Wage Bill Ceilings and the IMF

It has been said that IMF programs too often include public sector wage-bill ceilings, which directly or indirectly prevent more money from being spent on health in low-income countries.

In the past, these ceilings were widely used in IMF programs in low-income countries to help contain growth in government spending. Legitimate concerns were raised that rigid application of such ceilings could impose unacceptable constraints on essential social spending. In response, in July 2007, the IMF revised its policy on such wage-bill ceilings.

The IMF’s current policy is that ceilings should only be used in exceptional cases where they are crucial for macroeconomic stability, temporary and of limited duration, periodically reassessed, and sufficiently flexible to accommodate spending of scaled-up aid in priority social sectors.

As a result, none of the 37 IMF-supported programs in low-income countries currently contains a wage-bill ceiling as a binding condition, and only three have one as a non-binding target (see “Creating Policy Space” paper).

In summary, there is no conditionality that limits health spending in programs under the IMF’s Poverty Reduction and Growth Facility, the IMF’s main lending facility for low-income countries. The 2007 Center for Global Development report has already shown that IMF program conditionality has never included any wage-bill ceilings, or hiring freezes for that matter, specifically on the health sector. The share of programs with wage-bill ceilings declined from 40 percent during 2003–2005 to about 30 percent as of May 2007. There are currently no IMF-supported LIC programs with a wage ceiling as a performance criterion.

To see more on the IMF’s policy on wage bill ceilings, please visit:


- For more details on the 2007 policy change, see the following:
  - 2007 Aid Inflows and Program Design Papers

Health and Social Spending in Fund-Supported Programs: The Facts

In a recent interview, FAD Deputy Director Sanjeev Gupta and SPR Advisor Catherine Pattillo explained how Fund-supported programs emphasize health spending and offer social protection for the most vulnerable.

Several organizations and researchers have studied the effects that Fund programs may have on health in individual countries, and the Fund itself is also monitoring its role in this regard as part of its assessment of programs in member countries.

IMF Survey online spoke to Sanjeev Gupta, Deputy Director of the Fiscal Affairs Department and Catherine Pattillo, Advisor in the Strategy, Policy and Review Department about the role the Fund plays in issues related to health and social policy.

IMF Survey online: Are governments with IMF-supported programs pressed to decrease social spending to meet agreed economic targets?

Gupta: During the global food and fuel and financial crises, IMF-supported programs have been very flexible by accommodating larger fiscal deficits and higher inflation, and by continuing to protect priority social expenditures.

At the same time, IMF-supported programs have placed considerable emphasis on strengthening social protection for the most vulnerable. Programs have been aimed at preserving and in most cases increasing social spending. While recognizing that low-income countries often do not have well targeted social benefits systems, programs have supported countries’ efforts in finding practical solutions for protecting the most vulnerable. The design and implementation of Fund-supported programs involved close collaboration with the World Bank and regional development banks to increase the effectiveness of social spending programs.

Administrative capacity constraints, rather than excessively tight macroeconomic policies, are often the main factor constraining spending on health. Indeed, a survey conducted by the Center for Global Development and the International Aids Economics network of international health professionals found that among the most important obstacles to spending available resources on health were poor national coordination—mentioned by 28 percent of respondents, shortcomings in the health care system—mentioned by 14 percent, and absorptive capacity—mentioned by 8 percent. Fund spending limits were mentioned by only 1 percent of respondents.

IMF Survey online: Do IMF-supported programs require countries to cut spending on social programs so that inflation can be contained?

Pattillo: No. Fiscal deficits were budgeted to increase in 2009 in three-quarters of the low-income countries that were supported by IMF programs. And even in those countries that had to tighten fiscal policy, social spending has been protected.

In most cases, fiscal easing involved increases in government spending despite the bleaker revenue outlook. On average, total spending was set to increase by close to 2 percent of GDP in 2006–09. In real terms, this translates into an average annual increase of more than 7 percent during this period. The vast majority of the 19 countries that initiated Fund-supported programs in 2008–09 sought to increase social spending.

As demonstrated in a number of crisis-affected countries, programs were also flexible in adapting high inflation targets as food and fuel prices increased. Once commodity prices went into reverse and economic activity weakened, programs projected declines in inflation, but allowed room to avoid squeezing the economy.
**IMF Survey online:** Some observers claim that social spending in general, and health spending in particular, have decreased in countries with IMF-supported programs. Is there truth to this claim?

**Gupta:** Previous analyses of program countries have already shown this claim to be untrue. Earlier analyses by the IMF’s Independent Evaluation Office did not find any evidence of a decline in social spending in IMF-supported programs. The 2007 study by the Center for Global Development finds that the average increase in health spending as a share of GDP was larger for countries with Fund-supported programs than in low-income countries without such programs.

An updated analysis for countries using the IMF’s main lending facility for low-income countries, the so-called Poverty Reduction and Growth Facility, shows that social spending—including health and education spending—has increased by 0.6 percent of GDP relative to pre-program levels. Spending increases have been higher for education, at 0.35 percent of GDP compared to health at 0.25 percent.

However, the numbers for health may significantly underestimate increases in health expenditures since significant parts of official development assistance are disbursed through extra-budgetary channels. A 2006 OECD Survey on Monitoring the Paris Declaration concluded that in the 55 countries surveyed only about 45 percent of external aid in support of the public sector is channeled through the budget. In Rwanda, for example, NGOs account for 55 percent of spending in the health sector, while the government accounts for only 14 percent.

**IMF Survey online:** Do the IMF’s policies deter countries from using available donor aid for health spending?

**Gupta:** IMF-supported programs play an important role in mobilizing donor support around country-owned poverty reduction strategies. The IMF supports macroeconomic stability because it is a necessary condition for economic growth and poverty reduction, without which lasting improvements in public health conditions cannot be made.

In fact, a key objective of Fund-supported programs is to ensure that conditions necessary for full use of all available donor aid are in place. The IMF is a vocal advocate for expanding official development assistance, and helps countries mobilize resources and create fiscal space for higher social spending, including on health. In particular, the IMF has repeatedly called on donor countries to honor the Gleneagles commitments to scale up aid by 2010.

**IMF Survey online:** What is the IMF’s position on aid intended for the health sector being diverted to repay domestic debt or increase reserves?

**Gupta:** Aid flows are very volatile—more volatile than tax revenues and remittances. This volatility can complicate fiscal management and affect governments’ ability to provide a stable flow of services to their citizens. The governments may therefore choose to save part of the current aid to finance future social spending (including on health). Their actions may also be influenced by the lack of capacity to immediately scale up spending—it takes time to hire new doctors and nurses and construct health centers.

An IMF study, on fiscal policy responses to scaled up aid found that social spending, including spending on health and education, in 51 countries under the Poverty Reduction and Growth Facility during 1990–2004 was generally unaffected by aid flows and that some kind of expenditure smoothing was being practiced by governments.

**IMF Survey online:** How does the IMF respond to claims that very little of the funding recently made available by the IMF is allocated to the poorest countries, and that this funding is largely not new and comes with interest, a slow disbursement timeline, and uncertainty on whether it will materialize?
In July 2009, the IMF announced an unprecedented increase in its aid to low-income countries. First, scaled-up concessional financial assistance to low-income countries will boost the Fund’s concessional lending capacity to $17 billion through 2014, including up to $8 billion in the first two years. This more than doubles our existing capacity. The additional funds will be new. The financing of the required subsidies will be mobilized mainly from the IMF’s own resources, including from gold sales, together with contributions from donors. We have already received many commitments from donors, and are confident the full amount will be raised.

Second, there is provision for interest relief. No interest will be charged on any IMF concessional lending, whether existing or new, through end-2011, to help low-income countries cope with the crisis.

Finally, permanently higher concessionality of IMF financial support will be introduced, with a mechanism for updating interest rates after 2011. New and more flexible credit facilities have also been introduced that provide short-term, medium-term, and emergency support to low-income countries. Conditionality in IMF programs has been streamlined and even greater emphasis placed on safeguarding social and other priority spending.

**IMF Survey online:** How has the IMF responded to criticisms of its policy on attaching strict conditions to lending programs?

Pattillo: The IMF has recently introduced a new framework for applying conditionality on structural measures critical to the achievement of macroeconomic stability that is consistent with sustained growth and poverty reduction. In May 2009, use of structural performance criteria, which are measures that are formal conditions for disbursement of IMF loans, was discontinued. Specific structural conditions are now monitored through reviews, using only structural benchmarks. Unlike in the case of structural performance criteria, failures in implementing structural benchmarks would not automatically disrupt disbursements of IMF loans.

The aim of this reform is to provide countries with more flexibility in achieving their program reform goals, putting more focus on the goals themselves and less on specific time-bound measures, thereby enhancing ownership and the likelihood of improving results. In general, structural conditions have become more streamlined in recent years, the number of conditions per program review has been declining—by a third since the early 2000s, and the implementation rate has improved.

**IMF Survey online:** Why isn’t the IMF more transparent about its activities, particularly concerning social spending in program countries?

Pattillo: Transparency, outreach, and engagement with outside audiences are indeed very important for the effectiveness of the IMF. And the Fund has been working for over a decade to provide meaningful, timely information on its work and on the economies of its 186 member countries to the public. Most IMF Executive Board documents—including nearly all staff reports on countries—are now published as a matter of routine, and the organization has strengthened outreach efforts to explain its operations and views to the outside world. The IMF’s website provides a useful outlet for information on engagements with member countries, and IMF policy reforms. Transparency and openness are increasingly seen as a normal and essential part of the IMF’s business.

The IMF Executive Board will soon review its transparency policy and in the background work for the review additional areas where Fund transparency could advance further were discussed in a recent blog by a senior IMF official. As part of the background work for the review, the IMF sought views from the public, including in a meeting with civil society organizations in April and via web surveys. A recent initiative, following the reforms to the IMF’s low-income country lending facilities, is to strengthen safeguards on social and other priority spending in Fund programs, including through explicit program targets where possible.