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ECONOMIC SOVEREIGNTY UNDER PRESSURE: PAKISTAN'S EXPERIENCE WITH THE IMF

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Abstract
The IMF is often criticized for its conditionality. Its interference in other countries' policymaking space is considered unsound, especially since it inhibits the country's decision-making, and the recommendations it presents do not consider the needs and functioning of the specific country. Pakistan is one state that has especially suffered at the hands of the IMF. Despite being the only 4th largest borrower, Pakistan has faced the most significant conditions to activate the MF bailout packages. This study uses Pakistan as a case study to understand the relationship between IMF conditionality and Economic Sovereignty. By using an individualized regression approach, the study captures how one independent variable affects the various components of the multidimensional concept. The results show that IMF conditions negatively impact economic sovereignty through its Proactive and Defensive components. However, the results of the Prosperity concepts remain inconclusive.

INTRODUCTION

A stable economy tends to elude most developing countries; a balance of payment crisis, currency devaluation, and large external debts greatly impact a country's social and political structure. In 2022, Macroeconomic instability in Sri Lanka caused inflation to skyrocket, and suddenly, essential goods like food and fuel became unaffordable. Nationwide protests erupted with demonstrators storming the presidential house, reflecting the population's discontent with government institutions and organizations. (Davies & Fraser, 2022)

Sri Lanka underlines the importance of investing in robust institutions and systems that stabilize the economy and promote growth. However, developing countries often fail to achieve this end goal and must rely on the International Monetary Fund, or the IMF, for a quick exit. (Perera, 2023) The IMF acts as a lender of last resort, providing countries with bailout programs in critical times. In 2023, Sri Lanka was approved for IMF relief worth $2.9 billion. This money injected into the market saw inflation fall

into single digits, and the country achieved stable growth rates of over 4%. (Santhirasegaram, 2023)

However, it is critical to note that the IMF is not only there to provide loans, but also influences the local policymaking space. Each IMF program is split into installments distributed over multiple years. To receive the next installment, countries are rigorously assessed against metrics to ensure they comply with the 'letter of intent' detailing the conditions for each loan facility. (Apeti & Gomado, 2024) In Academia, these conditions are referred to as IMF conditionality and can be divided into multiple types depending on their importance to the IMF. (Kentikelenis & Stubbs, 2023)

Obtaining an IMF loan is lucrative for a state, since it restores investor confidence, allowing it to receive aid from other avenues. However, if the state fails to meet IMF conditions, it deprives itself of the Fund's loans and other funding. (Reinsberg, 2021) Latvia is one country that knows this all too well. In 2009, the country failed to meet IMF conditions as the country's budget deficit was 2% more than the agreed amount. This restricted a much-needed 200 million euro loan, especially since Latvia's GDP was already sharply declining. (Choudhary, 2021) This is indicative of the IMF conditionality not supporting developing countries in times of crisis, but in the IMF's own words, serves to ensure "the country will be able to repay the IMF." (IMF Conditionality, 2023)

This conditionality was not originally part of the IMF's articles of agreement but was added to guarantee the effective use of the loan and to ensure that countries would not require repeated IMF aid. (Diz, 1984) This change of including the IMF conditionality came in 1968, however, it wasn't until 1989, after the Washington Consensus, that these conditions began to echo neo-liberal principles. (Khan, 2022) According to Khan (2022), IMF conditionality can be reduced to the following broad categories:

1. Tight monetary policy often involves raising interest rates to control inflation, but it suppresses investment and economic growth.
2. Tight fiscal policy usually means cutting public spending and implementing austerity measures. For example, reducing subsidies on essential goods, slashing welfare programs, or freezing public sector wages, to reduce budget deficits.
3. Market-based exchange rates require countries to move away from fixed or heavily managed currency systems, allowing market forces to determine the value of their currency. This leads to devaluation, making imports more expensive and fueling inflation in the short term.
4. Higher utility prices result from removing government subsidies on electricity, gas, and water to reduce fiscal burdens. However, this places a heavier cost on ordinary citizens, particularly the poor.

These measures disproportionately impact the poorest segments of society and do little to address the underlying economic inequalities within the borrowing nation. (Saghir, 2023) Despite the significant socio-economic impact of IMF conditionality, these measures can reduce economic burden and promote growth. However, this is only possible if the measures are placed by the state itself, as they are more likely to be well thought out and suit the local context. (Hayat, 2021) In Comparison, IMF officials visiting developing countries view their people as metrics, and do not think to adapt the conditions to local struggles. (Stiglitz, 2000) They also perform what has come to be known as 'shock therapy,' where putting all such reforms together increases the socio-economic loss and provides too short a deadline. So, rather than properly following a concrete plan, countries cut corners to meet the IMF conditions. (Marangos, 2005)

For instance, in Pakistan, the returns would be significantly higher if the government focused on recovering billions in stolen assets or expanding the tax base in sectors like real estate and tobacco, rather than simply complying with IMF directives to raise energy tariffs. (Hayat, 2021)

To many, the problem can be reduced to the IMF's one-size-fits-all policy. IMF conditionality advises countries to live within their means, which is necessarily not a wrong approach. However, the solutions the IMF proposes to achieve this are highly controversial. The fund fails to understand the local operations and needs of a country; simply increasing taxes and removing government support may end up doing more harm than good. The solutions are unsustainable and lead to long-term economic

hardship and increased marginalization. (Choudhary, 2021)

For instance, IMF conditionality often focuses on managing aggregate demand through measures like reducing public spending or tightening monetary policy, even though the underlying problems in many countries stem from the supply side, such as weak production capacity, inadequate infrastructure, or low investment. As a result, rather than fostering sustainable economic growth, IMF programs tend to entrench countries in a debt cycle and dependence. Borrowing becomes a recurring necessity to address repeated macroeconomic crises, while the imposed policies fail to tackle the structural issues that would enable genuine recovery and long-term stability. (Buckley, 2012)

One country that has especially suffered from IMF conditionality is Pakistan. The IMF and Pakistan have a long and tortured history. The journey began in 1950 when the country joined the Fund and secured its first bailout 8 years later. Until the 1980s, Pakistan's relations with the IMF were well-managed, and the debt was sustainable. However, as the country retook democracy in the 1990s, international economic crises and political turmoil saw Pakistan repeatedly withdraw huge loans from the financial institutions. Many economists describe Pakistan as too reliant on the IMF and incapable of escaping its clutches. (Iqbal & Hussain, 2020)

In 2024, Pakistan started its 25th IMF bailout program, while the average country only enters into 6 to 7 IMF arrangements. (Iseringhausen et al., 2019) Pakistan is the 5th largest recipient of IMF loans; its correspondence with the Fund is such that the State Bank of Pakistan (SBP) categorizes IMF loans separately from other multilateral debt. In contrast, India undertook its first IMF loan 13 years after Pakistan. It went to the Fund only 7 times and finished its repayments by 2000, highlighting a dramatic difference between the two South Asian states. (Matamis, 2023)

With India, the IMF succeeded in establishing the country's economy, with it no longer requiring bailout programs. However, can this success be attributed to the IMF or India's own institutions? Between 1980 and 1991, India entered 2 IMF programs for a combined SDR 6.7 billion. In contrast, Pakistan entered 4 programs in the same period worth SDR 2.8 billion. (Boughton, 2001) Despite receiving less than half the loans of India, Pakistan had to comply with over 250 conditions to release that amount, while India only had to meet 150 conditions. (Kentikelenis & Stubbs, 2023)

The argument pushed by dependency theorists suggests that developing countries like Pakistan face structural barriers to escaping IMF influence due to the institution's vested interests in maintaining dependency. (Oyetunde, 2022) The dependency theory shows how the Global North exploits these developing states through extracting resources at low costs or securing geopolitical alignment. IMF conditionality is the primary instrument for enforcing this dependency, undermining economic sovereignty by compelling recipient nations to prioritize external decision-making over domestic priorities. (Andone & Scheubel, 2019) Milton Friedman, a prominent economist in the Neo-Liberal economic thought, said, "IMF bailouts are hurting the countries they are lending to, and benefitting the foreigners who lent to them." (Hahnel, 1999)

This dynamic raises important questions about the implications of IMF involvement for economic sovereignty, defined as the capacity of individuals, institutions, and governments to determine their own economic pathways (Jelili, 2025). Notably, despite being only the fourth-largest recipient of IMF loans, Pakistan has complied with the highest number of conditionalities, highlighting a situation where the extent of control imposed outweighs the size of the assistance received. This disproportionate compliance makes Pakistan a particularly compelling case study to examine whether IMF conditionality undermines domestic policy autonomy and perpetuates the dependency theory's central claim: that international institutions, under the guise of development, entrench structural subordination.

Literature Review

Existing literature highlights two major gaps that this research seeks to address:

First, while many studies criticize IMF conditionality, they often assume the loss of economic sovereignty rather than directly investigating how the IMF influences local decision-making processes. Second, the IMF argues that repeated borrowing stems from borrower countries' failure to implement

conditionality fully. However, this is a flawed stance as following conditionality makes countries more reliant on the IMF's bailout programs. Making the connection between IMF conditionality and economic sovereignty shows that developing countries have their hands tied and recognizes a fundamental flaw within the IMF conditions.

Recent scholarship increasingly critiques the IMF's operational dynamics. Hayat (2021) points out that the IMF's voting structure is deeply unequal, with voting power based on financial contributions rather than a one-country-one-vote system, as seen in the UN. The United States alone holds 16 percent of the voting power, which is especially handy when 15% of the vote is enough to unilaterally veto decisions. This allows wealthier nations to shape loan conditions in ways that prioritize their strategic interests (Gould, 2003). Choudhary (2021) similarly shows how IMF interventions can serve powerful countries, using Mexico's 1995 crisis as an example: while Mexico's economy collapsed and its state banks crumbled, the crisis was deemed a success simply because U.S. treasury interests were protected. Earlier work also raises important concerns, with Przeworski and Vreeland (2000) empirically showing that countries under IMF programs experience suppressed economic growth rates compared to those outside of them. While performance improves after exiting the programs, it still lags behind countries that never engaged with the IMF.

Edwards (1989) provides the IMF's perspective, arguing that countries require repeated IMF assistance primarily because of interruptions in conditionality implementation. According to this view, full and uninterrupted application of IMF policies would lead to debt sustainability and economic growth. However, by proving a loss of economic sovereignty in a country like Pakistan that seeks recurring help from the IMF underlines a fault within the IMF conditionality. Joseph Stiglitz (2002), former Chief Economist at the World Bank, supports this theory. He highlights the issue lies in the IMF's ideological commitment to Market Fundamentalism—the belief that free markets alone lead to prosperity and that government interventions are inherently damaging. Drawing on examples like the Asian miracle economies, Stiglitz challenges this view, emphasizing the vital role of local government in market development and stability.

While the IMF conditionality and lack of economic sovereignty have never been linked empirically, this concept of deteriorating local decision-making on account of the IMF still has some literature backing. Grabel's (2011) work highlights the early evidence of incapacitated decision-making due to IMF conditionality. He discusses the IMF's internal contradictions during the 2008 global financial crisis, describing the Fund's behavior as "productive incoherence." As neoliberal orthodoxy weakened, some space opened for local policymakers to adapt policies to indigenous needs, indirectly confirming that IMF conditionality often restricts local policy autonomy during normal periods. Stiglitz (2000) also supports this view, criticizing that the IMF portrays conditionality as negotiable when, in reality, the power asymmetry ensures that the IMF unilaterally imposes its conditions, often without meaningful consultation with national stakeholders due to short agreement timeframes

Research Methodology

This paper uses individualized or simple regressions to explore the relationship between IMF conditionality and economic sovereignty. We adopt this approach because economic sovereignty is a multidimensional concept, as emphasized by Jelili (2025). In his framework, sovereignty is broken into three core components: Proactive, Prosperity, and Defensive. Running individualized regressions allows us to assess the impact of IMF conditions on each component separately. This provides a more nuanced and comprehensive understanding, which a single regression using only the composite economic sovereignty index would not capture. Secondly, separate regressions prevent masking or dilution effects. If all dependent variables are combined into a single model, significant effects on certain components could be hidden by insignificant or opposite effects on others. Individualized analysis ensures that important patterns are not overlooked.

This method aligns with the structure of Jelili's (2025) multidimensional framework (on which this study is based), which treats each aspect of sovereignty as an independent area of inquiry rather

than assuming a uniform or linear relationship across all dimensions.

Independent Variable:

This paper only utilizes one independent variable - IMF conditions. This variable is listed as BA1TOT from the IMF Monitor Conditionality Dataset, from which it was extracted. (Kentikelenis & Stubbs, 2023) This study did not consult the IMF's own database on conditionality of Monitoring of Fund Arrangements (MONA), as its data is compiled and collected through inaccuracies and inconsistencies. (Evaluation of Prolonged Use of IMF Resources, 2002)

It is further important to consider that for accurate analysis, the IMF conditions variable was used with a one-year lag. This change was to account for the time for the effect of the IMF conditionality to take hold, a longer period was not utilized as the IMF always operates on quick results from borrower countries.

This paper looks at the holistic approach of the IMF, not separating the effects of binding and non-binding conditions and the waivers granted to countries between programs if the IMF deems implementation too challenging.

Dependent Variable:

Economic sovereignty has been explained through 3 components, further broken down into 3 variables each:

Proactive Component:

This aspect sees economic sovereignty as an active force that drives a country's market resilience and competitiveness. Rather than relying on protectionist measures, it focuses on a nation's ability to adapt and grow independently.

Defensive Component:

This category defines a country as economically sovereign when it can pursue its development objectives. This especially includes, but is not limited to, autonomy over monetary policy and financial decision-making.

Prosperity Component:

This angle considers economic sovereignty to provide citizen welfare. There should be an emphasis on policy-making that encourages growth, innovation, and job protection.

These components and their corresponding variables and indicators are better displayed in **Figure 1** and **Table 1**.

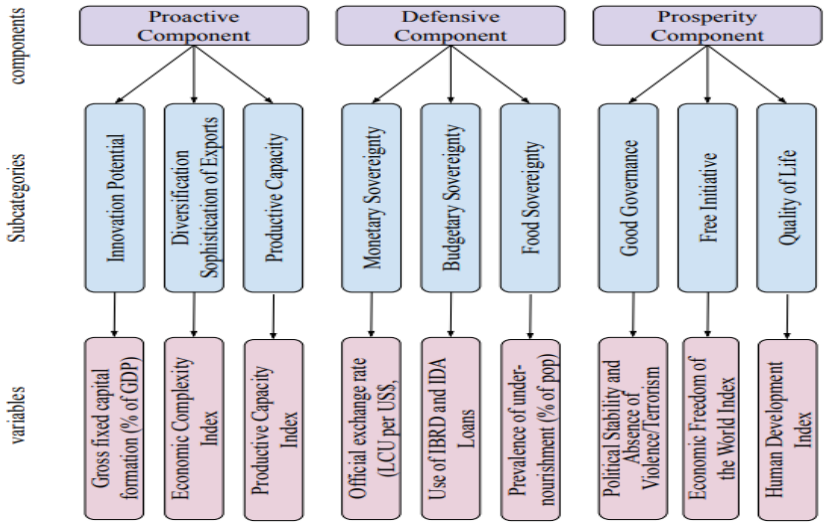


Figure 1. The conceptual framework for the dependent variables.

Table 1. The dependent variables used and their corresponding definitions, signs, and sources.

Variable	Definition	Expected Sign	Source
Gross fixed capital formation (% of GDP)	The share of a country's GDP invested in fixed assets indicating capital accumulation.	_	World Bank
Economic Complexity Index	A measure of a country's productive capabilities based on the diversity and sophistication of its exported goods.	_	Harvard Growth Lab
Productive Capacity Index	An index assessing a country's ability to produce goods and services across economic, infrastructure, human capital, and energy sectors.	_	United Nations Trade and Development
Official exchange rate (LCU per US$, period average)	The average value of a country's local currency relative to the US dollar over a specified period.	+	World Bank
Use of IBRD and IDA Loans	A country's reliance on loans from the World Bank's International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA)	+	World Bank
Prevalence of undernourishment (% of population)	The percentage of the population whose food intake is insufficient to meet minimum dietary energy requirements.	+	World Bank
Political Stability and Absence of Violence/Terrorism	An indicator measuring perceptions of the likelihood of political instability, violence, and terrorism within a country.	_	World Bank
Economic Freedom of the World Index	An index evaluating the degree to which the policies and institutions of a country support economic freedom.	_	Fraser Institute
Human Development Index	A composite index measuring average achievement in key dimensions of human development: health, education, and standard of living.	_	United Nations Development Reports

Control Variables

The control variables are taken from a similar research utilizing the same independent variable conducted by Dreher et al. (2013). However, some control variables were dropped for high variance with dependent variables and non-relevance to the study at hand.

Table 2. The control variables used and their corresponding definitions, signs, and sources

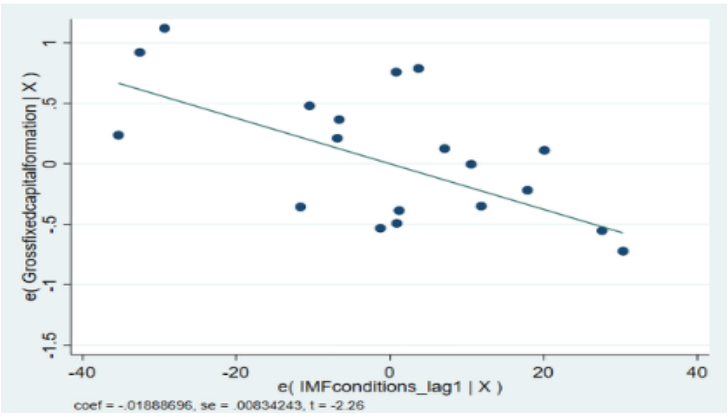
Variable	Definition	Expected Sign	Source
Total external debt (% of GNI)	The total amount of a country's debt owed to foreign creditors.	+	World Bank
Total debt service (% of GNI)	The sum of principal repayments and interest payments on external debt.	+	World Bank
External balance on goods/services (% of GDP)	The difference between a country's exports and imports of goods and services.	+	World Bank
Net lending (+) / net borrowing (-) (% of GDP)	The difference between a government's revenues and expenditures.	+	World Bank
Total reserves (% of total external debt)	The value of a country's official reserves (including foreign exchange and gold).	-	World Bank

Results

For each of the 9 variables, we have created a regression model whose results are illustrated in Table 3. And to further explain these regressions, a scatter plot with a line of best fit is also present.

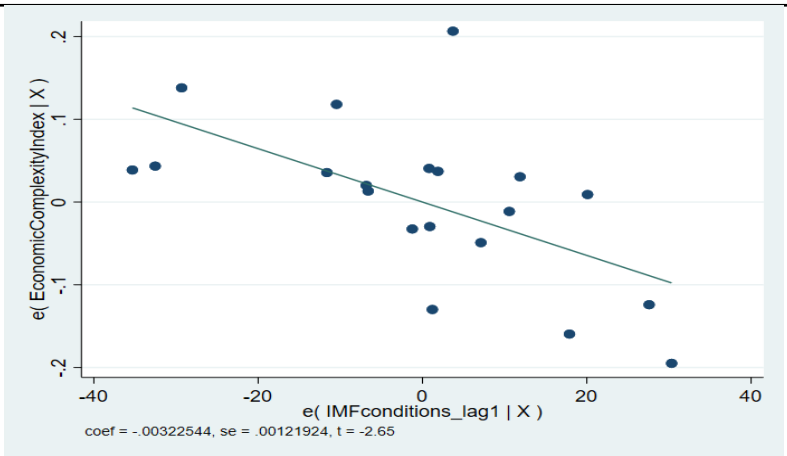
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
IMFconditions_lag1	-0.019 (0.008)	-0.003 (0.001)	0.033 (0.013)	0.239 (0.099)	48322533 (18360953)	-0.054 (0.021)	-0.003 (0.003)	0.001 (0.002)	0.001 (0)
Totalexternaldebto~c	0.055 (0.051)	0.005 (0.007)	-0.117 (0.082)	-0.249 (0.605)	-66528736 (1.123e+08)	0.215 (0.126)	-0.003 (0.015)	0.002 (0.01)	-0.002 (0.001)
Totaldebtserviceof~o	-.229 (0.355)	-0.032 (0.052)	0.309 (0.573)	3.936 (4.201)	3.283e+08 (7.803e+08)	0.224 (0.873)	0.192 (0.108)	-0.017 (0.07)	0.006 (0.009)
Externalbalanceong~c	-0.281 (0.096)	0.001 (0.14)	-0.683 (0.156)	-3.906 (1.143)	-7.445e+08 (2.124e+08)	0.9 (0.238)	0.029 (0.029)	-0.029 (0.019)	-0.009 (0.003)
Netlendingnetborro~g	.0601 (0.124)	0.021 (0.018)	-0.439 (0.201)	-2.31 (1.475)	-7.394e+08 (2.739e+08)	0.651 (0.306)	0.212 (0.038)	-0.074 (0.025)	-0.008 (0.003)
Totalreservesoftot~r	-0.013 (0.025)	.005 (0.004)	0.025 (0.04)	-0.074 (0.294)	37501648 (54574171)	0.005 (0.061)	-0.023 (0.008)	0.014 (0.005)	0 (0.001)
Adjusted R^2	0.6250	0.360	0.791	0.560	0.7019	0.773	0.848	0.581	0.721
R^2	0.743	0.561	0.857	0.699	0.796	0.845	0.896	0.721	0.809
F	0.0028	0.0578	0.000	0.007	0.001	0.000	0.000	0.001	0.000
P-value	0.041	0.02	0.031	0.031	0.021	0.021	0.333	0.386	0.019

Table 3. The results of the 9 regression models



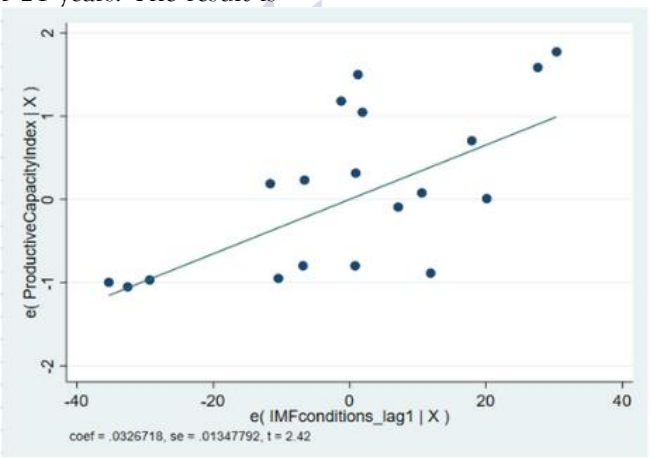
Gross Fixed Capital Formation (% of GDP): Model 1

The regression assessing the impact of IMF conditionality on gross fixed capital formation returned an R-squared of 0.743, indicating a fairly strong explanatory power. The coefficient of -0.019 suggests a negative relationship, meaning IMF conditions are associated with reduced capital formation. Notably, the p-value of 0.041 confirms statistical significance at the 95% confidence level, making this relationship both relevant and robust. This finding suggests that an increase in IMF-imposed conditions is correlated with a reduction in domestic investment levels, as evidenced by the downward-sloping fitted line on the scatter plot.



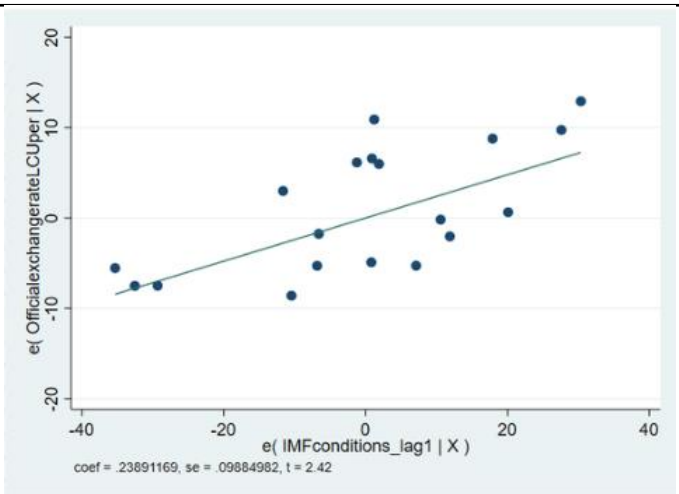
Economic Complexity Index: Model 2

For the Economic Complexity Index, the regression yielded an R-squared of 0.561, suggesting a moderate level of explanatory power. The coefficient of -0.003 shows a negative relationship with IMF conditions. The coefficient may appear small, but it is vital to remember that the economic complexity index ranged from -0.52 to -0.79 for 21 years. The result is statistically significant with a p-value of 0.02, demonstrating a meaningful inverse association between conditionality and economic complexity. As the graph suggests, as Pakistan takes on the IMF conditions, it sacrifices its capabilities of producing diverse and sophisticated goods.



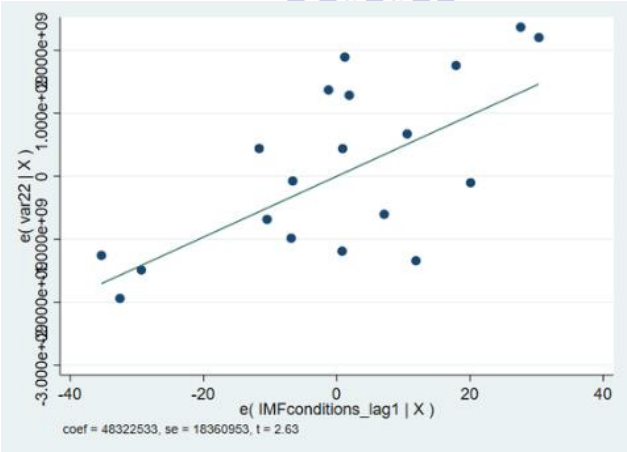
Productive Capacity Index: Model 3

This regression returned a notably high R-squared of 0.857, highlighting a strong model fit. The coefficient of 0.033 indicates a positive relationship, implying that IMF conditionality may contribute to improved productive capacity. The p-value of 0.031 confirms the significance of this result at the 5% level, suggesting the association is statistically sound. This upward trend in the graph negates the argument this paper makes. The result shows that the IMF conditions enable Pakistan's ability to produce more goods and services across various sectors. However, on the results of model 2, we can conclude that the goods and services produced here are not diverse and sophisticated, meaning they are likely to have little value and are not considered desirable. More research is needed to understand this relationship, especially since, according to the dependency theory IMF is accused of pressuring developing countries to produce raw materials and low-skill services to fuel Western economies. (Oyetunde, 2022)



Official Exchange Rate (LCU per US$, period average): Model 4

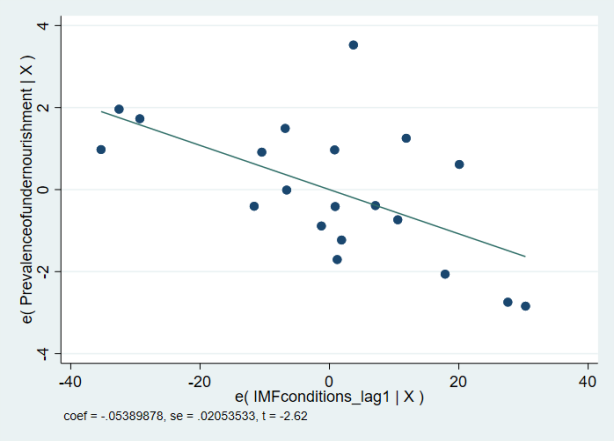
The relationship between IMF conditions and the official exchange rate showed an R-squared of 0.699, reflecting a relatively good model fit. The positive coefficient of 0.039 points to a depreciation in the exchange rate associated with conditionality. With a p-value of 0.031, this effect is statistically significant, reinforcing the validity of the result. These positive inclines of the line-of-best fit are intended results as the IMF devalues a country's exchange rate to make its goods more competitive in the international market. However, for countries like Pakistan, this goes against sound policy-making, as increasing exchange rates also raises inflation. The IMF also fails to consider that Pakistan imports raw materials for its exported goods, and so does not benefit from the higher exchange rates. (Khan, 2022)



Use of IBRD and IDA Loans (DOD, current US$): Model 5

The model returned an R-squared of 0.796 for this variable, indicating strong explanatory capacity. The coefficient of 48,322,533 highlights a positive correlation between IMF conditionality and the volume of multilateral loans. (This value appears large as it is measured in current $US). The p-value of 0.021 confirms this relationship is statistically significant and unlikely due to chance. This upward trend is reflected in the above scatter plot and is consistent with Reinsberg (2022), who argued that compliance with IMF conditions increases loans from other organizations and countries. By doing so, Pakistan ends up sacrificing more decision-making power, as the World Bank dictates where exactly Pakistan must use its funds, regardless of whether it

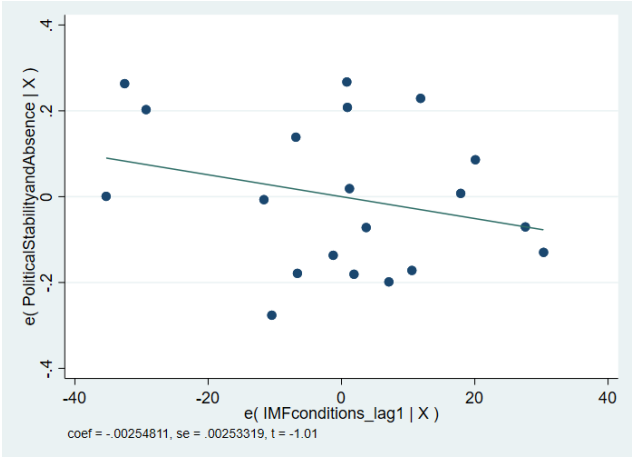
will aid the developmental objectives set by Pakistan. (Welle, 2025)



Prevalence of Undernourishment (% of population): Model 6

This regression showed an R-squared of 0.845, reflecting a high level of explanatory power. The coefficient of -0.054 indicates a negative association, suggesting that increased IMF conditions may lead to reductions in undernourishment. A p-value of 0.021 confirms the statistical significance of this relationship. The graph above shows the negative correlation between IMF conditions and the prevalence of undernourishment. This goes against multiple studies that show that the IMF conditionality negatively affects social indicators. (Kotsios & Kotsios, 2014)

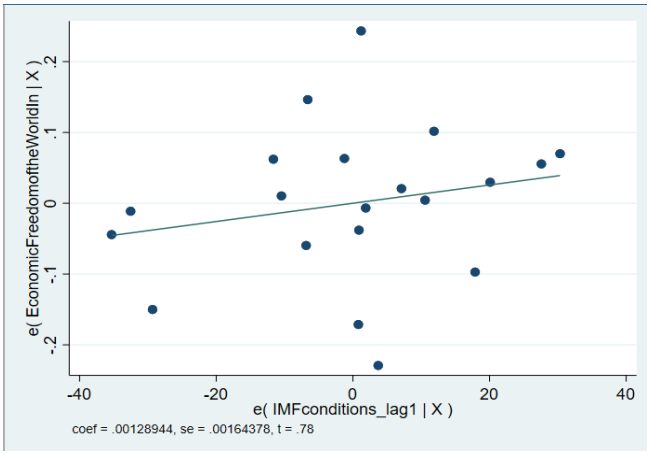
This makes it important to contextualize this finding. This finding provides us with a curious result which seems to contradict the literature, but on closer inspection proves true. Gurtner (2010) shows how, during economic crises, International Financial Institutions (IFIs) like the World Bank provide more social loans to developing countries. The IMF guarantees these loans can be repaid, and creates the above situation where IMF conditions decrease the prevalence of undernourishment in Pakistan. (IMF Conditionality, 2023) This concept is further elaborated in Model 9.



Political Stability and Absence of Violence/Terrorism (Estimate): Model 7

In this case, the regression yielded the highest R-squared at 0.896, signaling very strong model performance. However, the coefficient of -0.003 is small, and the p-value of 0.333 indicates that this result is not statistically significant, suggesting no meaningful relationship between IMF conditionality

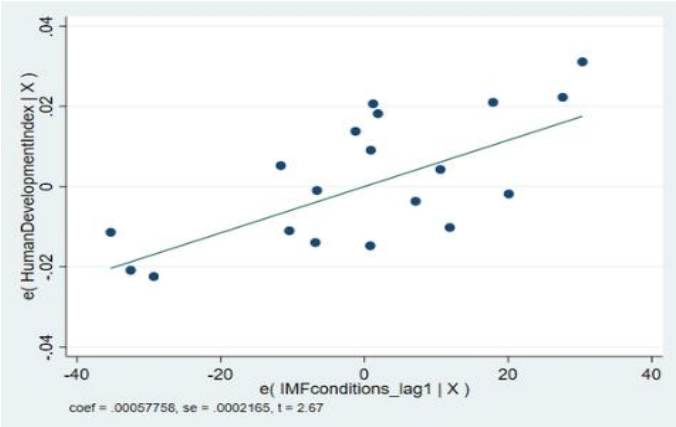
and political stability in this dataset. The graph also shows scattered values, which highlight that the MF conditions are not enough to influence political stability and terrorism within the region. To understand the extent to which the IMF conditions impact good governance, more variables must be considered. However, if those, too, have inconclusive results, it can be assumed that the IMF has little to no interference in a country's governance model.



Economic Freedom of the World Index: Model 8

This model returned an R-squared of 0.721, which is quite substantial. The coefficient of 0.001 shows a negligible positive association. However, the p-value of 0.386 renders the result statistically insignificant, indicating that IMF conditionality has no clear effect on economic freedom based on this analysis.

The graph produced for this model highlights the scattered nature of the data, further emphasizing the lack of clear correlation. This scattered pattern, along with the insignificant results, supports the notion that IMF conditionality alone may not be enough to influence broader political dynamics such as governance, stability, and terrorism. In both cases, the lack of statistical significance points to the necessity of incorporating additional variables into the model to capture the complexities of the relationship. Without such adjustments, it is difficult to attribute any meaningful impact to IMF conditionality. If further variables also fail to produce significant findings, it would suggest that IMF intervention, while often discussed, might have minimal influence on key aspects of a country's governance, economic freedom, or political stability in comparison to other factors.

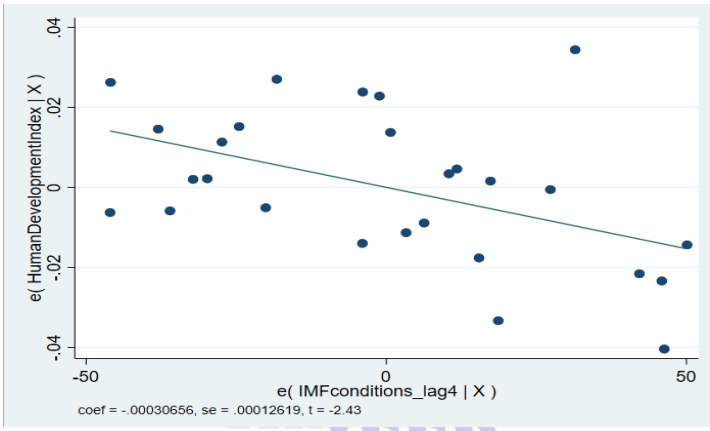


Human Development Index: Model 9

Finally, the regression on the Human Development Index (HDI) achieved an R-squared of 0.809, suggesting a good model fit. The coefficient of 0.001 shows a positive effect. Most notably, the p-value of 0.019 demonstrates statistical significance, suggesting IMF conditions may be positively associated with improvements in human development indicators.

Like the Model 6, it is also important to contextualize this finding. The same reasoning applies here. IMF programs enable countries to repay loans and encourage institutions like the World Bank and the UN to provide developing countries with social protection loans. (Gartner, 2010) This covers the effect that IMF conditionality has on reducing public spending.

However, when discussing HDI, it is important to note that the effects (years of education and life expectancy at birth) can take years to manifest. So, for this particular dependent variable, we employed a second regression model, one that lagged the effects of IMF conditions for 4 years. This generated the following graph.



Unlike the previous regression with only 1 year lagged effects, we see that IMF conditions now decrease HDI by 0.003. The R-squared of 0.861 suggests a good model fit, and the results are taken as statistically significant since the p-value is 0.025. This change in results depicts that in the long run, the IMF conditions negatively impact social indicators like HDI. These findings are conclusive, with the research presented by Kotsios & Kotsios (2014).

Analysis

The regression analysis of the nine selected variables—grouped into Proactive, Defensive, and Prosperity components—yields critical insights into the relationship between IMF conditionality and Pakistan's economic sovereignty. In the Proactive component, strong negative and statistically significant relationships were observed for Capital Formation and Diversification Sophistication of Exports, indicating that IMF conditionality tends to correlate with diminished structural transformation. This suggests that the emphasis on short-term macroeconomic stabilization may come at the expense of long-term economic complexity and innovation. Pakistan remains stuck in developing the few goods and industries it has built a foundation in. These are mainly raw materials, which are land and water-intensive. The country does not have the space to improve production sectors that provide higher returns and better suit the country's existing resources. (Ahmad et al., 2017) However, to establish these production sectors, Pakistan requires huge investment, which is continuously delayed due to successive IMF programs. (Khan, 2022)

Similarly, in the Defensive component, high exchange rates and massive loans from the IBRD and IDA showed Pakistan has little control over its budgetary and monetary sovereignty, respectively. These spending restrictions erode the state's control over its development priorities and welfare programs. Instead of determining its own developmental goals, Pakistan must follow a path set out by foreign economies, which is fulfilled through the IMF. The country has little say in arguing that these goals do

not align with Pakistan's needs and culture. (Oyetunde, 2022)

The Prosperity component, however, produced mixed outcomes. While Quality of Life, through HDI, returned a statistically significant negative relationship in the long run, indicating that IMF conditionality is associated with a deterioration in basic well-being, the coefficients for Good Governance and Free Initiative were not statistically significant. This lack of significance reflects the complexity of governance and entrepreneurial sectors, which are influenced by multiple political and institutional variables beyond the scope of IMF programs alone. (Kapur & Webb, 2000) The absence of robust statistical evidence for these two variables does not imply that IMF conditionality has no effect on governance or entrepreneurial freedom, but rather that these impacts may be more diffuse, indirect, or mediated over longer time horizons.

Conclusion

Consolidating the 3 components, we can finally conclude whether IMF conditions impact economic sovereignty within Pakistan. Results from the Proactive component do in fact show that employing IMF conditionality does reduce the country's ability to strengthen its market by creating sophisticated goods and a resilient economy. Similarly, the Defensive component indicates that Pakistan cannot pursue its own developmental objectives, nor can it make decisions regarding the use of its Financial resources. In contrast, inconclusive results for the Prosperity component highlight that Pakistan may still hold enough economic sovereignty to ensure citizen welfare and work towards economic growth and competitiveness.

The results suggest that IMF conditionality not only limits immediate policy space but also obstructs the deeper economic reforms needed for sovereign development. These insights call for a reevaluation of the terms under which external assistance is accepted and highlight the necessity of designing economic frameworks that prioritize national agency, long-term structural transformation, and inclusive growth. Without a shift in both domestic policy orientation and the global financial architecture, Pakistan risks remaining trapped in cycles of debt and externally driven stabilization programs that fail to address the root causes of underdevelopment. Moving forward, there is an urgent need for homegrown economic strategies supported by transparent governance, participatory policymaking, and regional cooperation, all of which can serve as counterweights to externally imposed prescriptions and foster a more autonomous and resilient economic trajectory.

These insights are aligned with the dependency theory, which is often used to criticize the IMF, now providing popular studies done by Stiglitz and Veerland statistical significance and furthering the debate of IMF conditionality as a tool for exploiting the developing world.

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