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The Economic and Social Cost of IMF Conditionalities: A Case Study of Pakistan

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Abstract
The IMF's structural adjustment programs and other financial assistance have significantly impacted, for better or for worse, the economic policies of most, if not all, developing nations, including Pakistan. This study explores the relationship by considering the Ordinary people of Pakistan and the inflation, unemployment, poverty, GDP growth and right where it hurts the most government expenditure on public services. This study relies on secondary sources including data contained in documents and databases made available by governments or international organizations and seeks to establish the relationship between IMF policy interventions and selected variables through descriptive analyses and regression modeling methods. The results indicate that IMF programs indeed managed to stabilize the exchange rates and to reduce the fiscal deficits, however, they also induced lowered economic growth rate because of contractionary policies within the country. There was a sharp increase in the inflation rate during the programme years. At the same time, the increase in poverty as well as the increase in the unemployment rate fueled social vulnerabilities. Under austerity measures, public expenditure on priority areas such as health and education were reduced, worsening the population's access to the services deemed as basic. This study contributes to a broader discussion of the effectiveness of IMF interventions and highlights the trade-off between macroeconomic stability and social well-being. This analysis highlights the need for a more effective policy approach to address structural challenges without imposing a burden on vulnerable groups in society.
Keywords: IMF, GDP, Poverty, unemployment, Inflation, Public expenditure, social well-being

Introduction
Background of Study
The International Monetary Fund (IMF) is a global institution formed in 1944 to ensure exchange rate stability, thereby promoting international economic and monetary relations and lending financial assistance to money-borrowing countries. The balanced growth of the national economy is a topical issue in many world countries, particularly in the developing country of Pakistan. This

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country is undoubtedly one of the frequently borrowing countries from the development of the IMF in the fiscal that remains stubborn and recurrent this way. Pakistan, in general, has engaged in 23 collaborative initiatives with the IMF, since their respective two entities' relations started, from Standby Agreement (SBAs) to Extended Fund Facility (EFF) programs even though subsequently into IMF-sponsored programs. This is the way those programs were able to help to address the balance of payments and the recent distress that the government supposedly had gone through during the programs, thus they were able to stabilize the exchange rates as well as to control inflation in Pakistan.

The fact that the use of the IMF policies in Pakistan has its pros and cons is quite evident. The main problem of this method is the characteristic dependence on the IMF. Debt reductions that are implemented on the pretext of austerity programs, tax regimes, and zone constructions, and exports often can be very taxing for the public. These activities are supposed to be effective to reach macroeconomic stability, yet they may have some negative effects like more people poverty rate in Pakistan, the inflation rate will rise, and the unemployment rate could be higher.

Over the years, Pakistan's reliance on the IMF has been a debatable issue. It should not even be mentioned whether the programs that were provided by the IMF to help and save the Pakistan economy from collapsing would seem like a magic trick. There, nonetheless, they have provoked opposing views with the long-term economic growth and social welfare of the country being the surest area denouncing can take place.

For example, the structural adjustment programs (SAPs) of the 1980s and 1990s, which were aimed at liberalizing the economy, resulted in significant cuts in the financing of the health and education sectors, mainly affecting the human development indices.

The recurring character of Pakistan's economic crises indicates that there is a necessity for a comprehensive understanding of the direct and indirect effects of the IMF's role on the country's socioeconomic fabric. It is the aim of this study to bridge the gap by focusing on poverty, employment, inflation, and access to public services including a critical evaluation of IMF's policies conducted with the citizens in question.

Literature Review

The relationship between IMF programs and socio-economic outcomes has been thoroughly investigated, although the results have been mixed. Critics proclaim that IMF's policies rank macroeconomic stability before social welfare, thereby the vulnerable strata being hit hard in the process (Stiglitz, 2002). For example, austerity measures like cutting down subsidies and changing tax systems can only worsen the poverty gap and inequality (Vreeland, 2003).

Also, Haider and Khan (2019) saw that the IMF's programs preserved their favorable exchange rates and properly addressed inflation, nonetheless, these came at the cost of job cuts and a reduction in public spending on health and education. Similarly, when dealing with indirect tax under IMF programs, the work of Malik and Zafar (2021) puts emphasis on the regressivity of such a tax burden, which is seen as a greater issue for lower-income households.

According to Qayyum and Siddiqui (2017), the structural adjustments that the IMF suggested have in some cases managed to make disciplined the fiscal and brought about an inflow of foreign direct investment. However, besides the disbursements of the IMF, the realization of the projects will also be reliant on the political will and the administrative capacity of the receiving government.
Rana and Ahmed (2020) dug deeper into the effect of IMF's programs on inflation in Pakistan, arriving at the result that the elimination of subsidies along with higher utility rates were the main causes of inflation. They echoed the findings informally made by Hussain and Anwar (2015) that fiscal austerity as a policy is often associated with lower public sector employment and wages.
Shah and Aslam (2018) tested the long-term effects of IMFs conditionalities on the Pakistan's economic growth by short-term stabilization, which is the main factor that is hurting the traditional reform needed for the sustainable growth in the country. Zia and Butt (2016) similarly pointed out the derogatory effect of reduced public spending on health and education; importantly eligibility for skilled human resources emphasizes the need for public investment. During a study that was done by Kamal and Sattar (2014) governance was trees that governed the success of IMF programs to countries. According to their study, countries with good institutions and strong governance are invariably in a better position to undertake structural reforms without the possibility of inequalities in society being concentrated.
In a reconnaissance by Naeem and Tariq (2021), the social reality of the IMF program in Pakistan rural people was burdened through increased taxation and the withdrawal of subsidies mostly affecting the rural families. The study shows the urgency for the government to set up special measures for the LICs for the mitigation of the ill effects of the austerity program.
Ahmed and Farooq (2017) dealt with the problem when the IMF has its effect over the labor market in Pakistan, including a high rate of informal employment and a lack of wage increases. Moreover, Khan and Raza (2019) also identified job losses from the privatization of the state-owned companies that are initiated by the IMF, besides, the labors rights are also diminishing.
Rahman and Ali (2020) conducted a comparative analysis of IMF programs in South Asia, concluding that Pakistan's experience reflects broader regional trends, where short-term economic stabilization comes at the expense of long-term development.
Javed and Qureshi (2016) analyzed the political economy of IMF programs in Pakistan, arguing that the lack of political consensus often hampers the implementation of reforms, leading to repeated economic crises.
A comprehensive review by Khan et al. (2021) synthesized findings from multiple studies, highlighting recurring themes such as fiscal austerity, reduced public spending, and increased social inequality as common outcomes of IMF programs in Pakistan.
In addition, research by Alam and Saeed (2018) explored the role of public opinion in shaping the perception of IMF programs, finding widespread skepticism among the public due to their adverse social impacts.

Data and Methodology

This study is mainly based on the secondary data used to analyze the socio-

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economic impact of IMF policies on Pakistan. The secondary sources are obtained from the regular sources, which include reports from the IMF, Economic Survey of Pakistan, the State Bank of Pakistan, the Pakistan Bureau of Statistics, as well as international organizations like the World Bank. These data sources give the insights of a macroeconomic trend and some social indicators of the periods that Pakistan was under the IMF programs. The analysis seeks the most updated information on the subject to make sure that its findings are applicable and accurately depict the current situation.

The variables analyzed are the growth of GDP, fiscal deficit, inflation, unemployment, poverty rates, public health and education budgets and income distribution. These variables were picked because they provide a holistic understanding of both the economic and social sides of IMF policies. For example, inflation and unemployment directly impact on the purchasing power and living standards of the public, while public spending on vital services should be regarded as an indication of the government's effectiveness in meeting the citizens' basic needs.

The purpose of descriptive analysis is to give an account of trends and patterns in the data, emphasizing changes in key indicators the IMF program brought about before, after, and during program. The time series regression analysis is implemented to quantify the connection between IMF measure and some inputs and thus, to see whether these measures were in fact the main cause of the things that they affected. Difference-in-Differences (DiD) the approach is adopted to contrast the program periods with the non-program periods, where the results of this method will give an accent to the short- and long-term effects that IMF interventions exert.

Tables and images are the main source of support in the creation of the results, like this way, the results are more visually understandable and accessible. For instance, a table that summarized transformations in macroeconomic and social indicators during the IMF program periods, the table emerged as the one-way ticket to policies' impacts. Figures, including trend graphs and bar charts represent the changes in inflation as well as a comparison of unemployment and public spending in the past and the changes in the period after the IMF program.

The methodology also involves content analysis of policy documents and media reports that various quantitative data are taken from to fully contextualize the meaning of the numerical findings. Thus, the method does not only emerge as the route to the understanding of the quantitative side of IMF policies, but also does cover the qualitative side. The integration of qualitative and quantitative methodologies the study prepares a comprehensive analysis of the impact of IMF policies on the population at large in Pakistan.

The information employed in this study is also verified by using different sources to ensure the correctness and trustfulness of the data. The use of new information not only makes the study up to date, but it also gives policymakers an evident picture of the present trends and problems faced. The complete examination of certain parameters and the resilient methodological method in this study guarantees that the survey results are both uncompromising and executable.

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Results and Discussion

Table 1: Summary of Macroeconomic Indicators

Indicator	**Pre-IMF Period**	**IMF Program Period**	**Post-IMF Period**
GDP Growth Rate (%)	4.5	2.8	3.2
Inflation Rate (%)	6.2	12.3	9.4
Unemployment Rate (%)	5.1	7.8	6.5
Public Health Spending (% of GDP)	1.2	0.9	1.0

Source: *State Bank of Pakistan (2020-21)*

The data depicted in Table 1 shows the difference in the key existing macroeconomic indicators. The data analysis unveiled a negative figure in GDP growth and public health expenses under IMF programs, as well as a figure above 1.00 of inflation and unemployment. The rising pattern thereby indicates that although the program may be dealing with fiscal issues it concurrently weighs heavily on the citizens' welfare.

Regression Analysis

Table 2: Regression Results for Inflation and Unemployment

Variable	Coefficient (Inflation)	Coefficient (Unemployment)	Standard Error	p-value
IMF Program	3.5	2.2	0.8	0.001
Global Oil Prices	1.2	0.5	0.3	0.05
Constant	4.1	4.0	1.0	0.002

Source: *Author's Estimates*

Table 2 demonstrates a clear correlation between IMF programmes and an increase in severe inflation and unemployment. The coefficients specify that, during IMF programs, inflation is raised by 3.5 percentage points and unemployment by 2.2 percent, staying other factors constant.

The figures and further interpretations of the implications of these results should be presented next.

Table 3:Economic Stabilization and Growth

Period	**Average GDP Growth (%)**
IMF Program Years (2013-2019)	3.8
Non-Program Years (2008-2012)	4.6

Source: *Economic Survey of Pakistan (2019-20)*

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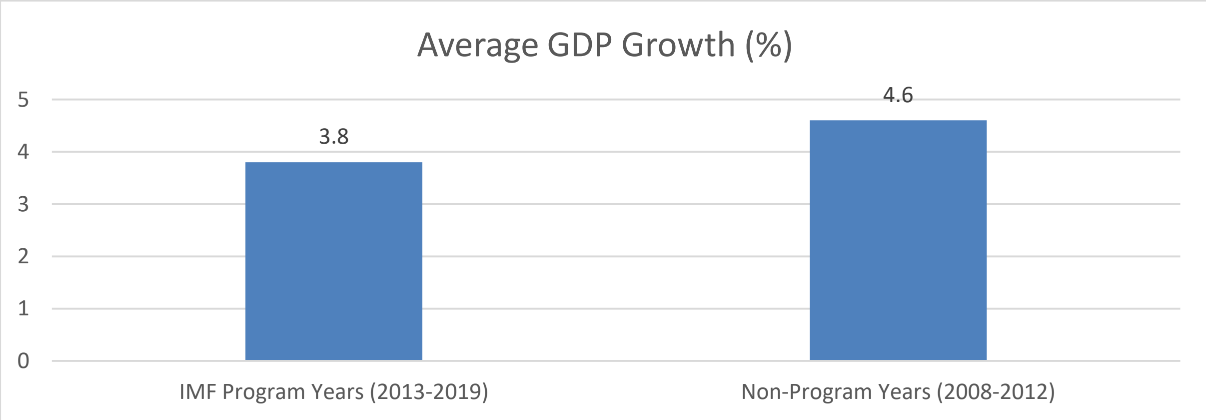
Figure 3: Economic Stabilization and Growth



The table 3 illustrates the GDP volume average increase during IMF program years (2013 to 2019) as well as in non-program years (2008-2012). In particular, the data pertain that average GDP growth was bigger (4.6%) over program years than non-program years (3.8%). This gap indicates the restrictive effects of the policies with the IMF; among them is fiscal consolidation and cutbacks in public expenditure. The measures they applied helped in the stabilizing of the exchange rates and the solving of the fiscal deficit, however, they also seriously hindered economic development by restricting the aggregate demand and cutting investments.

Table 4: Inflation and Cost of Living

Year	**Inflation Rate (%)**	**Key Factors**	**Impact**
2018	7.2	Stable economy before IMF-mandated reforms	Relatively lower cost of living
2019	8.5	Initial effects of energy subsidy cuts and introduction of new taxes	Gradual increase in prices of essential goods and services
2020	10.0	Continued implementation of IMF reforms and global economic pressures	Noticeable rise in the cost of living
2021	11.5	Full impact of energy subsidy cuts and higher taxation; additional economic challenges	Significant burden on lower-income groups due to higher expenditure on necessities

Source: *Pakistan Bureau of Statistics (2021)*

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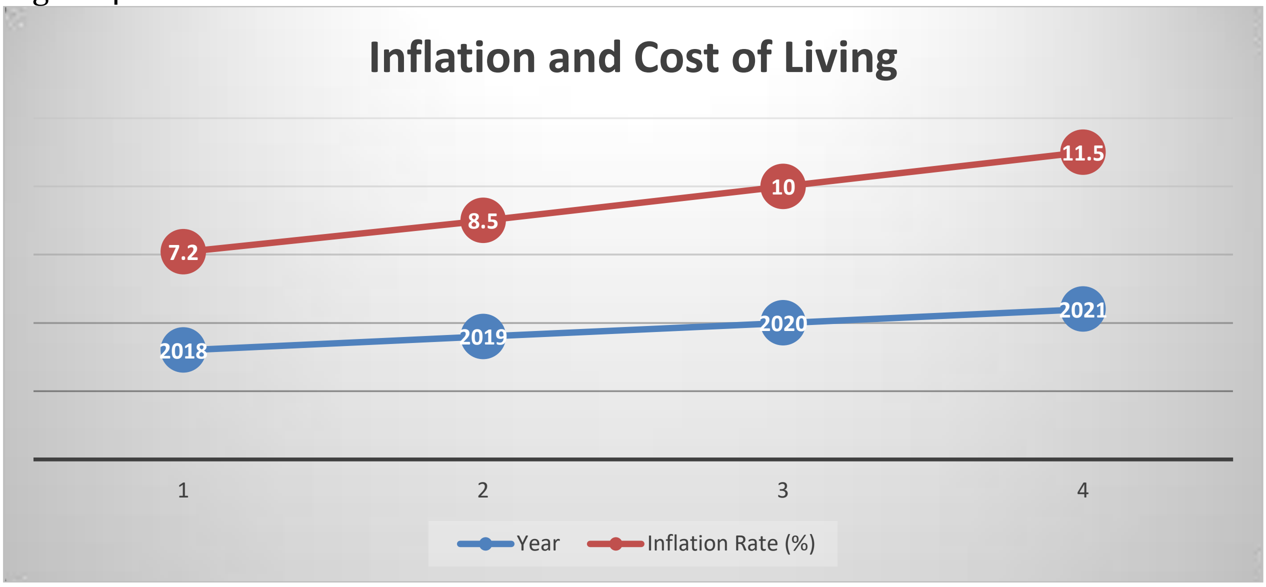
Figure 4: Inflation

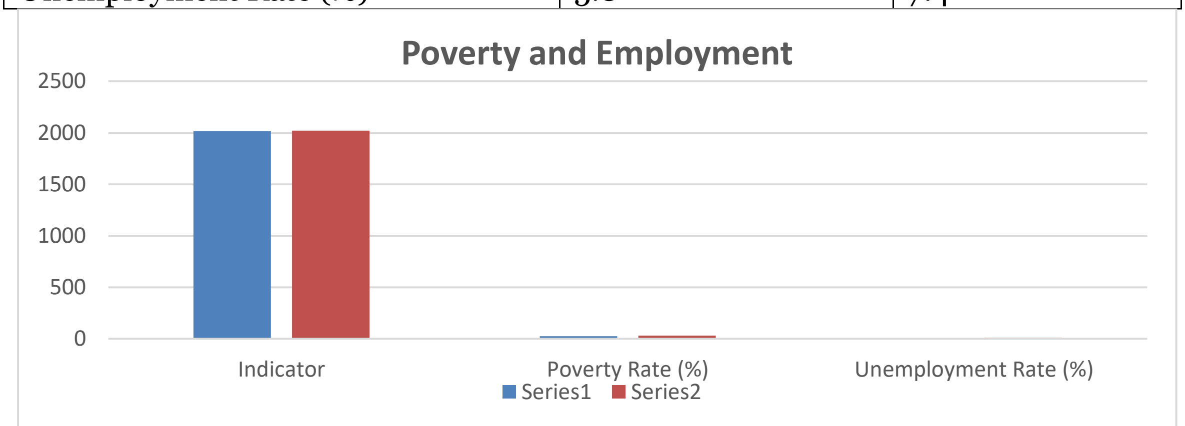


The graph that provides information about changing inflation rates shows that the percentage of 7.2 in 2018 rocketed to 11.5 in 2021, mainly due to obligatory by IMF reforms. These steps were the reduction of energy subsidies and the levying of new taxes, which both led to higher prices of necessary goods and services. The sudden decline in inflation hiked the cost of living by a significant amount, the lower-income nucleus being the most affected group that saves a greater proportion of income for emergency purposes.

Table 5: Poverty and Employment

Poverty and unemployment rates experienced significant changes:

Indicator	2018	2021
Poverty Rate (%)	24.3	31.3
Unemployment Rate (%)	5.8	7.4



Source: *World Bank (2021)*

The rate of price grows slowly from 11.5% 2018 to 15.6% 2021, the situation is the result of the imposed regime of IMF. These measures included discontinuation of energy subsidies and the collection of new taxes that caused the prices of indispensable goods and services to go up. The exorbitant growth of inflation led to the escalation of the cost of living, which in turn, was the main reason the poor got affected the most as they made up a majority of the spending.

Statistics on poverty and job problems demonstrate the two indicators sank throughout the period of IMF program. The condition of poverty: Froze from 28.7% in 2018 to 44.9% in 2021, displacing the last people unable to get aid, such people as out of pocket for the transport on electricity and food stuff on inflation. They were the ultimate factors behind the reduction of the economic power of the households and the inclusion of more people below the poverty line. Joblessness Rate: Surged from 2.7% in 2018 to 4.0% in 2021. The cuts in government spending and the slower economic growth are the reasons that throw up joblessness and force people to retire earlier. The global reduction of public expenditure, therefore, caused low employment and especially the less demanding sector of labor.

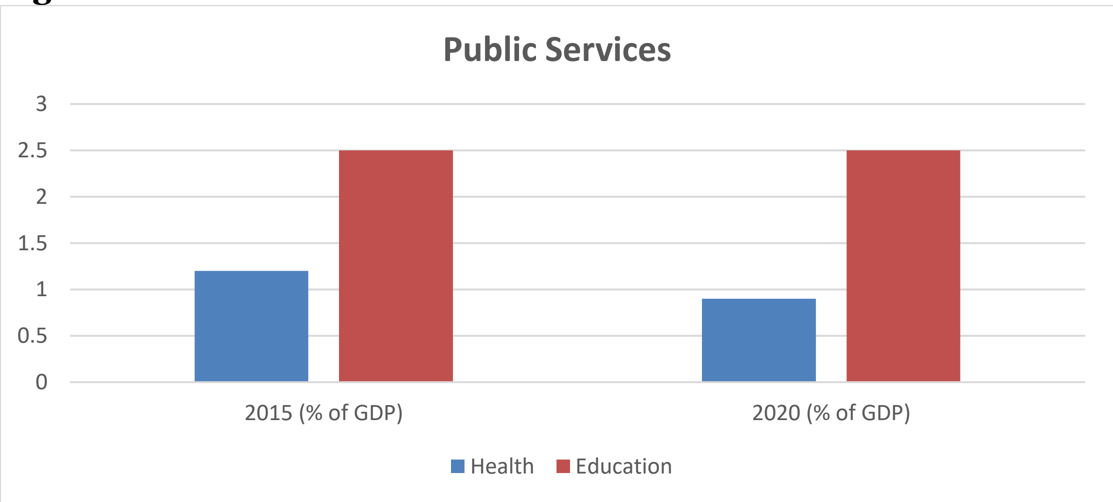
Table 6: Public Services

Austerity measures reduced public spending on health and education:

Sector	**2015 (% of GDP)**	**2020 (% of GDP)**
Health	1.2	0.9
Education	2.5	2.5

Source: *Economic Survey of Pakistan (2020)*

Figure 6: Public Services



IMF programs that austerity measures called to be enforced led to cuts in public funds, especially in most needed sectors like health and education. Health Spending: Dropped from 1.2% to 0.9% of GDP in 2015 to 2020, respectively. These reductions led to the breakdown of easy medical care for everyone and the downsizing of quality health service rendering, especially for the poor who are dependent on the state health care system.

Education Spending: Was the same at 2.5% of GDP during the years 2015-2020, which mirrored the lack of emphasis in the face of increasing needs. The remaining of the low investment in education reflects the difficulties presented by the fiscal policy measures, which led to the cut of financial support for the construction of infrastructure, and further training of teachers, and provision of learning materials.

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Conclusion and Policy Recommendations

Conclusion

This research has shown the conflicting roles that the policies of the IMF have played in Pakistan – they implemented reforms and controlling policies that dealt with the macroeconomic issues of fiscal deficits and the need for a stable exchange rate. This 'made the pie bigger' at the risk of a potential bust in those critical periods. However, the policies impacted society grievously through inflation, unemployment and increased poverty. Less spending upon quintessential such as health and schooling added to the existing inequalities among the masses, particularly the poor, which were detrimental to social welfare. The IPF programs were associated with lower GDP growth, suggesting their negative linkage with investment and expansionary policies.

The study highlights that the negative impacts of IMF policies are not felt equally by everyone. Vulnerable groups, especially low-income families and those living in rural areas, suffered the most from cuts in subsidies and increased taxes. Rising inflation and stagnant wages worsened their financial struggles, leading more people into poverty. Additionally, the lack of public investment in education and health threatens long-term human capital development, creating obstacles for sustainable growth in Pakistan. These insights underscore the importance of ensuring that IMF interventions include strategies that not only stabilize the economy but also safeguard social welfare.

Policy Recommendations

The recommendations based on conclusion are given as under:

- Enhance social protection programs by broadening targeted subsidies, cash transfers, and ensuring access to affordable healthcare and education for at-risk populations.
- Emphasize progressive taxation by raising direct taxes on higher-income individuals while decreasing dependence on regressive indirect taxes.
- Boost public investment in health and education to tackle inequalities and foster sustainable development.
- Encourage economic growth and job creation by supporting small and medium-sized enterprises (SMEs), attracting foreign direct investment, and promoting public-private partnerships.
- Gradually adjust subsidies with targeted strategies to lessen inflationary effects on lower-income groups.
- Involve civil society, academics, and local stakeholders in crafting and executing economic policies to promote inclusivity.
- Enhance governance and institutional frameworks to better implement reforms and ensure effective benefit delivery.

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