IMF offers crumbs to poorer countries

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8 August 2021

To the accompaniment of overblown rhetoric and after months of haggling, the International Monetary Fund has agreed to try and boost the finances of low- and middle-income countries as they struggle to deal with the COVID-19 pandemic amid lack of access to vaccines and already inadequate public health services.

Last week it signed off on a $650 billion expansion of its Special Drawing Rights (SDRs) program. SDRs have no conditions attached and do not have to be repaid, enabling countries to employ them without making compensatory cuts to public spending. But the decision will make little difference to the worsening situation confronting many countries as they face a continuing slowdown in the growth of their national income.

This was acknowledged, at least indirectly, by the IMF itself in its latest update to its world economic outlook. It cut the forecast for growth for emerging-market and less-developed countries, reversing the trend that has prevailed over the past two decades and more.

However, this did not stop IMF managing director Kristalina Georgieva from talking up the SDR expansion when she announced it.

She said it was a "historic decision—the largest SDR allocation in the history of the IMF and a shot in the arm for the global economy at a time of unprecedented crisis.

"The SDR allocation will benefit all members, address the long-term global need for reserves, build confidence and foster the resilience and stability of the global economy. It will particularly help out most vulnerable economies struggling to cope with the impact of the COVID-19 crisis," she continued.

These claims are contradicted by the very structure of the allocation. The expansion of SDRs, the equivalent of newly printed money, will be allocated to the IMF's 190 members in proportion to their share of the global economy. This means that only $275 billion will go to emerging and developing economies, with the rest allocated to the world's major economies.

Furthermore, it is estimated that only 8 percent of the new money will go to countries that are classified as "highly debt vulnerable."

Debt is a problem across the board. According to the Institute of International Finance, average government debt in large emerging market economies rose from 52.2 percent of gross domestic product to 60.5 percent in 2020—the largest increase on record.

The IMF itself has reported that more than half of emerging and developing countries had inadequate finances to meet the pandemic and had been forced to deplete their foreign currency reserves to combat it.

Many of these countries operate under the threat that a tightening of financial conditions in the US and other major economies would see the reversal of capital inflows, further escalating their economic and financial problems.

There have been calls for richer countries to channel their allocation of SDRs to poorer countries and Georgieva said the IMF was seeking to advance those efforts. But given the record on the allocation of vaccines against the coronavirus, which shows that poorer countries have received only a tiny fraction of what is needed, there is little prospect of any meaningful movement on this front.

One of the most significant effects of the pandemic on less developed countries is in the tourist industry.

According to the UN's World Tourism Organisation, global international arrivals for the first five months of this year were, on average, 85 percent down from their levels in 2019, compared to a reduction of 65 percent for the same period in 2020.

In the Asia-Pacific region, now being hard hit by the Delta variant, there has been a 95 percent fall in arrivals compared to 2019 levels. Chinese tourism to the region

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has virtually ceased. The dependence of many of these countries on foreign visitors is exemplified by Thailand where 20 percent of GDP and employment is generated by tourism.

Luiz Eduardo Peixoto, an emerging-markets economist at BNP Paribas in London, told the *Financial Times* that the situation this year was worse than predicted.

"Last year, there was an assumption that in 2021 we would see a rebound," he said. But the drop in number last year was close to the most pessimistic scenario because "we didn't get a recovery during the [northern] winter—quite the contrary. This year, things are not recovering as expected."

Viewed within a longer term historical perspective, the IMF's latest intervention via SDRs could well be described as the case of a criminal returning to the scene of the crime and seeking to expunge vital evidence.

One of the main reasons health services in less developed countries are in such parlous condition and why debt levels are so high—constricting the spending on vital health services—is the impact of so-called "structural adjustment" programs imposed on them in an earlier period by the IMF.

First imposed in the 1980s and then continuing into the 1990s and the present century, countries that sought assistance from the IMF were required to meet strict conditions including the privatisation of public services, deregulation of financial markets and reduction of social spending, including on health.

Between 1980 and 2014, 109 out of 137 developing countries had to enter at least one structural adjustment program.

A recent article by Adele Walton in the UK *Tribune* magazine pointed out that some 25 countries were spending "more on debt than healthcare, education, and social protection combined in 2019, meaning the intense strain of an international health care crisis has left swathes of populations without access to essential services and resources."

The measures imposed by international finance capital via the IMF have had a particularly significant impact on two of the countries that have been hardest hit by the pandemic, South Africa and India.

According to Walton's article a study in South Africa has found "privatisation to be the primary cause of deprivation of most of the population's access to health care."

In India, privatisation of health care "significantly reduced the government's capacity to prioritise public health needs over private profit interests." And the lack of resource coordination had "cataclysmic consequences for the country when it experienced oxygen shortages at the height of its second wave."

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