Monday, September 28, 2026
tomorrowsaffairs.com

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Analysis of today
Assessment of tomorrow

By: Martín Abeles

Why is the IMF returning to Latin America?

For much of the 2000s, Latin America and the Caribbean (LAC) seemed to have finally distanced itself from the International Monetary Fund.

The debt crises of the 1980s and the structural-adjustment programs of the 1990s had left deep socioeconomic scars across the region.

The commodity boom that followed, together with the rise of progressive governments and the accumulation of large international reserves, meant that many LAC countries no longer needed IMF lending, which fell to historic lows by the late 2000s. But that era has ended.

A recent report by the International Development Economics Associates (IDEAs) finds that the IMF has once again become a central actor in LAC, with 17 of the region's 32 countries currently in a financial relationship with the institution.

If Bolivia's recently negotiated agreement is formally approved, and if Colombia follows a similar path now that President Abelardo de la Espriella has taken office, that number could rise to 19.

The region currently accounts for 44% of total IMF financing. To be sure, this figure is heavily influenced by Argentina's exceptional arrangements—the largest in the Fund's history.

But a strikingly large proportion of LAC countries remains subject to some form of IMF conditionality, whether through active programs, ex-ante requirements of precautionary lending facilities, or significant outstanding debt.

Fragile and dependent stagnation

Despite this renewed IMF presence, the region has not fallen back into its historical crisis mode.

Instead, LAC countries find themselves in what can be described as a condition of "fragile and dependent stagnation," as economic growth has slowed steadily since around 2014, falling to less than 2% over the last decade.

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Meanwhile, external indebtedness has increased significantly across much of the region, pushing many LAC countries toward conservative macroeconomic policies aimed at preserving market confidence.

The clearest examples of this conservative policy orientation are the economies, such as Chile and Mexico, that maintain flexible credit lines (FCLs) with the IMF.

These facilities are available only to countries deemed to have exceptionally "sound" policy frameworks and can be even more macroeconomically restrictive than traditional IMF programs.

Not coincidentally, Chile and Mexico have not been among the region's strongest-performing economies over the past decade.

Self-imposed austerity

In fact, many LAC countries, not just those with FCLs, seem to have internalized IMF-style policy discipline without having active IMF programs.

Brazil is perhaps the most striking case: its exceptionally high interest rates and cautious fiscal stance have underpinned stability, but at the expense of growth. The United Nations Economic Commission for Latin America and the Caribbean has cautioned that the region recently experienced a "second lost decade," evoking its debt crisis of the 1980s.

Where such self-imposed austerity has proved insufficient, the IMF has swooped in.

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The recent expansion of the Fund's presence unfolded in two waves. The first came during the pandemic, when 21 LAC countries signed 25 financing agreements.

The second began after Russia's full-scale invasion of Ukraine, when ten countries entered into 14 additional arrangements.

Moreover, several Caribbean countries, including Barbados, Jamaica, and Haiti, have developed recurring and often prolonged relationships with the IMF because of natural disasters and external shocks.

Argentina and Ecuador, which account for roughly $68 billion of LAC's $74 billion IMF debt, illustrate how the austerity measures typically prescribed by the Fund not only weaken long-term development prospects, but also often fall short of achieving the stated goal of financial stabilization.

In both countries, successive lending programs have failed to restore durable access to international capital markets.

Quite the contrary: the sheer scale of the IMF's claims has an "anti-catalytic effect," discouraging other lenders and making it more, not less, difficult to regain market access.

Geopolitical realignment

But understanding the IMF's growing presence in LAC requires applying a geopolitical lens.

Historically, the Fund's lending priorities and program designs have reflected the interests of the countries that dominate its governance structure, above all the United States.

Today, that reality has acquired renewed relevance, particularly in LAC. Since Donald Trump's return to the White House, his administration has sought to reassert US dominance in the so-called "Western Hemisphere."

The "Shield of the Americas," a US-led regional security initiative, is another expression of that strategy, as most of the countries that have joined maintain some form of relationship with the IMF

Geopolitical realignment, when combined with conditionality and continued financial dependence, can become mutually reinforcing.

Consider that Venezuela, whose finances the US effectively controls following its military intervention in January to remove President Nicolás Maduro, may regain access to its special drawing rights (the IMF's reserve asset), which were frozen in 2019.

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In this new geopolitical landscape, the critical question is not only whether the IMF will continue to impose stringent, creditor-oriented policy conditionalities on LAC countries, but what kind of relationship is emerging between the region and the Fund.

Is IMF intervention simply a technical response to macroeconomic fragilities—to be sure, biased toward the interests of global finance, yet still ostensibly technical in nature—or are we entering a new phase in which financial dependence and geopolitical alignment become increasingly intertwined?

This is a relevant question, especially as strategic minerals, energy resources, logistics corridors, and essential infrastructure have become key battlegrounds in an increasingly fragmented geopolitical landscape.

Martín Abeles is Professor of Development Economics at the National University of San Martín and Regional Director of Research and Policy for Latin America and the Caribbean at International Development Economics Associates (IDEAs).