the prevailing structure.

At the current juncture, there is already a tendency towards creditor/debtor polarization in IMF governance. The importance of the two largest members and the decline of mixed constituencies might further impair the cooperative nature of the IMF. Although the IMF was originally a co-operative in which a country could be a creditor one year and a debtor another year, creditor and debtor countries have become two more clearly distinct

categories. The Fund risks becoming a forum where creditors and debtors are in opposition, and where only minority debtors ask for financing. Nevertheless, the diversity of interests of EU countries, the functioning of mixed constituencies and, more recently, the element of 'peer review' in surveillance and financial sector assessment activities still favour the cooperative nature of the IMF. The creation of a single EU chair with a clear, single European position and the waning importance of mixed constituencies this entails would affect this cooperative nature. Much will depend on the positions taken by the EU chair. The internal decision-making process of the EU will therefore be very important.

The impact of internal EU governance on the IMF

The implications of the introduction of a single EU chair will depend very much on the internal governance of the EU. Specific mechanisms will have to be set up to operate, at the more technical level, the duties and rights of an EU chair at the IMF and to establish, at the political level, the European positions. These mechanisms might or might not function within the broader framework of a common European foreign policy.

Currently, the European Commission and the European Central Bank (ECB) have observer status at the IMF – the former, however, only on the International Monetary and Financial Committee, the latter on the executive board as well. Voting power lies entirely with the EU countries, the Fund still being a country-based institution. Nevertheless, coordination is increasing, both at a technical level (through the setting up of specific committees, in Brussels as well as in Washington) and at the political level (in particular within the Eurogroup, which has recently decided to institute a two-year presidency).

A situation in which all EU countries came together in one constituency (or a membership similar to that of the United Arab Republic) would have less effect on the rights and duties of the countries concerned. Each EU member state would remain a member of the Fund individually, although Europe would have to speak with one voice and cast a single vote. The decision-making process in the constituency would be based mainly on a confrontation of the national interests of the members, as is already the case in multi-country constituencies. A major difference in relation to the current situation of increased coordination would be the need for an *ex ante* commitment to reaching a common view, because an ED can take only one position.

In another scenario, if the EU became a fully fledged single member of the Fund, it would obviously inherit the duties and rights of the actual European IMF member states. This would have more far-reaching implications. The single EU member would contribute to IMF financing according to its quota. Equally, since the IMF deals only with its members and not with sub-entities, the Fund would exert surveillance under Article IV of the Articles of Agreement over the European Union as a whole, and it would no longer be able to provide financing to individual member states of the Union.

Whether a single chair will be introduced, and what positions it will take in IMF decision-making, will largely depend on the progress made in the unification of foreign policies. If the European Union succeeds in formulating a common foreign policy, in addition to a common monetary policy, a single EU membership of the Fund would become inevitable. In such a situation, and obviously depending on the clarity of the common foreign policy, all conditions would be present for the European chair to be able to define and defend clear-cut positions.

A common foreign policy would, however, imply compromise among EU members. As suggested by Frieden (2004), each individual member would have to weigh the impact of a greater role for Europe against the potential costs of a policy not to its liking. Hence, the greater the divergence of views among EU member states, the less likely the EU is to agree on a common foreign policy. And countries whose preferences are further from the EU median than from the international median are more likely to oppose the pooling of representation.

However, if the EU were to opt for single membership before foreign policy is unified, EU positions at the IMF would risk becoming either watered down or largely technocratic. The coordination of national positions would indeed be a cumbersome process, whose outcome would likely be a compromise reflecting the lowest common denominator among still highly differing political views of member states. If IMF position-taking were left to a more or less independent institution of the EU, a factor for tensions within the Union and between the Union and its member states would be built into the system, and at the same time the accountability of the Fund could suffer.

The link between EU and IMF governance obviously is a two-way relationship. The Union's internal organization with regard to its single chair at the Fund would undoubtedly be influenced by the degree to which the IMF is a rule-based institution, providing a clear and transparent framework for decision-taking, with well-defined objectives and proper accountability. The higher the degree of discretion in managing the Fund, the more difficult it would be to organize a well-functioning EU chair, able to reach well-defined positions within the requisite (often short) time-span.

Potential implications for other international economic and financial organizations

The creation of a single EU chair at the IMF would also affect other international economic and financial forums and the global external representation of the EU countries. Apart from the IMF, there is a vast array of international groupings where EU countries are represented. The composition of these groups varies. In some of them, the European voice is already present via the European Commission and/or the ECB. In others, only some European countries are represented (see Table 2). The creation of a single EU chair at the IMF might be coupled with a review of how EU countries are represented in the other international financial forums. It would in all probability influence the governance of the World Bank. Should a single EU seat at the IMF also give rise to single representation at the World Bank? Such a move might be facilitated by the relative similarity between the governance of the two institutions (the constituencies are almost identical and their voting power is very similar). In addition, the Bank and the Fund already collaborate closely on country programmes and conditionality.

The consequences of a single EU chair at the Fund would probably be quite noticeable within the G7. The G7 has a decisive influence on IMF decision-making, and the Managing Director of the Fund usually participates, by invitation, in the surveillance discussions of the G7 (or G8) finance ministers and central bank governors. The EU already participates in the G7 (Table 2). If the EU countries start speaking with one voice within this group, a single European representation could replace the current EU member states' representatives. This group would then become a group of four, with the EU and the USA as major participants. The governance of the IMF with its two major blocs, the EU and the USA, would thereby closely resemble the governance of the G7.

Similarly to the G7, the 11 participants in the General Arrangements to Borrow (GAB) – which also constitute the G10 – or the 26 participants in the New Arrangements to Borrow (NAB) are also selected groups of financially strong industrial countries (or their central banks). In the case of a single external European representation, the composition of the G10 and of the G7 would become very similar (the only difference being the presence of Switzerland in the G10).

The number and impact of international institutions and forums, which often cover considerable fields in addition to just financial and economic issues, again point to the complexity involved in streamlining the European Union's representation. A single EU chair would have far-reaching consequences and the issue has inextricable links with the establishment of a common European foreign policy.

Table 2 External representation of the EU countries

	<i>G7</i>	<i>G20</i>	<i>G10</i>	<i>IMF & World Bank</i>	<i>OECD</i>	<i>UN</i>	<i>WTO</i>
Germany	✓	✓	✓	✓	✓	✓	✓
France	✓	✓	✓	✓	✓	✓	✓
Italy	✓	✓	✓	✓	✓	✓	✓
UK	✓	✓	✓	✓	✓	✓	✓
Belgium			✓	✓	✓	✓	✓
Netherlands			✓	✓	✓	✓	✓
Sweden			✓	✓	✓	✓	✓
Other EU				✓	✓	✓	✓
Council		✓					
ECB		✓			✓		
Commission					✓		✓
Other members	3	15	4	169	15	175	129
EU observers	Commission Council ECB ^a Eurogroup ^a		Commission ECB ^a	Commission ECB		Commission	

Source: Authors' calculations based on historic IMF and World Bank data.

Note: ^a For some discussions.

Notes

This article draws on our study for the 2004 *Financial Stability Review* of the National Bank of Belgium (Mahieu et al., 2004). We thank in particular Dirk Heremans, Peter Praet and Thierry Timmermans for their helpful comments. The usual caveats apply. Géraldine Mahieu was at the time of the drafting of the article working for the National Bank of Belgium. The opinions expressed remain those of the author and do not necessarily correspond to those of the European Commission.

- 1 For the moment, 97.87% of voting power depends on quotas and 2.13% on basic votes, which are identical for all members.
- 2 The eleventh and twelfth general quota reviews were closed in 1997 and 2002, respectively, and based on 1982–94 and 1987–99 data. The eleventh review led to an adaptation of actual quotas, the twelfth did not. The thirteenth review is currently under way. New updated calculations presented in August 2004 (IMF, 2004) confirm the results of Figure 1.
- 3 Note that our calculated quotas are different from the quotas calculated by the Quota Formula Review Group (QFRG), or Cooper Report (IMF, 2001). The QFRG was an external panel of experts, chaired by Professor Richard Cooper, which was commissioned by the IMF in 1999 to submit an independent report on the adequacy of the quota formulas and to make proposals on a formula that would more closely reflect members' relative positions in the world economy as well as their ability to contribute to, and their need for, IMF resources. This group came up with a calculated quota share for the EU-15 of 28.0%, which was much larger than the US quota of 19.6%, because it excluded only intra-EU trade in goods. It did not exclude other current account flows (services, income and current transfers), as we did. We did not exclude current account flows between the 10 new EU member states owing to a lack of data during the 1980s and 1990s. However, their effect seems to be insignificant.
- 4 Thanks to its very open economy and strong economic growth, Singapore has a large calculated quota. Since Italy and the Netherlands would no longer be separate members, Singapore could, depending on the future development of its economy, even rank fifth. However, according to the figures referred to in note 3, Canada's calculated quota would remain larger than Singapore's quota.
- 5 Norway, Sweden, Finland, Denmark and Iceland rotate in the election of their ED. Sometimes, a non-EU ED thus represents the constituency.
- 6 Spain is in the same constituency as Mexico and Venezuela, Ireland is with Canada, and Poland is a member of the Swiss constituency.
- 7 These are Belarus and Kazakhstan from the Belgian constituency; Armenia, Bosnia-Herzegovina, Croatia, Georgia, Israel, FYR Macedonia, Moldova and Ukraine from the Dutch constituency; Iceland and Norway from the Scandinavian constituency; Albania, Timor-Leste and San Marino from the Italian constituency. In addition to these 15 countries, Romania, Bulgaria and Turkey would change places only if an EU seat were created before their accession to the EU.
- 8 An 85% majority is required in 16 categories of decision, such as adjustment of quotas and votes, provisions for general exchange arrangements, the allocation and cancellation of SDRs and amendments to the Agreement. The lack

of ratification by the USA of the latest SDR allocation therefore blocks its implementation.

- 9 A 70% majority is required for many financial and operational decisions and the suspension of voting rights.

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