OESTERREICHISCHE NATIONALBANK
EUROSYSTEM

Addressing global challenges – should the IMF refocus its activities and the role of SDRs?

Policy paper[1]

March 31, 2023
By Robert Holzmann[2], Governor, Oesterreichische Nationalbank[3]

Abstract

The IMF was originally created to support countries with balance of payments (BoP) problems and is meant to be one of the big policy players in international cooperation on financial stability. In recent years, several economic observers have raised concerns regarding the IMF's mandate ranging from relevance, to stretch, to major mission creep. This policy paper aims to reflect on these issues and to contribute to an enhanced discussion. To this end it is structured along the following three claims: (a) The IMF should refocus on its core mandate, which is promoting balanced global growth and providing financial support to its members with BoP problems; (b) the IMF should not blur the border between Special Drawing Rights (SDRs) as an instrument of liquidity and as reserve asset by using SDRs for long-term oriented IMF polices; and (c) while currently, this does not seem to be a problem, the IMF and its member countries should be cautious that enhanced SDRs creation could eventually contribute to inflation and higher policy rates and therefore be counterproductive by also contributing to higher public debt and BoP issues.

The IMF was originally created to promote global macroeconomic policy coordination and support countries with balance of payments (BoP) problems and is meant to be one of the big policy players in international cooperation in the field of financial stability. It became a unique actor in the quest for helping countries weather BoP crises by providing them with temporary financing. To fulfil these missions, the IMF offers policy advice (monitoring economic and financial developments and advising countries), financial assistance (loans and other financial aid to member countries) and capacity development (technical assistance and training to help governments to implement sound economic policies) to its member states. The Fund's mandate originates in its Articles of Agreement (AoA). In addition to its legal basis, one can observe how the IMF's tasks have steadily expanded over time.

In recent years, several economic observers have raised concerns regarding the IMF's mandate; whether it is still up to date, too stretched, how to interpret the

[1] This policy paper is based on an extensive literature review conducted by staff of the Oesterreichische Nationalbank. The latter includes more detailed research on the various aspects covered in the present paper, most of which could not be reflected here, since it would overstretch the scope of this policy paper.

[2] Governor of the Oesterreichische Nationalbank and member of the ECB Governing Council since 2019. Robert Holzmann held senior positions in international organizations such as at the OECD, the IMF and the World Bank, was an academic in Austria and Germany, taught, inter alia, at Harvard and Oxford, and holds honorary positions in Chengdu, Kuala Lumpur and Sydney.

[3] I would like to thank my staff for the excellent research support of this policy paper and experienced colleagues across frontiers for the many constructive comments received on developing versions. I take responsibility for any errors and omissions.

aforementioned purposes in the 21st century or whether a total reform of the IMF would be necessary (e.g. Kelkar et al., 2005, for an early contribution). In January 2022, Kenneth Rogoff wrote a highly critical commentary as a reaction to rising inflation and its potential impact particularly on emerging markets, arguing that the IMF seems to be "disenchanted with the job", because "rather than embracing its traditional role of helping troubled debtor countries help themselves, the IMF has been attempting to morph into an aid agency" (Rogoff, 2022). In this statement, Rogoff criticizes the fact that the IMF is increasingly offering more financial support with too little conditionality compared to the past, and that the Fund seems to be taking on the role of other International Financial Institutions, particularly the World Bank. Furthermore, in November 2022, the Independent Evaluation Office (IEO) of the IMF posted its annual work program for 2023, announcing an evaluation titled "applying the IMF's mandate". In particular, the IEO will explore the decision-making process for broadening the Fund's work program over the past years that led to increasing attention to new activities beyond the Fund's traditional core expertise[4].

The IMF argues that in a changing world, important external factors such as climate change, gender and inequality cannot be ignored, since they heavily impact the economy ("macro-criticality"), particularly in more vulnerable countries. "Macro-critical" is defined as follows: a particular substantive area is sufficiently critical from a macroeconomic and financial stability perspective ("macro-critical") to warrant the Fund's focus on that issue in a systematic manner in its engagement with member countries (Georgieva and Weeks-Brown, 2023, p.2). There is, undoubtably, a significant impact of these issues on the economy of countries and the world. Nevertheless, the question is when, how, and to what extent the IMF should use its financial means for issues other than tackling its members' balance of payments issues.

This policy paper aims to reflect on these issues and to initiate further discussion in the international debate on the direction in which the Fund should progress in the coming years. In more detail, it is structured along the following three claims:

1. The IMF should refocus on its core mandate, which – apart from monetary and fiscal policy advice and cooperation – is providing financial support to its members with BoP problems.
2. The IMF should not blur the border between Special Drawing Rights (SDRs) as an instrument of liquidity and as reserve asset, by using SDRs for long-term oriented IMF polices, e. g. SDR rechanneling into the recently established Resilience and Sustainability Trust (RST).
3. The IMF and, more generally speaking, policymakers should be cautious that an extended role of SDRs may potentially have inflationary effects, in particular given the unprecedented size of the 2021 General SDR Allocation. In the current global inflationary environment, any additional upward pressures on inflation should now be avoided.

[4] See: IEO 2022.

The Fund should refocus on its core mandate

Some economic observers and insiders argue that the mandate of the IMF, as formulated in 1944, is in strong need of an update, so that the IMF would be able to address new economic and social challenges more efficiently: "*It is evident that the post-war environment in which the World Bank and IMF were created has drastically changed, which presupposes that these institutions now need to reposition themselves to reflect on contemporary global challenges*." (Mugarura, 2016, p. 988). Since the establishment of the Fund, the AoAs have been amended only on a few occasions; a burdensome yet doable change, as it requires an 85% majority of the total voting power.

Notably, the mandate of the IMF seems to have evolved even without necessitating any formal changes to the AoA. New policy directions have been adopted gradually through broadening the Fund's work agenda, introducing new financing instruments, expanding the topics covered in surveillance and capacity development, as well as by training existing staff and hiring additional experts from non-traditional policy areas. Instead of formal changes in the AoA, the measures and policies are evolving in the context of regular discussions of the Managing Director's Global Policy Agenda, the Medium-Term Budget Framework, and the Board's work program. Still, these occasions provide "limited opportunities for longer-term strategic consideration of the evolution of the Fund's activities, leading to concerns at the Board and elsewhere that the Fund is drifting too far from its core functions", as the IEO recently pointed out (IEO, 2022, p.4[5]). The IEO also has a significant impact on Fund policies, e.g. evaluations on social protection and fragile states have paved the way for major changes and innovations to Fund policies. Of course, policy directions are always taken with the consent of the governing bodies of the Fund, not least through the decisions taken in the Executive Board which are based on the semi-annual IMFC communiqués[6], thus also – albeit more indirectly – the Board of Governors. As a result, the IMF offers increasing attention to a number of topics that were assessed to be "macro-critical" although outside the Fund's existing core of expertise, such as structural reforms, inequality, gender and climate issues, or digital currencies. The Fund is also adapting its lending toolkit (including for precautionary financing, emergency financing, support for fragile states and longer-term financing for resilience) to be relevant for a broad range of external financing needs.

Climate change is a key example of a global challenge that has been heavily integrated into all of the Fund's areas of activity over time, thus leading to the broadening of the IMF's mandate. From the Austrian perspective - Austria being a country which traditionally takes environmental protection and sustainability very seriously - there is no doubt that climate change is one of the key topics policymakers have to deal with already now and in the years to come, as it will impose economic and social costs on many economies. However, the questions that remain are why, how, to what extent, with what instruments, and with what perspective the Fund should be engaged in this topic. The Fund currently puts climate change on its agenda across its various activities, based on the argument of its "macro-criticality", i.e. on the premise that climate change can affect domestic and global macroeconomic and financial stability (see e.g. Georgieva and Weeks-Brown, 2023). While the IMF argues that it coordinates its efforts

[5] The analyses of the IEO on IMF advice on unconventional monetary policies and on the update on IMF work on trade issues (both 2019) had already raised the issue of how the Fund is drifting further away from its core mandate through smooth amendments within its working processes (IEO, 2022).

[6] Formally, the IMFC communiqué endorses what the Fund has done but also gives specific tasks to the Fund, which are then translated into the work program.

in this area as closely as possible with other stakeholders[7], both to maximize effectiveness and to complement its own analysis with experts' insights, the Fund has been stepping increasingly into the mandate of its fellow international institutions, such as the World Bank, and the respective work programs currently seem to be little coordinated.

At this point, mission creep becomes an issue, as there is rising concern that the IMF's activities are "increasingly overlapping with those of other international organizations with inadequate attention to realizing synergies and ensuring cost efficiencies" (IEO, 2022, p.4). As regards the institutionalized cooperation between the Fund and the World Bank on climate issues, Georgieva and Weeks-Brown (2023) describe, i.a., that the institutions jointly host the Secretariat of the Coalition of Finance Ministers for Climate Action, and that IMF staff participates at the technical level in key groupings such as the Network for the Greening of the Financial System (p. 8). The above-mentioned concern of "overlapping" is not new. Already in 2004, Babb and Buira raised this issue: "*(…) the World Bank and the [IMF] are widely viewed as having evolved in ways that would have surprised their founders. A term that has gained popularity among World Bank and IMF critics is "mission creep," or the systematic shifting of organizational activities away from original mandates. (…) The case of the IMF is arguably the more dramatic of the two*" (p.2). Based on David Malpass' underlying motivation for stepping back early from the position of World Bank President, one can expect the next leader of the World Bank to focus even more on climate change, which could consequently enable the Fund to put more emphasis on its core mandate.

Looking at climate change as a relevant example, the following changes can be observed across the IMF's fields of activity[8], not to mention the Fund's Strategy to Help Members Address Climate Change Related Policy Challenges (the "Climate Strategy") of July 2021**:**

- **Surveillance**: The Integrated Surveillance Decision and the more recently introduced „Comprehensive Surveillance Review" (CSR) approved by the Executive Board in May 2021 for the next five to ten years identify climate change, inter alia, to be a major threat to global stability. The IMF therefore states that it now takes a close look at regional and country challenges of adapting to climate change in the framework of its bilateral and multilateral surveillance.
- **Capacity Development**: Capacity development accounts for nearly a third of the IMF's budget. The Technical Assistance and training provided to member countries with the overarching goal of strengthening their economic institutions (e.g. central banks, ministries of finance) is now also increasingly focused on mainly fiscal risks stemming from climate change (e.g. a mandatory "climate 101" course for all economists; "climate bootcamps", external training).
- **Financial Support:** Financing for climate change-related issues may be provided under IMF-supported programs when related measures are deemed critical to solve a member's BoP problems. The IMF is already providing rapid assistance to countries hit by natural

[7] See e.g. IMF (2022a), section B "Coordination with the World Bank", paras 76-78, p. 39-40.
[8] For a more comprehensive overview see: IMF, 2021a; IMF, 2021b; and ECB, 2022.

disasters through its Rapid Financing Instrument (RFI) and Rapid Credit Facility (RCF)[9]. Further, to preserve fiscal sustainability, the IMF has already incorporated climate-related elements – such as energy subsidy reform, carbon pricing, and financial resilience building – into some programs[10]. More recently, the RST was established in May 2022 to channel financial resources from countries with strong external positions into affordable long-term financing for vulnerable countries facing potential BoP problems stemming from macro-critical long-term challenges. The focus of the RST currently lies on measures against climate change and on preparations for future pandemics. However, other topics could well be added in the future with a 70% approval of the IMF Executive Board.

Broadening the IMF's mandate also has substantial effects on the internal organization of the Fund, as new resources are needed to cover the new thematic fields. This is highly relevant with regard to the Fund's budget. For example, in a Board discussion in 2021, 95 Full-Time Equivalents were proposed to be hired in view of implementing the proposed climate strategy. Directors agreed to some internal reorganization, setting up networks to collaborate on climate issues, and adding additional climate change-related tasks to existing divisions and units[11] (IMF, 2021c). A Climate Advisory Group was created in 2019, a Deputy Director in the Strategy, Policy, and Review Department (SPR) was designated to be the Fund-wide Climate Change Coordinator, and a Climate Policy Group was established in the Fiscal Affairs Department (FAD) (both in 2020).

This raises concerns that Fund budgetary and staffing resources are overstretched, as also stressed by the IEO on several occasions. According to the IEO, while the decision to keep the budget envelope fixed in real terms since 2012 led to serious efforts at cost savings, this occurred without systematic attention to tradeoffs across different activities. The restrictions of the fixed real budget were somewhat relieved by the budget augmentation approved in 2021[12], but this was targeted at specific new activities rather than a broader consideration of the resources needed for existing activities. More transparency on the costs of integrating climate-related measures into key tasks such as Art. IV and FSAP missions, or on the costs of RST, would help evaluate the actual capacity needed to carry them out. It would be helpful to also assess the trade-off between meeting critical needs in the traditional core areas and addressing new topics.

Looking at the developments described above, together we should reevaluate how far the IMF is supposed to stretch its mandate and budget without causing problems with regard to its own legitimacy. While fighting climate change, for instance, is undoubtedly a very important item on the global agenda, the question is whether the IMF should put this much focus on it while risking neglecting its traditional, and just as pressing areas.

Preventing BoP problems of its members, e.g. via surveillance, and providing short-term financial support if needed is clearly the Fund's core task and makes it unique

---

[9] Moreover, under the Catastrophe Containment and Relief Trust (CCRT), the Fund can also provide grants for debt relief for the poorest and most vulnerable countries hit by catastrophic natural disasters or public health disasters.

[10] See: IMF, 2021c, p. 20.

[11] I.e. the Multilateral Surveillance Division in the Research Division, the Strategy and Planning Unit in the Monetary and Capital Markets (MCM) Department, the Development Issues Strategy Unit in SPR, the Fiscal Operations 2 and Public Financial Management 2 Divisions in FAD, the Public Affairs Division in the Communications Department, and the Digital Advisory Unit in the Information Technology Department (ITD). All departments partner extensively with external organizations on climate work (IMF, 2021c).

[12] See IMF, 2022c.

as compared to other international organizations. The global challenges which result from unprecedented shocks (Covid-19 crisis, followed by the fuel and food crisis, etc.) are currently causing increased debt levels and prolonged inflation in many economies. This in turn creates higher BoP risks in many countries.

Against this background, it appears key for the IMF to refocus on its core mission, for which it has a unique and distinctive mandate, expertise and know-how, rather than putting a lot of effort into protracted long-term financing for which the Fund has neither the expertise nor appropriate monitoring instruments at hand. Furthermore, going forward, the considerations on potential amendments to the Fund's lending toolkit as well as the (long-term oriented) RST will thus have to be thoroughly assessed against the background of the IMF's core mandate.

The IMF should not blur the original role of SDRs

The IMF's international reserve asset known as Special Drawing Rights [13], or SDRs, can supplement the official reserves of member countries that face BoP crises and are distributed on the basis of countries' IMF quotas. As such, SDRs can provide a country with liquidity. As stressed in a report by the G20 Eminent Persons Group (EPG), it is important that the IMF is able to rapidly access a significant amount of liquidity to ensure financial stability in the event of a global "tail risk" event (EPG, 2018).

Recipients can apply the new resources as they see fit within the overall purpose of the allocation: they can simply supplement their international reserves; doing so can help improve their market access and ease external financing constraints. SDRs can also be used by recipients for transactions with the IMF (e.g. borrowing and repayment of loans, payment of the reserve asset portion of quotas) or for managing the currency composition of international reserves by exchanging SDRs against major reserve currencies. In other words, "*SDRs have two characteristics that make them "special" and extremely valuable at a time of crisis: they create no debt in the recipient country and they come with no conditionality*" (Mariotti, 2022, p. 1)[14] ().

So far, four general allocations of SDRs have been made to supplement global reserve holdings based on long-term needs, the most prominent ones being the allocations of 2009 and 2021. In 2009, in view of mitigating the effects of the global financial crisis, SDR 161.2 billion (equivalent to USD 250 billion at the time) were allocated to the then 186 member states. The 2009 allocation was generally considered successful as it was perceived as a bold international crisis response which helped build confidence by supplementing countries' foreign reserves through an unconditional and costless reserve asset. It also became a blueprint for the 2021 allocation, when the membership sought to fight the Covid-19 crisis. The pandemic had increased the need for additional resources, eroding global progress on poverty reduction, deepening inequalities, and pushing many developing countries to the verge of sovereign default.

[13] The unit was created in 1969 in support of the Bretton Woods system of fixed exchange rates to alleviate the shortage of U.S. dollars and gold reserves in the expansion of international trade. The SDR is currently based on a basket of five "freely usable" currencies (the euro, the Chinese renminbi, the Japanese yen, the British pound, and the US dollar), reevaluated and adjusted every five years. SDRs are moreover used as a unit of account by the IMF and several other international organizations (Bender, 2010).

[14] See also: IMF, 2022b and Bender, 2010.

SDR 456.5 billion (equivalent to about USD 650 billion) were allocated on August 23, 2021, being by far the largest allocation in history (IMF, 2021a).

Following an SDR allocation to all member states based on their respective quotas, the IMF proposed to rechannel SDRs to countries in need: "*By magnifying the impact of the new [SDR] allocation, redirecting SDRs could help those most in need, while reducing the risk of social and economic instability that could affect us all*", IMF Managing Director Georgieva said in an Opinion article in the *Financial Times* in 2021. The call for a rechanneling of SDRs to support climate change-related causes is not new, however. For instance, already in 2010, J. Stiglitz proposed that SDRs be issued regularly and in large amounts "for the pursuit of global public goods, like development and climate change" (p. 11). According to Stiglitz, this could be implemented by reducing the allocation of new reserves to countries with persistent reserves: "*These amounts could then be reallocated, e.g. for climate change or development*" (Stiglitz, 2010, p.11).

Currently, the IMF sees the RST as one key possibility of using the recently allocated SDRs. As mentioned earlier, the focus of the RST currently lies on measures against climate change and on preparations for future pandemics. According to the Managing Director, this will help recipients address structural challenges such as climate change through policy reforms to foster BoP stability[15] (Georgieva et al., 2022). The RST is conceptually based on the Poverty Reduction and Growth Trust (PRGT), itself being an effective tool for SDR rechanneling; yet, in contrast to the latter, the RST includes a much larger group of addressees, namely 143 eligible countries, including all low-income countries, all developing and vulnerable small states, and lower middle-income countries.

1981 marked the year when the role of SDRs evolved from a mere means of liquidity into a financial resource available for longer-term financing. In fact, the transformation of SDRs into their current form is the result of a historical development. 1981 was the year when the IMF took the decision to abrogate the "Reconstitution Requirement". Under the "Reconstitution Requirement", a country's holding of SDRs had to amount at least to a designated percentage of its cumulative allocations averaged over a five-year period. Originally, it reflected the desire to ensure that the new liquidity resulting from the creation of SDRs would not be used to finance prolonged BoP deficits. The abrogation of the Reconstitution Requirement came in the wake of the 2nd Amendment of the Articles of Agreement in 1978, which decreed for the SDR to become the "principal reserve asset in the international reserve system". It was accompanied by a series of decisions by the Executive Board aimed at making the use of SDRs generally more flexible.

The fact that SDR allocations can be used flexibly leads to several risks: First, SDR allocations can be used as unconditional financing unlike fully-fledged IMF programs, which are monitored by the Fund. While the Fund's usual program conditionality is designed and monitored in order to ensure that a member follows sufficiently strong policies and fulfills its obligation to repay the Fund within the specified maturity period, there is no comparable mechanism as regards

[15] With respect to climate change specifically, the RST has the potential to reduce risks through the support of: adaptation measures (improve preparedness through contingency plans; making agriculture more resilient to climate-related shocks; promoting economic diversification; adapting physical infrastructures; and strengthening the financial architecture), mitigation measures (energy subsidy reform, the introduction of carbon taxes, investments in clean energy production, the conservation of forests and other carbon sinks), and by addressing distributional effects to increase (political) support for climate change mitigation/adaptation and the transition toward a low-carbon economy.

the use of allocated SDRs. Second, a rechanneling of SDRs is intended to be partly used for emergency financing (e.g.to the PRGT), which is not conditional either. Third, other SDR re-channeling mechanisms proposed by the IMF, such as contributions to the RST, are in principle conditional. However, RST financing is designed as long-term structural financing with maturity periods of 20 years (as compared to 3-4 years for fully-fledged IMF programs), for which the IMF has neither sufficient expertise nor adequate monitoring instruments[16].

To conclude, there is reason for heightened concern that the Fund has conceptually moved too far away from the SDR's initial "monetary character", meaning that SDRs should aim at providing liquidity when there is an increasing global need to supplement reserves rather than being used for transferring resources (Duisenberg and Szász in: Frenkel and Goldstein, 1991).

Policymakers should be cautious that the strengthened role of SDRs may potentially have inflationary effects

The 2021 General SDR Allocation was unprecedented in size and may have unwarranted effects on inflation. At the time of the allocation, despite the Covid-19 pandemic, the economic situation was different from the one we are in today, when we are faced with inflationary pressure and an energy crisis stemming also from the repercussions of the war in Ukraine. Against this background, the IMF should therefore thoroughly assess the role it wants to give to SDRs and avoid contributing to the inflation dynamics and the consequences of higher policy rates on debt sustainability.

Throughout the history of SDRs, there has been concern that SDR allocations could contribute to inflation. There is no conclusive empirical evidence that confirms or dismisses this possibility, however the potential for such an effect is there. Some experts suggest that the potential inflationary effect of SDR allocations largely depends on the ***use*** of SDRs (see various authors in Boughton et al., 1996).

In this context, SDRs carry the potential to be used to soften the intertemporal budgetary constraints of the recipient country's government. After an SDR allocation, SDRs can be converted into freely usable currencies by the recipient country. If the central bank of the recipient country exchanges its allocated SDRs, for example into euro (EUR), and uses these EUR amounts for real investments, literature refers to a potential inflationary effect through the "moral hazard channel". It is argued that the inflationary effect of an increase in reserves should be stronger in countries with more expansionary – notably fiscal – policies. The perceived safety provided by higher reserve holdings would incentivize authorities to pursue more expansionary fiscal policy paths, with potential inflationary implications (e.g. Chitu, 2016, p. 17, and Siebert, 1996). SDRs put a country in a position where it prolongs its home-made inflation for some additional period of time and spends resources that otherwise would not be there.

At the same time, the conversion of SDRs into freely usable currencies (e.g. EUR) may "trigger inflationary pressures abroad through e.g. higher import demand or issuance of domestic currency by the major central banks" (Chitu 2016, p.13).

[16] This notion pertains in particular to the monitoring of outstanding RST debt between the end of the concurrent fully-fledged program and final repayment of the RST loan. Following the end of an RST arrangement, Article IV consultations will be the main vehicle to cover issues related to longer-term structural challenges addressed by the RST (IMF, 2022a).

Conceptually, the exchange of SDRs against, say, EUR could result in money creation in the euro area, thus potentially contributing to inflation. This potential inflationary effect of SDR allocations, however, does not only depend on the *use* of SDRs but also on the *extent* to which central banks sterilize these transactions (see Cooper, 2011; Boughton et al., 1996).

According to the 2021 IMF SDR Allocation Proposal, "if any freely usable currency (i.e., U.S. dollars, euros, British pounds, Japanese yen, or Chinese renminbi) is provided in exchange for SDRs by countries other than the issuer of the freely usable currency, there is no monetary effect. These foreign exchange reserves are transferred from one country to another, with an equivalent change in the composition of reserves in both countries. Money supply could be generated only if the central bank issuing the freely usable currency provides them in exchange for SDRs and does not sterilize its impact" (IMF, 2021d, para 16 and footnote 29).

Historically speaking, the General SDR Allocations of the period 1970 to 1972 as well as 1979 to 1981 both took place in times of relatively high inflation, which resulted in the skeptical views about any further allocations throughout the period of 1981 to 1997[17]. Those in favor of an SDR allocation argued that not only would it supplement the existing stock of reserves, but, in more qualitative tones, it would help SDRs become the principal reserve asset in the system. The opponents to any new allocations (including all G5 countries[18] at the time) feared that another SDR allocation could aggravate inflation and that deficit countries would use additional reserves to postpone needed adjustments (Boughton, 2001). In contrast, the General SDR Allocation of 2009 took place in a context of a monetary policy where inflation was not seen as an obstacle but rather a desirable side effect. In a similar vein, after a prolonged period with little or almost no inflation, inflation was certainly less of a concern in the run-up to the 2021 allocation.

Yet today, one and a half years after the 2021 SDR allocation, we face an entirely different environment. In the run-up to the General SDR Allocation of 2021, staff had argued that "the SDR allocation is not expected to generate global inflationary pressures" (IMF, 2021d, para 16). First, the case for an SDR allocation was built on a *global* assessment (in line with the requirement for SDR allocations) and not on a country-based assessment. Second, given the global inflationary pressures nowadays, the unprecedently large size of the recent SDR allocation has become a reason for concern. This could be further multiplied by SDR rechanneling, as eligible countries will most likely make use of rechanneled SDRs in the context of PRGT or RST.

However, Truman (2022) argues that "*even under current circumstances in which inflation has become a global challenge, those countries that might use their SDR holdings to support their economies are unlikely to provide much of a boost to global demand*" (p.8).

Michael Mussa, former economic counselor and director of the IMF Research Department in 1991, focused on the size of the allocation, rather than its use, to analyze its impact on inflation. Mussa (1996) argued that small to moderate SDR allocations will have no inflationary effect, while large allocations could have an influence on the countries'

[17] In 1997 the Board of Governors agreed to the fourth amendment of the AoA providing for a special one-time allocation of SDRs to members that had previously not been participants of the SDR department. However, the amendment did not enter into force until 2009.

[18] The Group of Five (G5) consisting of major industrial countries was established in the mid-1970s to coordinate the economic policies of France, Germany, Japan, the United Kingdom, and the United States.

monetary discipline and therefore have an effect on inflation[19]. He categorizes the SDR allocations in relation to international reserves (excluding gold) as follows: "*small*" (up to 4%), "*modest*" (4-8%), "*large*" (8-20%), "*very large*" (40%). Similarly, Chitu (2016) estimated whether reserve accumulation can be inflationary because of moral hazard and incentive effects. She used the 2009 General SDR Allocation to show that inflation in countries receiving large SDR allocations was about half a percentage point higher in annual terms within the next two years following the allocation. This finding, while based on a country level rather than a global level, seems to confirm to a certain extent that the inflationary effect does depend on the size of the SDR allocation. Applying the above-described criteria set by Mussa, the size of the 2021 allocation amounts to 6.9% of international reserves (excluding gold)[20] on a global scale. Although this is twice the size of the 2009 allocation (3.7% of international reserves), the 2021 allocation would still be categorized as "*small*" to "*moderate*", according to Mussa. This is also stated by the IMF staff in the Proposal of 2021, according to which "the proposed allocation of USD 650 billion represents a small share of global GDP (about 1%) and money supply (about 4% of major central banks' base money)" (IMF, 2021d, para. 16). Nonetheless, inflationary pressure has become an increasing source of concern since the above-quoted analyses were written. If ideas of periodically increasing and using SDRs to catalyze (private) green financing are actually realized (e.g. the green SDRs proposals à la Stiglitz), this could contribute to (green) inflation if the catalytic or multiplier effect is sufficiently large.
Hence policymakers should be cautious.

[19] Mussa (1996) measures the size of SDR allocations in relation to the international reserves excluding gold.
[20] Calculations based on data from the IMF International Financial Statistic IFS: SDR Allocations and Holdings for all members as of August 31, 2022 (imf.org); USD value of SDR allocation based on data from 2009 and 2021, respectively.

Conclusion

The IMF was founded for the purpose of helping countries with BoP problems by providing them with temporary financing. Yet, the Fund's tasks have steadily expanded over time as to incorporate new thematic areas across its areas of activity. But how far can the IMF stretch its mandate without endangering its own legitimacy? From the Austrian perspective - Austria being a country which traditionally takes environmental protection and sustainability very seriously - there is no doubt that climate change is one of the key topics policymakers must deal with today and in the years to come. However, the question remains as to what depth the Fund should be engaged in this topic. This holds particularly true in times of increased debt levels and prolonged inflation in many economies. Furthermore, other institutions have acquired long-standing expertise in climate change-related issues. Therefore, the Fund should mainly focus on what the Fund can do best and what its membership will urgently need, namely, short-term financial support for members facing BoP problems. In fact, this is the Fund's core task and makes it unique as compared to other international organizations.

In the same vein, SDRs should be used for their initial objective of providing liquidity in order to supplement global reserves. The fact that SDR allocations can be used flexibly leads to the following risks: First, SDR allocations can be used as unconditional financing unlike fully-fledged IMF programs which are monitored by the Fund. Second, the re-channeling of SDRs is intended to be partly used for emergency financing as seen during the Covid-19 crisis, which is not conditional either. Third, other SDR rechanneling mechanisms proposed by the IMF, such as contributions to the RST, are in principle conditional. However, RST financing is designed as long-term, structural financing, for which the IMF has neither sufficient expertise nor adequate monitoring instruments.

Moreover, the potential inflationary effect when using SDRs following an SDR allocation needs to be taken into account. In fact, SDRs carry the potential to be used to soften the intertemporal budgetary constraints of a recipient country's government. Given the current global inflationary environment, any additional upward pressures on inflation should now be avoided.

The world now stands before new serious economic problems that are likely to last for longer. In fact, geopolitically induced shocks and sustained trade tensions between the major global economic powers, rather sticky repercussions of the Covid-19 pandemic, broadening price pressures across the globe, and, last but not least, the economic damage resulting from the war in Ukraine all contribute to significant challenges for policymakers and economies worldwide for years to come. The increase in interest rates intended to fight inflation is potentially creating balance of payments crises that the Fund will have to address. Any future activities of the Fund – mainly of a financial nature – should hence refocus on tackling the challenges stemming from the global rise in inflation and the probable resulting indebtedness rather than moving away from its core tasks to other policy fields.

References

Babb, S. and Buira, A. (2004), Mission Creep, Mission Push and Discretion in Sociological Perspective: The Case of IMF Conditionality. Paper presented at the XVIII G24 Technical Group Meeting, March 8-9, 2004, Geneva, Switzerland.

Bender, S. (2010), Special Drawing Rights. A Way out of Global Imbalances?, Deutsche Bank. Power Point Presentation.

Boughton, J., Isard, P., Mussa M. (1996), The Future of the SDR in Light of Changes in the International Financial System: Seminar Proceedings, 18.03.1996.

Boughton, J. (2001), Silent Revolution, The International Monetary Fund 1979–1989, October 1, 2001.

Chitu, L. (2016), Reserve accumulation, inflation and moral hazard: Evidence from a natural experiment. ECB Working Paper Series, No 1880. Jan 2016.

Cooper, R. (2011), Is SDR Creation Inflationary? Harvard University.

Duisenberg, W. F. and A. Szász in: Frenkel and Goldstein (1991), International Financial Policy. Essays in Honor of Jacques J. Polak. International Monetary Fund /De Nederlandsche Bank.

ECB (2022), The role of the IMF in addressing climate change risks, IRC Task Force on IMF and Global Financial Governance Issues, ECB Occasional Paper Series No 309. Nov. 2022.

EPG (2018), Making the Global Financial System Work for All. Report of the G20 Eminent Persons Group on Global Financial Governance, Oct. 2018.

Georgieva, K. & Weeks-Brown, R. (2023), The IMF's Evolving Role Within a Constant Mandate. Oxford. Journal of International Economic Law, 2023, 00, 1-13.

Georgieva, K., Gaspar, V., Pazarbasioglu, C. (2022), Poor and Vulnerable Countries Need Support to Adapt to Climate Change, IMF blog, < Poor and Vulnerable Countries Need Support to Adapt to Climate Change – IMF Blog. >

Georgieva, K. (2021), How the world can make the most of new special drawing rights, Financial Times Opinion: International Monetary Fund, 23/08/2021, <IMF chief: how the world can make the most of new special drawing rights | Financial Times (ft.com)>.

Independent Evaluation Office of the IMF (2022), 2023 Work Program, 7 November 2022.

IMF (2022a), Proposal to establish a Resilience and Sustainability Trust, April 2022.

IMF (2022b), 'Questions and Answers on Special Drawing Rights.' < Questions and Answers on Special Drawing Rights (imf.org) >

IMF (2022c), Budget Augmentation Framework. Policy Paper, May 2022.

IMF (2021a), 2021 Comprehensive Surveillance Review – Overview Paper, SM/21/51, 9.4.2021.

IMF (2021b), 2021 Comprehensive Surveillance Review—Background Paper on Integrating Climate Change into Article IV Consultations, SM/21/48, 8.4.2021.

IMF (2021c), IMF Strategy to Help Members address climate change related policy challenges: priorities, modes of delivery, and budget implications, IMF Policy Paper, July 2021.

IMF (2021d), Proposal for a General Allocation of Special Drawing Rights. IMF, 27 May 2021

Kelkar, V., Chaudhry, P., Vanduzer-Snow, M., Bhaskar, V. (2005), Reforming the International Monetary Fund: Towards Enhanced Accountability and Legitimacy. Reforming the Governance of the IMF and the World Bank, London: Anthem Press, 2005

Mariotti, C. (2022), Special Drawing Rights. Can the IMF's reserve currency become a transformative financial resource? Briefing paper. April 2022. Eurodad, European Network on Dept and Development, < Special Drawing Rights: Can the IMF's reserve currency become a transformative financial resource? - Eurodad >

Mugarura, N. (2016), The IMF, its mandate and influence in prevention of financial sector abuse, Journal of Financial Crime, Vol 23, No 4, 2016.

Mussa, M. (1996), The Rationale for SDR Allocation Under the Present Articles of Agreement of the International Monetary Fund, in Boughton *et al.* (eds), p. 57.

Rogoff, K. (2022), Why is the IMF Trying to be an Aid Agency? Project Syndicate, 3.01.2022. Why Is the IMF Trying to Be an Aid Agency? by Kenneth Rogoff - Project Syndicate (project-syndicate.org)

Siebert, H. (1996) No future for the SDR, in Boughton *et al.*, (eds.) p. 101.

Stiglitz, J.E and Greenwald, B., 2010. "Towards A New Global Reserve System," Journal of Globalization and Development, De Gruyter, vol. 1(2), pages 1-26, December.

Truman, E.M. (2022), The IMF Should Enhance the Role of SDRs to Strengthen the International Monetary System. Working Paper. Peterson Institute for International Economics. Dec. 2022.