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Balancing Fiscal Stability and Social Welfare: The IMF's Influence on Pakistan's PTI and PDM Governments

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Abstract
This research seeks to critically examine the impact of IMF programs on Pakistan's internal policies for socio-economic change during the PTI and PDM regimes. This paper analyzes the characteristics of IMF conditionalities, their fiscal, monetary, and social implications and effects on stabilization objectives, as well as the social repercussions and outcomes in both countries. This paper uses dependency theory and austerity theory to analyze the historical IMF revolving door with Pakistan and the effect of this on sovereign economic freedom and welfare. This paper shows that although IMF programs have helped Pakistan in achieving some of its near-term fiscal objectives, they have led to the decline of other economic indicators, including the rate of inflation, social expenditure, and poverty, especially among the poor and vulnerable. After that, the paper outlines several recommendations for practice and policy concerning principles that future IMFs should follow to achieve the right proportion between budget constraints and socio-economic expenditure/development. This paper adds to the existing literature on external interference in the financial systems of developing countries and calls for changes that will complement national development objectives.

Introduction
The Bretton Woods Conference formed the IMF in 1944 with the goals of international monetary cooperation, exchange rate stability, increased international trade, high employment, and assistance for any member country experiencing payment balance difficulties. After its formation, the IMF has provided funds to countries in need of financial assistance in their economic difficulties and, as a condition, insisted on the implementation of sound fiscal and structural reforms to make affected countries competitive again. However, these conditionalities, which typically demand fiscal discipline, have resulted in diverse socio-economic effects on RWGs, as well as on the recipients' sovereignty and power distribution (Alaye, 2024).
This relationship has been especially seen in Pakistan which is one of the earliest members of the IMF. Pakistan has also sought IMF several times since 1958, but it wanted to set up programs, which it has had to force through reforms. IMF makes developing countries engage in a cycle of dependency, and Pakistan cannot set out economic policies for its market needs and demand instead of the IMF. These points collectively deliver dependency theory. Similarly, Austerity Theory argues that, such as subsidy reductions and tax increases, affecting the middle and lower-income segments of the populace (None, 2017).
This paper examines the effects of IMF conditionalities on Pakistan's economic and social management in the frameworks of the PTI and the PDM governments. The use of dependency

theory and austerity theory in the study allows identifying how each administration met the demands of the IMF program and promoted fiscal sustainability alongside the socio-economic needs of the population. In this regard, the paper has a contribution to the appreciation of the roles played by the IMF programs in the stabilization of the economic state of a country and the social development process. It also investigates the place of poverty and inequality in contemporary configurations of development assistance and how these idea suit or clash with the demands of the international financial assistance. Therefore, the paper aims at extending the existing literature on the self-same IMF programmes and their significance about fixing a country's steadiness and the promotion of societal transformation. It also discusses how poverty and inequality feature in present modalities of development assistance and in what way can or cannot they fit with the parameters of international financial assistance.

Dependency Theory and IMF Conditionalities

According to Dependency Theory, when a developing economy often depends on the international financial aid, it becomes enmeshed in the organism of dependency thus its sense of economic freedom is held in check. IMF interaction theory holds that this cycle of repeated IMF entwinement ensnares countries in a cycle of repeated temporary stabilizers; for creditor-country government, the imperative of servicing external debts trumps domestic development. In the light of Dependency theory, it depicts that IMF programs impose structural conditionality for Pakistan, by which the Pakistan government gets constrain to make their policy changes according to the external reform rather than internal economic goals and objectives (Hussain, 2004; Ahmed et al., 2021).

Austerity Theory and Socio-economic Impacts

Austerity theory mainly is centered on the costs of welfare that stem from the structural adjustment that is occasioned by the IMF fiscal adjustments which entails regressive subsidies and taxes. Previously, these approaches led to a rise in inflation, a reduction in health and educational services, and an increase in poverty in Pakistan as public funds were diverted from social sectors to achieve fiscal consolidation goals (Blyth, 2013; Abdullah, 2022). Based on the framework developed in our Austerity Theory, this paper represents a view on the adverse effects of the IMF conditionality on social fabric of societies including the one in Pakistan.

Empirical Studies on IMF Conditionalities in Pakistan

Several prior works on IMF operations in Pakistan including works by (Hussain & Raza 2019, and Ahmed et al. 2021). show that although IMF programs gave a health checkup to the economy in the short run, growth remains an unaccomplished dream. These studies suggest that although the aspects of GDP, inflation, and the current account balance first have a positive experience, the long-term social indicators of poverty and human development decline. This paper adds to what has already been written by looking at dependency and austerity theories to look at IMF programs during the PTI and PDM governments and see how they changed economic and social factors.

Comparative Regional Analysis:

Analysis of IMF program outcomes in Pakistan and their comparisons with the outcomes in neighboring countries helps in understanding the differences in approach. For instance, Bangladesh has diversified its economy through export-driver growth to some extent; this has made the country less vulnerable to the IMF's aid and course. On the other hand, to give examples of success, Sri Lanka's recent economic boom and bust scenario exemplifies the dangers that long-term reliance on IMF loans poses and the possibility of debt-financed growth. Such comparisons indicate the need for a diversification policy, which holds promise of making its industries less vulnerable to external shocks and more capable of sustaining Pakistan's economy without depending heavily on the IMF (Mahdiani et al., 2020)

Policy Implications and Theoretical Synthesis

Combining dependency and austerity theories reveals that while IMF programs involve fiscal stabilization, they often necessitate alternative policies to ensure social excellence is maintained. This synthesis may lead to the view that initiatives of the IMF should take into account both the economic and social impact of initiatives, especially in the developing states where neo-liberal programs of the IMF lead to more inequality and further jeopardize the positive development of these nations (Kirchner & Rieth, 2021).

In order to make a noteworthy contribution to this discussion and help improve policies regarding IMF conditions in the future, this study will investigate IMF conditions and their impacts based upon Pakistan under both PTI and PDM administrations. The nature of this study is comparative to establish the effects of the IMF structural conditionalities of Pakistan's domestic politics in the PTI and PDM regimes. Primary sources of cross-sectional qualification and quantitative data from government reports, IMF, and other empirical journals are used in identification of fiscal, monetary as well as social policies changes.

Research Methodology and Theoretical Framework

This research aims at employing a comparative technique for the evaluation of the impact of IMF conditions on Pakistan's internal policies under both PTI and PDM administrations. Primary data collected from Indian government publications and secondary data collected from IMF and other empirical journals provide the cross-sectional qualitative as well as quantitative bases for examining fiscal, monetary and social policy changes *(Yang et al., 2023).*

1. Data Collection: We gather data from the Pakistan Bureau of Statistics, Ministry of Finance, and the International Monetary Fund Annual Reports.

Social Indicators: To assess such effects, the data derived from the World Bank and the United Nations Development Program (UNDP) are used to identify poverty, health, and points of education.

Comparative Analysis: This paper analyzes differences in the policy measures undertaken by PTI and PDM governments in response to IMF conditionalities with regard to the changes in the value of the local currency, inflation, and public social expenditure. According to (Guimaraes & Iazdi, 2015) the IMF conditionalities have been shown to influence liquidity provision and incentives for fiscal adjustment. By focusing on these indicators, the study identifies patterns and divergences in how each administration managed the socio-economic impacts of IMF programs. We also analyze variables like public debt management and subsidy policies to comprehend the trade-offs between fiscal stability and social welfare.

Economic Volatility:

Given Pakistan's rapidly shifting economic landscape, particularly after crises like the COVID-19 pandemic and 2022 floods, some findings may not fully capture the ongoing economic changes (Davies et al., 2023). To address this, the study situates findings in recent economic occurrences; however, the study recognizes that some of them may change with time. This methodological framework gives a framework to work with in order to analyze program impacts under two different political regimes making it easier to compare and contrast these impacts based on the two aspects, economic and social.

Findings and Analysis

This section provides and contrasts the policy on IMF conditionality of the PTI and PDM governments with reference to the socio-economic effects on Pakistan. The study findings also clearly explain the compromises each country's government made between buying short-term macroeconomic balance and protecting social well-being through the examination of fiscal policies, inflation, the poverty level, and the sectoral effect.

Comparative Analysis of Economic Policies and IMF Conditionalities

For balance of payments problem and to stabilize the economy PTI and PDM governments joined the IMF's Extended Fund Facility program. Still, every incumbent administration's approach to the IMF requirements was dissimilar regarding social expenditure, public policy shift, and economic results.

Table: 01

Economic Indicator	Pre-IMF (PTI)	During IMF (PTI)	Post-IMF (PTI)	During IMF (PDM)	Post-IMF (PDM)	Sources
GDP Growth Rate (%)	5.8%	3.29%	2.0%	0.3%	-0.5% (Estimate)	Pakistan Bureau of Statistics (2021), IMF Reports (2023)
Inflation Rate (%)	6.8%	10.7%	8.0%	24.5%	18.0%	IMF Country Report No. 20/114, World Bank Economic Indicators
Unemployment Rate (%)	5.7%	6.5%	7.8%	10.0%	12.3%	Pakistan Labour Force Survey (2019, 2022)
Poverty Rate Increase (%)	-	1.8%	2.5%	3.5%	5.0%	UNDP, Pakistan Development Update (2020)
Foreign Exchange Reserves ($)	18 Billion	10 Billion	7 Billion	3 Billion	4 Billion	IMF Balance of Payments Database (2022)

Key Observations from Comparative Data:

The PDM pace of GDP growth fell under the IMF programs dramatically to 0.4 % in 2000 with a distinctly higher inflation compared to the BPM's pace of 3.3% in 1999 (Gagnon, Kamin, & Kearns, 2023). The structure of the economy worsened with external shocks, like the 2022 floods and compounded austerity measures, further escalated this by decreasing consumer potential and increasing income inequality.

Unemployment and Poverty Rates:

IMF Structural Adjustment Programs that require subsidy removal and high cost of electricity and other utilities mean high levels of unemployment and poverty regardless of these two administrations. During this time the PDM government took reigns, inflation became a big problem with an inflation rate of over 24%, making it very hard for low-income earners. The measures brought in to deal with inflation were remarkably ineffective, as cost increases hit the worst off in society (Stroup & Zissimos, 2013).

Though the tranches in IMF were reinstating foreign exchange reserves for some time, it could not sustain as the reserves were dwindling by continuous loan repayments and import of essentials. Fluctuations in reserves also continue to point to the fact that the country remains a soft target for changes in external financial environments (Arief et al., 2023).

Sectoral Impacts and Social Policy Shifts

IMF tranches are only a temporary way to boost foreign exchange reserves and that reserves have been falling because of paying off debt and buying things that people need, it's safe to say that things got worse in nation-access countries from 1995 to 2007. Volatility in reserves simply compounds Pakistan's persistent vulnerability with regard to the external financial conditions (Gabaix & Koijen, 2021).

1. Energy Sector: Both the central and state governments, and all administrations that took power from 1991 onwards advanced a policy to decrease subsidies and increase prices in the energy sector in order to strengthen fiscal stability and to step up cut down in excessive deficits from the energy sector (Awan et al., 2022). These changes, however, had a negative impact to the standard of living of average population of Pakistan as majority of the household's expenditure was arising from the energy bills being the most relevant to the lower income groups (Aziz et al., 2016).

Results: During the PTI government's IMF session, the price of electricity increased by nearly 35 %. Conversely, the PDM government experienced an increase of nearly 20 %. The fiscal measures in the energy subsector clearly affected household expenditures, and the social cost of these measures was evident (Maguire & Munasib, 2016).

2. Healthcare and Education Spending: Both administrations have cut the social spending for areas such as health and education to correspond with the macroeconomic goals that the IMF expects from its borrowers. The program structure of the IMF led to an estimated cut of government spending in the health and education sectors by 15-20% owing to reallocation for repayments and adjustment of fiscal balances. Buoyed by IMF programs, the resources that were relied on to service debt and for fiscal adjustments caused a contraction of health and education expenditure by as much as 15-20% on average (IMF, 2023). It limited the public's ability to access social services, complicated socio-economic roots that are worsened by fundamental spending cuts that impacted social services for rural and impoverished communities.

3. Social Safety Nets: Seeking to alleviate social costs experienced by many low-income families because of high inflation rates, the PDM administration attempted to design and launch selective cash transfer schemes to support affected households Despite these efforts, the basic and selective cash transfer initiatives failed to reach and effectively assist all the targeted beneficiaries (Fuller et al., 2022).

Outcomes: Even though cash transfers alleviated the situation for a short time, all of the working-age families experiencing increased inflation or unemployment received only about 20 percent of what they needed. Therefore, while economic liberalization through the conditionalities was advanced to improve the living standards and reduce poverty, a large section of this population continued to be dependent of some form of assistance (Kawohl & Nordt, 2020).

Trade-offs Staked off by Policies and Variable Socio-economic Implications: The available information reveals that IMF programs can result in short-term fiscal stability but they come at a cost of serious longer penalties to social and economic spheres (Corsetti & Mackowiak, 2023). Demanding fiscal discipline from the Latin American countries in its structural adjustment programs through its appendage, the IMF normalized poverty, social inequality and restricted access to basic services including health care (Forster et al., 2020). It also discusses approaches that may be useful to reconcile the IMF policies with socio-economic objectives (Yusof, 2022).

1. Strengthening Economic Diversification: Foreign credits and loans and IMF aid has made the Pakistani economy cyclical vulnerable. This analysis of export diversification described above is in fact overshadowed by the integrated model of disciplined investments within Bangladesh can work towards the stimulation of minimized foreign aid dependency (Ahmed et al., 2022). **Recommendation:** There are specific areas where one could agree with the Pakistani officials that their country should focus in order to develop healthy stocks of foreign exchange: one of these is the developmental of a range of industries that deliver high added value services such as textile and agriculture. According to (Castillo-Suárez et al., 2023), this would result in a decrease in IMF credit claims for the U.S., thereby strengthening stability.

2. Expanding Social Safety Nets and Subsidies for Essential Goods: The IMF's earlier advocacy of constraints has resulted in people's discontent, as the price of basic necessities and services continues to rise, compromising their welfare. Finding ourselves in conditionalities where a step-by-step removal of subsidies may be achievable can also reduce social incidence (Cirulli & Marini, 2023).
Recommendation: Pakistan should back the measures that the IMF takes to endorse the policies that help progressive transformation of subsidy policies. For instance, introducing phased subsidization on holy and necessity products like foods and fuels will reduce the burden of vulnerable individuals without distorting the fiscal policies (Li et al., 2022).

3. Implementing a Fiscal Responsibility Framework: Political stability in Pakistan and application of stable fiscal policies across governments might help the Pakistan's fiscal conditions and its reputation for any international finance. We advise for the adoption of a Fiscal Responsibility Act, which, amongst others, may call for long-term measures in internal and external public debts, or in physical infrastructure such as highways, bridges and ports (Timilsina, Stern, & Das, 2023).

Recommendation: It would also eliminate the inability to offer the policy certainty required to support sensible and more stable policy measures in up-and-coming Washington-Consensus-based IMF led interventions (Alemna et al., 2021).

4. Investing in Human Capital Development: Reducing the health and education outlays during the IMF programs reduces labor efficiency and common good. Therefore, it is vital to reduce risks related to these investments to maintain sustainable development (Risdwiyanto et al., 2023).

Recommendation: This column will explain that health and education expenditure should be protected in Pakistan and Pakistan should insist on a 'floor' within an IMF program. It goes without saying that through investments in human capital, the country will be able to develop a healthy premium working population, thereby supporting the economy. (Ngo et al., 2022).

5. Advocate for Flexible IMF Conditionalities: Given Pakistan's economy's susceptibility to natural and external shocks, such as floods, it is reasonable to anticipate that IMF conditionalities should incorporate temporary sources of fiscal easing (Shevchenko, 2023).

Recommendation: Pakistan should sign the recommendations that would enable it to respond to emergencies without compromising on the agreed-upon IMF programs. Naturally, this approach would enable Pakistan to achieve agreed fiscal objectives without compromising its ability to cope with other, unanticipated economic challenges. (Williams et al., 2022).

Discussion and Recommendations

These suggest that IMF programs, as with the Revenue-Based Fiscal Stabilization program in and out of Pakistan, have resulted in a number of deleterious social and economic consequences that are long-term in nature and hinder development. The PTI as well as the PDM governments did not listen to the plight of the poor and instead embraced the IMF's policies of privatization, inflation, reduction of the subsidy on petroleum products, busting industries and commerce into further unemployment and so on, which skyrocketed poverty. This discussion sheds light on what has been argued to be a mutually depressive/antagonistic relationship between fiscal discipline and social welfare, as well as positing on the basis of this analysis specific and strategic suggestions for post-crisis, more harmonious and beneficial IMF involvement.

Policy Trade-offs and Socio-economic Consequences

Conditionalities that are associated with the IMF, particularly those that call for fiscal restructuring, entail stabilization and social imperatives, which are always in balance. As the analysis by (Lorey, 2011) shows, following the recipe of the IMF, both administrations escalated rates of poverty and unemployment', especially affecting the middle and lower income groups in terms of austerity. All these postulations call for the development of policies that will be able to address both the issues of efficient management of fiscal systems as well as the broad socio-economic issues. Here are some suggested strategies to achieve this balance:

1. Strengthening Economic Diversification

Hence, empowering economic diversification to boost the ability of the Jobs matrix to cope with shocks originating from globalization, we suggest improving economic diversification. This strategy acknowledges the fact that the existing IMF loans fuel the prolongation of contractual dependence and poor economic conditions in Pakistan (Freire, 2017). To escape this cycle, Pakistan must look at countries in South Asia like Bangladesh and learn how they are developing sectors that add value and are exportable (Chidiac, 2012).

Recommendation: Some of the main areas where Pakistan should focus its investment are the textiles, agriculture, and technology sectors. Pakistan can increase its trade balance by only developing the domestic capacity, thereby removing barriers to FDI inflows into the country. The spread of the economy does more than produce foreign reserves; it also helps protect the economy from the oscillations in the international market.

2. The expansion of Social Safety Nets and Subsidies for Essential Goods: This is necessary because the reduction of IMF-mandated subsidies has compelled the population to spend more of their hard-earned money on necessities. However, the countries that enact these reductions can bargain with the IMF to implement them gradually, consequently minimizing their societal-economic impacts (Black, 2023).

Recommendation: Pakistan should propose a gradual reduction in subsidies for essential commodities like food and power to assist the affected households. dual decrease in subsidies would result in stabilizing the inflation rate and optimizing the financial burden on middle- and lower-income families. Moreover, expanding the scope of cash transfer programs can ensure that a reduction in their funding also benefits today's vulnerable population.

3. Implementing a Fiscal Responsibility Framework: Congressional attitudes towards the IMF have been volatile, leading to poor performance in interactions with Pakistan. This is primarily due to the government's tendency to change its policies over time. The government would assist the nation in enhancing fiscal credibility in the global fiscal system, irrespective of other forms of political transformations (Sial, Jafri, & Khaliq, 2023).

Recommendation: The GO Pakistan should immediately institute a law known as the Fiscal Responsibility Act that requires Pakistan to be responsible for its debts, ensure regular reporting of fiscal balances, as well as rationalize its spending. The former would alleviate politically related ups and downs in spending, maintain the stability of fiscal policies, and increase confidence in the overall fiscal management of the country. A clean structure affirms the sustainability of the fiscal institutional structure; improved structural overhauls may ease interaction with the IMF.

Investing in Human Capital Development

Therefore, human capital development, also known as investment, involves investing in individuals to enhance their personal growth or to improve the lives of others throughout their lifetime at work. Even though top management and higher officials of the government have perceived the policy decisions as helpful in reducing the development costs of healthcare and education to meet the IMF fiscal targets, they have been unconstructive to Pakistan's social advancement (Baum et al., 2020).

The report demonstrates the necessity of constant investing in human capital as a prerequisite for the creation of a capable workforce and enhanced economic stability. As for measures of change, the report says that Pakistan should impose legal floors on health care and education spending in IMF programs to rule out any cuts to those expenses. The government of Pakistan can do this by either maintaining or even going a step forward in increasing the same level of spending in the health and education sectors.

Advocate for Flexible IMF Conditionalities: Given Pakistan's exposure to external shocks such as natural disasters and fluctuating international oil prices, it would be prudent for an IMF program for Pakistan to include options for financing fiscal balances during shocks (Soluk, 2022). This would also enable the government to handle emergencies in the country without violating the IMF's conditions.

Recommendation: Advocating for Pakistan to amend the IMF's articles to facilitate the enactment of conditionality agreements, which would allow for unrestricted fiscal freedom in times of crisis. For instance, these provisions would allow for increased public emergency spending during calamities like the floods in 2022, without causing any harm to the country's ability to implement the IMF's standards. Not only does this approach uphold Pakistan’s capability of responding to crises and disasters, but it also strengthens the foundation of the economy and makes it more protected.

Broader Implications for Policy

The recommended strategies guide the institution towards more successful engagements, taking into account a policy balance that protects socio-economic components while maintaining fiscal stability. To increase economic diversification, strengthen social insurance, and create stable fiscal rules, Pakistan can help improve its economic stability, wean itself off the continuing reliance on external financing sources, and conduct a conditional search for new cooperation with the IMF program.

Suggesting that there ought to be a closer link between the IMF programs and development policies within a country in order to enable the participant nations to set for firm and sustainable growth not a round of dependence of the institution. Pakistan has availed the IMF funds to support the imbalance and fiscal deficit and other structural problems that are typical of developing nations. It can be informative to others who may follow similar processes, specifically about how such extra-organisational structures can be accessed, directed, and deployed as a means to regain order and then deal with early development issues.

Conclusion

Using fiscally and socio-economically justified fiscal identities of the PTI and the PDM governments, this paper aims to assess the impact of IMF programs on Pakistan. These results show that while owing to the IMF the initial amount of fiscal support, which is a common practice, the organization inflicts many socio-economic costs. Of course, such costs as inflation and unemployment and direct effects on basic social needs such as health care facilities and educational systems are encompassed by such costs. Sanctions may exclude financing for quality health and education for needy peoples and persons during their lifetimes as a result of austerity policies.

Key Findings:

In this sense, Pakistan's repeated need for IMF loans shows an economic reliance of a cycle that hinder healthy development.

Austerity Measures and Social Inequality: When the IMF recommends austerity measures to a country, it denies access to basic necessities in order to raise the poverty threshold.

Recommendations for Future Engagements

The report highlighted that in order to maintain a balanced interaction with the IMF, the Pakistani government should prioritize economic diversification, strive for flexible conditionality in package agreements, and prioritize social and human capital, particularly in the health and educational sectors.

Future Outlook

The latest IMF deal that was signed in June 2023 has availed Pakistan an opportunity to come to consensus on milestones that speak to the nation's economic stability as well as social concerns. If managed appropriately this deal is capable of altering the course of the Pakistan economy and starting an overarching plan for any future external funding.

Finally, this work advocates for the rebalancing of IMF relations by integrating financial objectives with socio-economic imperatives. If Pakistan diversifies its economy, copies or extends social protection systems, and continues to invest in people, their country can build a strong and mutually beneficial economy. Other developing nations facing similar fiscal problems can learn from Argentina's experience that, in addition to promoting economic stabilization, fiscal policies should also prioritize promoting economic social justice to ensure sustainable economic growth.

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