

The IMF Budget Ceiling: Why Countries Can't Adequately Invest in Health Care and Education

What is a Budget Ceiling?

The International Monetary Fund (IMF) is the institution with the ability to give the proverbial “stamp of approval” to countries based on their economic policies. This stamp of approval is very important to any country looking to get loans or grants from the World Bank, other international and regional development banks, or rich nations.

In order for countries to get this stamp of approval, they must fit a variety of economic and political standards set by the IMF, including (but not limited to) limits on inflation and budget deficit. The IMF has set targets for reducing inflation and paying down the fiscal deficit of the countries in which it works. In order to reach these targets, countries have to put limits on their budgets to keep spending low enough that it will lead to the deficit reduction and inflation reduction that the IMF is looking for. This limit on the budget is known as a budget ceiling.

Why are Budget Ceilings a Problem?

Budget ceilings have been found to be a problem in many countries of the Global South because the ceilings are too low to allow adequate spending on health care infrastructure, health supplies, education, water, sanitation, agricultural infrastructure, and other basic needs. The IMF sets its inflation targets and deficit reduction targets significantly lower than many other economists believe is necessary to achieve long term economic growth. Because these targets are so much lower than many economists outside of the IMF believe they need to be, the budget ceilings are also much lower than they need to be. The result is that countries aren't able to adequately address HIV/AIDS and other health and human rights crises in their countries. If they do exceed their budget ceilings, they risk losing the IMF's approval and, as a result, any hope of getting loans or grants from most international lenders/donors. The IMF has shown increasing flexibility in some countries in recent years but continues to apply excessively tight monetary policies in many countries with severe HIV/AIDS epidemics.

How Do These Budget Ceilings Impact Health Programs?

With 3 million people dying of AIDS and another 10 million children dying every year of preventable and treatable diseases, it is clear that health systems in countries are stretched thin. In fact, there is a severe shortage of health care workers (doctors, nurses, social workers, psychologists, community-based health workers, etc.) throughout much of the Global South. The shortage is most severe in sub-Saharan Africa, where experts estimate a shortfall of at least 1 million health professionals. Additionally, there is a desperate need for countries to be able to expand their health care infrastructure including both rural clinics and urban hospitals. Investments that countries make in their health care systems pay off over the long term by saving lives and through the economic development that comes with a healthy, productive work force. Yet many countries are prevented in the short term from expanding their budgets to allow them to hire more health workers or accept grants for health care expansion by the budget ceilings required under IMF inflation reduction and deficit reduction targets. For example, Kenya has approximately 5,000 unemployed nurses who cannot find work because the government cannot afford to hire them.

But Don't Countries Need Budget Ceilings to Develop?

While it is true that every country needs to determine a budget ceiling that works for it, it is not true that the budget ceilings need to be nearly as low as they are under IMF conditions. Many economists believe that inflation rates between 5 and 20 percent are not harmful to countries' long-term economic growth rates, but the IMF sets many countries' inflation targets at 5 percent or less per year. Additionally, while deficit reduction can be important to economic development, IMF deficit reduction targets constrain the level of government spending too much. Many economists agree that a moderate level of deficit spending over the medium term would allow countries to make long term investments in the health of their populations, thus resulting in greater productivity and growth over the long term.

What Can We Do?

The U.S. has enough votes at the IMF to have veto power over IMF decisions. This means that we can get the IMF to change its policies to allow budget ceilings to be expanded to allow for additional health and education spending. More specifically, we can advocate for Congress to pass a law instructing our IMF representatives to include exemptions in budget ceilings for increased spending on health and education.