American Public Health Association

Analysis of International Monetary Fund Policies on Public Health Systems

By Rick Rowden

National Budget

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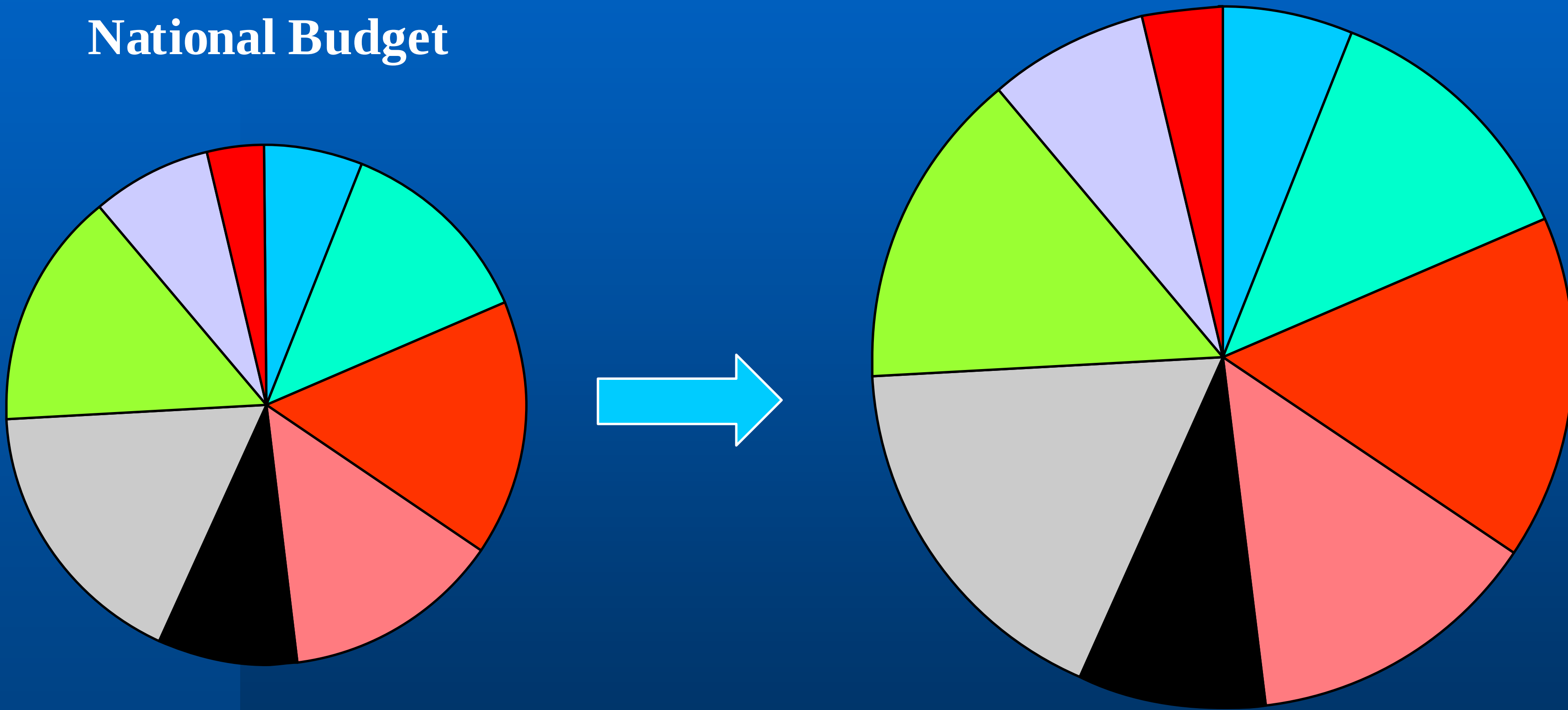

National Budget

IMF Fiscal Policy

- deficit-reduction targets

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- deficit-reduction targets ✓

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IMF Monetary Policy

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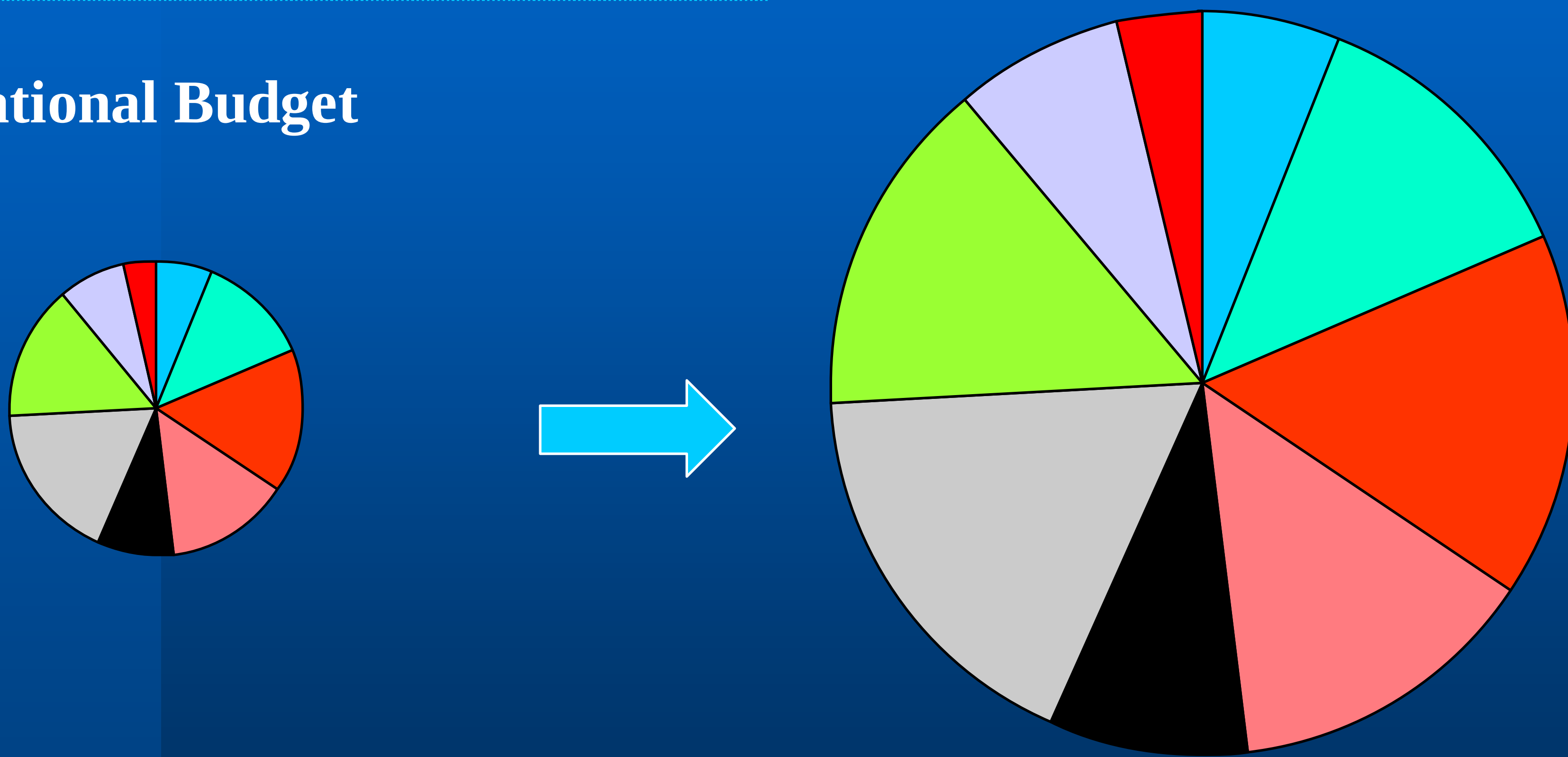
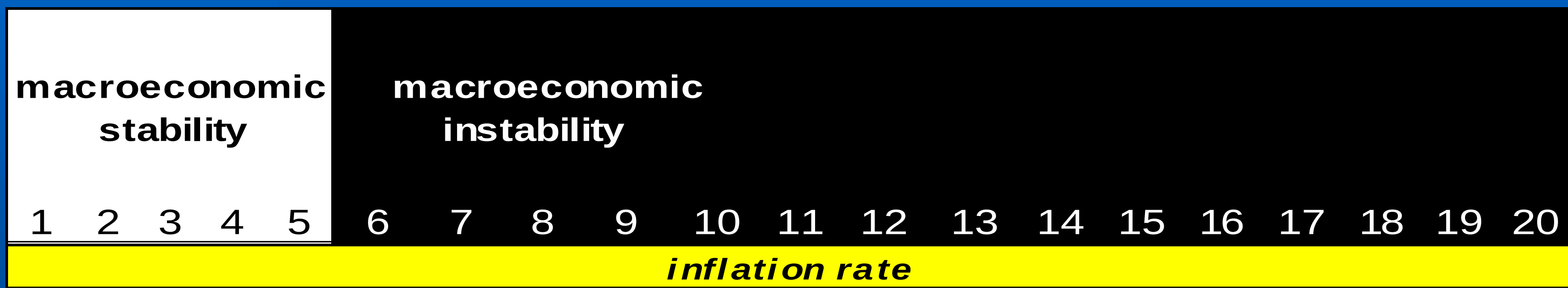


New York Times

"There is a desperate need for greater policy coherence in a period when many national governments, including Washington, are sensibly exhorting African governments to spend more on primary health care and education while international financial institutions largely controlled by those same Western governments have been pressing African countries to shrink their government payrolls, including teachers and health care workers."

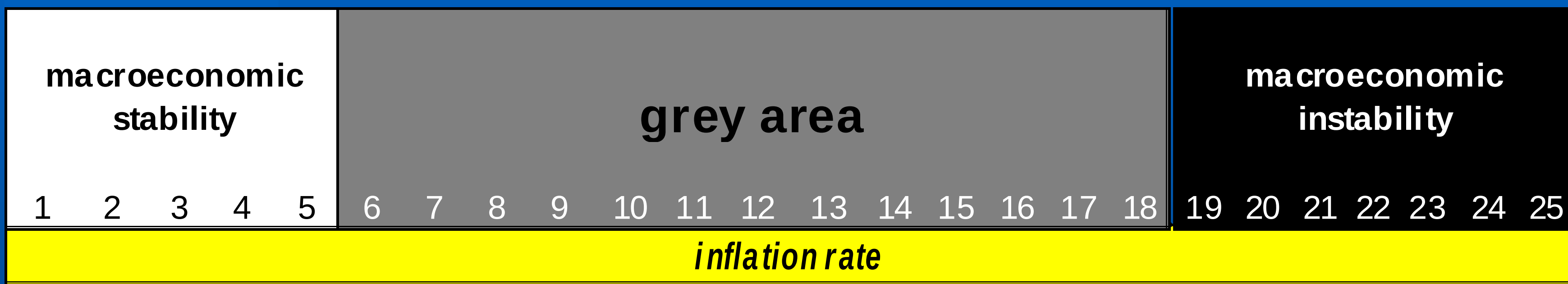
----The New York Times. "Africa at the Summit," 2005


macroeconomic stability
macroeconomic instability
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20
inflation rate

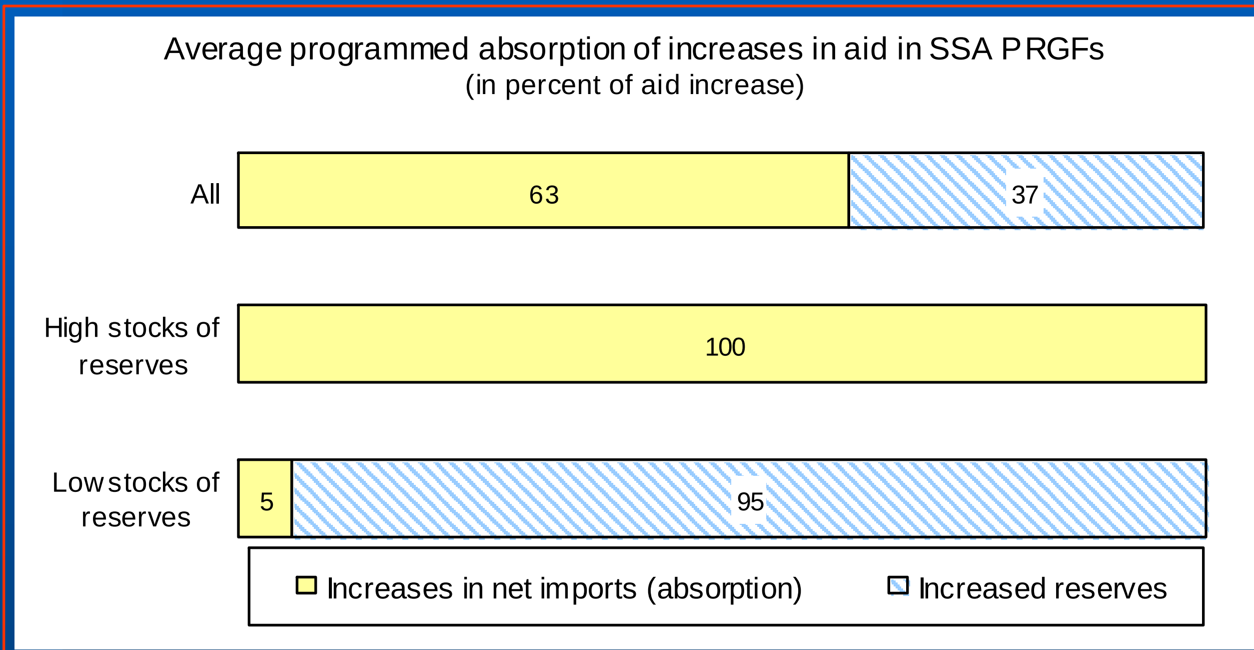
Review of Inflation Literature

Some empirical studies on 'kinks' in the relationship between inflation and growth

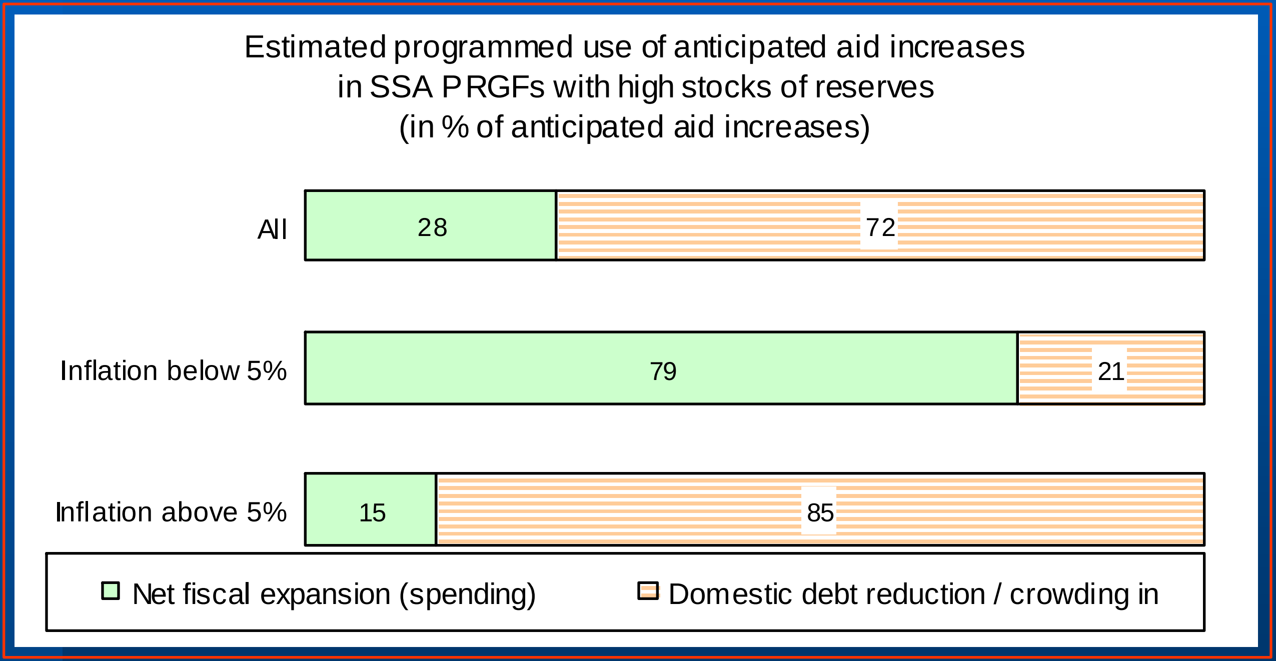
IMF Papers	Outside Papers	Estimated Inflation Thresholds
	Fisher (1993)	15-30 %
	Bruno and Easterly (1998)	40%
	Burdekin, *et al* (2000)	3% for developing and 8% for rich countries
	Gylfason and Herbertsson (2001)	10-20%
	Pollin and Zhu (2005)	15-18%
	Bruno (1995)	20%
	Barro (1996)	Finds that a 10% increase in the annual inflation rate is associated on impact with a decline in GDP's annual growth rate of only 0.24%.
Sarel (1996)		8%
Khan and Senhadji (2001)		11-12% for developing & 1-3 % for rich countries
Ghosh and Phillips (1998)		Finds that the inflation-growth relationship is convex, so that the decline in growth associated with an increase of 10-20% inflation is (1998) much larger than that associated with moving from 40 to 50% inflation.


macroeconomic stability
grey area
macroeconomic instability
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25
inflation rate

IEO Report, page 9 Figure 2.2 Programmed Absorption of Aid Increases



IEO Report, page 9
Figure 2.3 Programmed Spending of Aid Increases



IEO: Low Inflation Blocks Aid Spending

"Within the average, the evidence points to inflation concerns as a major driver of cross-country differences in programmed spending of incremental aid….countries with inflation rates below 5 percent get to spend 79 percent of anticipated aid increases, on average, whereas countries with higher inflation get to spend only 15 percent of such increases, on average."

---IEO Report, page 10

IMF Board Policy on Inflation

"The estimated inflation threshold for determining whether the country got to spend or save additional aid lies within the 5–7 percent range. These findings are consistent with Board-approved policy on the accommodation of aid, management guidance and feedback to staff, and staff views…"

---IEO Report, executive summary

CGD Report on Inflation

"Empirical evidence does not justify pushing inflation to these levels in low-income countries."

----CGD Report, page 8

US GAO on Inflation

"Policies that are overly concerned with macroeconomic stability may turn out to be too austere, lowering economic growth from its optimal level and impeding progress on poverty reduction."

---US Government Accountability Office (GAO), 2001. "Few Changes Evident in Design of New Lending Program for Poor Countries."

Howitt on Inflation

"Getting inflation down from 40 percent to 10 percent is not so bad. Its getting inflation further from 10 percent down to 5 percent that really hurts."

---Peter Howitt, Brown University

World Bank on Inflation

"…the search for macro stability, narrowly defined, may in some cases have actually been inimical to growth. Preoccupation with reducing inflation quickly induced some countries to adopt exchange rate regimes that ultimately conflicted with the goal of outcomes-based stability. Others pursued macro stability at the expense of growth enhancing policies such as adequate provision of public goods, as well as social investments that might have both increased the growth payoff and made stability more durable."

----- Roberto Zagha, PREM, World Bank, 2005. "Economic Growth in the 1990s: Learning from a Decade of Reform"

Policy Space

Poor countries need to have "enough space to craft their own economic policy" and "adequate room for policy autonomy and experimentation."

--- Nancy Birdsall, Dani Rodrik, and Arvind Subramanian, "How to Help Poor Countries," *Foreign Affairs*, 2005

From: "The IMF and the Millennium Goals - Failing to deliver for low income countries" Oxfam International, September 2003

Country	Fiscal Deficit Targets over 3-year IMF Program	Reduction % GDP	What this could buy for one year
Cameroon	**-0.7 to 0.7**	**-1.4**	Could have doubled health expenditure
Ghana	**-9.7 to –5.7**	**-4.0**	Could have doubled primary healthcare expenditure each year of the 3-year program
Mauritania	**-4.4 to –1.6**	**-2.8**	Could have almost doubled health expenditure in any one program year
Rwanda	**-9.9 to –8.0**	**-1.9**	Could double the health and education budget in each of three program years
Senegal	**-4.0 to –3.5**	**-0.5**	Could have doubled the total education and health expenditure in one year or doubled the health budget in each year of the three year program