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Research Article

# IMF's Policies, Social Spending and Human Development: An Analysis from South Asian Countries

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## Abstract

IMF policies can considerably affect South Asian economies through lending, policy advice, and conditionality attached to financial assistance. The IMF's support, together with loans under the extensive credit facility, extended fund facility, and resilience and sustainability facility, can help stabilize the economies predominantly throughout periods of crisis. Though these policies can also lead to economic adjustments and reforms, which may affect positively and negatively the various sectors and segments of the population. Considering the effects of the IMF's policies, we have checked the impact of social spending and trade on human development in some South Asian countries. Regression results showed that general Government health expenditures, education, and trade have enhanced human development in the South Asian countries. However, the real interest rate negatively affected the human development of the people in these countries because of the involvement of lending institutions. It is suggested that the Government should allocate more budget towards health and education in these economies. There should be a stable economic and political environment for attracting more investment from abroad. Moreover, there should be fewer conditions and policy interventions by the lending authorities. Finally, there is a need to diversify the economies, reshape their relationship with international financial institutions, and provide the population with sufficient amenities for uplifting their living standard.

Keywords: Social Spending, Trade, Human Capital, International Monetary Fund.

## Introduction

The two main significant worldwide financial institutions, the International Monetary Fund and the International Bank for Reconstruction and Development (World Bank), are significant sources of capital funds for emerging nations. The IMF's present-day is involved in progressive, along with "crisis" and adjustment lending, though the World Bank emphasizes developmental loans. In recent years, the lending practices of the International Monetary Fund and the World Bank have been exposed to ever-increasing public inspection and common criticism. The IMF's loaning practices, especially, are frequently condemned as "anti-growth" and "anti-poor." Certainly, IMF lending, particularly in "crisis" situations, needs national governments to submit to a set of conditions (conditionality) that naturally decrease or confine local requests, thus consuming, at least, antagonistic short-run pecuniary costs. Though there is common reoffending among the borrowing states, and the IMF-imposed circumstances may be essential to address the important difficulties existing in reoffender states (Bird, 1996). The scholars claimed that the IMF had a positive effect on the borrowing nations' societal and economic development (Przeworski & Vreeland, 2000). A few of the scholars have believed that IMF programs and their conditionality may negatively affect the borrowing countries (Dreher and Vaubel, 2004). Concerning economic growth, though primary work hardly discovers that IMF programs expand growth, learn no plans have been found that have adverse influences also (Connors, 1979; Killick, 1995). Until now, IMF severity plans, which contain fiscal strictness and tight monetary policy (Taylor, 1993), were extensively supposed to have contractionary influences, at least in the short run. Fresh work constitutes nonrandom selection into International Monetary Fund plans, which have set up confirmation of these contractionary policies. Conway (1994) highlights that the instant effect of IMF programs on economic growth is adverse. Seemingly, the IMF has not attained the objective of endorsing economic growth.

In recent years, developing nations have more and more trusted private capital as a way of funding. Subsequently, in the beginning of the 1990s, confidential ways of funding have fabricated over 75% of their external capital flows. The major source of this private capital has dependably been foreign direct investment, with its share going from less than 30% in the early 1990s to approximately two-thirds of the total by 1998 (UNCTAD, 2003). Human development can be gauged by means of factors as health, level of education, and standard of living. In 1990, the United Nations established the HDI as an instrument to estimate human development. Factors for such an index are health (life expectancy), education (mean years and expected years of schooling), and standard of living (per capita gross national income) (UNDP, 2020). This eases an evaluation between regions and nations to track each nation's development.

Financial inclusion is the multidimensional scheme of a nation's eventual financial development. It offers people chances to increase and confirm the usage of proper financial facilities, with loans, savings, costs, remittance amenities, and assurance, at a reasonable price. It also signifies the comfort and affordability of diverse monetary yields and facilities that meet workers' requirements for cash dealings, investments, expenditures, acclaim, and indemnity (World Bank, 2008). At the same time as the early 1990s, information and communication technology was endorsed as an instrument of growth that can meaningfully convert the inexpensive, political, cultural, and social circumstances of numerous emerging nation-states (Deliktas & Kok, 2003; Hicks & Streeten, 1979). Promoters of ICT inspire an increase in ICT systems and claim that such growth has the potential to change the creative volume of emerging countries by creating new work opportunities for their citizens (Chen & Zhu, 2004; Crafts, 2003).

This work signifies the effect of government health expenditures, foreign direct investment, secondary school enrollment, and trade openness on human development in Asian economies. It will have positive effects on these countries' growth, development, and welfare.

### *Significance of the Study*

A lot of studies have focused on affecting growth and development. However, this study highlights the role of major factors such as government health expenditures, secondary school enrolment, foreign direct investment and trade openness on human development of Asian countries.

### *Research Hypothesis*

The most important hypotheses of the work are explained in the following.

1. H1: General Government health expenditures and Human Development are positively related.
2. H 2: The Higher the secondary school enrollment, the higher the human development.
3. H 3: The foreign direct investment is positively related to human development.
4. H 4: The Higher the trade openness, the higher the human development.
5. H5: Real interest rate is negatively associated with human development.

## Literature Review

Much of the research work has focused on diverse factors affecting growth, welfare, and development. Here, we are highlighting the factors affecting human development in various countries in the light of IMF policies. Baldacci et al. (2008) used panel data from 120 developing countries from 1975 to 2000 and found a link between social spending, human capital, and growth. The result showed that both education and health spending led to an increase in the accumulation of education and health capital, and therefore could lead to boosted growth. The author suggested improved governance and low taxes. Butkiewicz and Yanikkaya. (2005) focused on the unfavourable economic outcomes because of IMF policies in the economy. They used a growth model for this analysis. It was found that bank lending stimulated growth in some cases, chiefly by rising public investment. Moreover, fund lending negatively affected public and private investment.

Davies and Quinlivan (2006) focused on how trade affected nations' societal developments as measured by HDI. GMM results showed that increased trade tended to increase the social welfare in the panel of economies. Ngwenyama et al. (2006) analysed the factors affecting the human development index of African nations. The regression results showed that ICT investments, health, and education increased development. Beck et al. (2007) highlighted the role of financial inclusion in improving human development. The study result highlighted that financial inclusion facilitated all fundamental financial services to the maximum population and increased the earnings of needy people, and lessened income disparity and poverty. Hajro and Joyce (2009) revealed the impact of IMF programs on poverty based on data from 82 economies from 1985 to 2000. It was found that the IMF's programs hardly affected poverty. Growth and good institutions tended to decrease infant mortality and increase the HDI. Reiter and Steensma (2010) highlighted how foreign direct investment affects the economic and human development in underdeveloped and advanced countries. The result showed that foreign direct investment improved human development when corruption was low.

Githua (2013) examined how IMF/ World Bank Structural Adjustment Programs affected Kenya. It was found that IMF/World Bank Structural Adjustment Policies increased poverty and caused more underdevelopment. Findings indicated that social sectors such as health and education were highly influenced by these policies. Adenutsi (2010) analysed how international remittances affect the human-centered development in 15 Sub-Saharan African countries by using data from 1987 to 200. The result showed that remittances led to an increase in human development among these economies. The study suggested more appropriate strategies and a policy framework to attract higher remittances from abroad. Amidzic et al. (2014) showed that financial inclusion would directly alleviate poverty, whereas Jeanneney and Kpodar (2011) found that despite high economic growth, poverty and income disparity seemed to be increasing in the Asian and Pacific regions.

Shafiu and Saleh (2021) investigated how IMF polices affected human rights and the standard of living in Nigeria. The authors have used dependence theory and human rights theory. It was also found that IMF policies negatively affected the living standards of the Nigerian people. The study recommended diversifying the economy, reshaping its relationship with international financial institutions, and providing the population with sufficient amenities to uplift their living standard. Chowdhury and Chowdhury (2024) focused on the role of financial inclusion in human development in Bangladesh, India, and Pakistan. The GMM results pointed out that financial inclusion led to human development. The study suggested optimizing the benefits of financial inclusion in accelerating development.

## Data and Methodology

It has been emphasized how IMF policies and conditions affected the living standards of people in South Asian countries. We have checked the way the Government adopts while focusing on education and health expenditure after borrowing from these institutions. It is also shown how trade policy affects human development. Finally, real interest rate changes negatively affect the human development of people in Asian economies. We have used data from 2001 to 2022 of three South Asian countries, such as Bangladesh, Indonesia and Pakistan. The data of these 3 countries were taken from World Development Indicators. Here, we have used HDI as the dependent variable. However, general Government health expenditures, education, foreign direct investment, trade, and real interest rate were used as independent variables.

The econometric model can be explained as:

$$HDI = \beta_0 + \beta_1 GGHEXPit + \beta_2\ FDINVit + \beta_3\ EDUCit + \beta_4 TROPEN\ it + \beta_5 RINTR + uit \qquad (1)$$

HDI= Human Development Index(life expectancy at birth, literacy rate and standard of living measured by GNI per capita)

GGHEXP= Domestic General Government Health Expenditure

FDINV= Foreign Direct Investment flows (% of GDP)

EDUC= Secondary school enrolment

TROPEN= Trade openness (Exports and imports of goods and services % of GDP)

RINTR= Real interest rate

$_{it}$ = (time trend)

$ui_t$= (error term)

## Results and Discussion

Descriptive statistics of the data are given in Table 1. Table 2 highlights OLS results. The result shows that on average, the human development index (HDI) is 0.5737 percent for South Asian countries. However, the range of HDI starts from 0.454 to 0.712 percent. Data also points out that general government health expenditures are 0.7360 percent of these economies. It is also shown that the mean value of foreign direct investment is 0.2452. However, education is 57.2350 percent on average. Finally, the real interest rate is 4.2328 percent. And it ranges from -13.6421 percent to 12.3224 percent.

Table 1. Descriptive statistics.

| Factors | Observations | Mean | Standard deviation | Minimum | Maximum |
|---|---|---|---|---|---|
| HDI | 66 | 0.5737 | 0.0741 | 0.454 | 0.712 |
| GGHEXP | 66 | 0.7360 | 0.3756 | 0.1549 | 2.2020 |
| FDINV | 66 | 0.2452 | 0.4306 | 1.2442 | 1.3269 |
| EDUC | 66 | 57.2350 | 22.0064 | 19.9118 | 99.0968 |
| TROPN | 66 | 40.3781 | 10.5803 | 20.3062 | 69.7932 |
| RINTR | 66 | 4.2328 | 3.9198 | -13.6421 | 12.3224 |

Table 2. OLS results.

| Variables | Coefficients, Standard Errors and t-values |
|---|---|
| GGHEXP | 0.7716* |
| | 0.0142 |
| | (5.43) |
| FDINV | 0.0015 |
| | 0.0090 |
| | (0.16) |
| EDU | 0.0023* |
| | 0.0002 |
| | (10.19) |

| | |
|---|---|
| TROPN | 0.0011** |
| | 0.0005 |
| | (2.10) |
| RINTR | -0.0015** |
| | 0.0008 |
| | (-1.98) |
| C | 0.3617 |
| | 0.0179 |
| | (20.23) |
| F Statistics | 119.22 |
| Probability | 0.0000 |
| R2 | 0.94 |
| Adjusted R2 | 0.93 |

t-values are in parentheses; ** $p<0.05$, * $p<0.1$.

Health expenditures are a very important factor affecting the human development of the people of South Asian countries. The Government's intention to allocate more budget towards health and education is a good effort to enhance the development of the general public of these economies. It has been observed that a one percent increase in general government health expenditures results in an increase in human development by 0.7716 percent in Asian countries. The reason may be that the Government spends more money due to loans or more lending by the IMF. In this way, the development or living standard of the people has been improved. The result is favoured by Ngwenyama et al. (2006).

Foreign direct investment also provides more chances to increase income, assets, and employment in the economies. The result shows that foreign direct investment and a high standard of living are positively related. Due to IMF policy intervention, countries attract more foreign direct investment, and this enhances living standards in these countries. With health, the role of education cannot be ignored. More school enrolment resulted in more partaking of highly educated human capital in the production processes and growth. So, due to it, human development increases. The study result indicates that a unit increase in education resulted in a 0.0023 percent. The result is supported by Ngwenyama et al. (2006).

Trade has a positive effect on human development. More involvement of exports and imports increases the living standard of the population. With the involvement of IMF conditions and policies, more exports and imports result in increased development of the economies. It is found that a one percent increase in trade openness has caused more human development by 0.0011 percent in South Asian economies. The result is favoured by Davies and Quinlivan (2006).

Real interest may also affect the human development of Asian countries. A changing interest rate has resulted in decreased development of the people. The result revealed that an increased interest rate has caused a decrease in the development of 0.0015 percent of people in South Asian economies.

## Conclusions

In this research, we have tried to show the impact of IMF policies on the social spending, trade and human development in South Asian economies. We have utilized data from 2001 to 2022 for this analysis. We have checked the Government's intention regarding health expenditures, education, and foreign direct investment in the presence of foreign lending in these economies. Moreover, we have also highlighted the negative impact of changing interest rates on human development. Finally, trade also seems to be affecting the living standard due to IMF policies. The OLS results show that Government spending on health-related outcomes seems to be increasing because of foreign lending. Foreign direct investment has also been observed positively affecting human development during this time. Education is also positively affecting human development in these countries. Moreover, trade also increases the living standard of the people. Finally, the real interest rate has negative effects on human development in South Asian countries. Finally, the study concludes that much health expenditure and education are key factors for enhancing the living standard of the people of South Asian economies. The study recommends that the Government should allocate more budget towards health and education in these economies. There should be a stable economic and political environment for attracting more investment from abroad. Finally, there should be fewer conditions and policy interventions by the lending authorities.

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