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Growth at a Cost: Evaluating IMF Program Effects in South Asia Through Policy Conditionalities

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ABSTRACT

This paper examines the effects of International Monetary Fund (IMF) program participation on economic growth in four South Asian countries from 2000 to 2003, using panel data and fixed effects estimation. Results show a statistically significant, lagged decline in GDP per capita, averaging USD 132 during IMF program years and USD 143 in the subsequent year, which highlights the delayed adverse effects of IMF conditionalities. Other macroeconomic indicators, including government consumption, foreign direct investment, trade openness, and current account balance, were not statistically significant. The findings call for IMF agreements that align with domestic development goals, safeguard social spending, enhance fiscal discipline, and strengthen macroeconomic institutions to minimize potential contractionary impacts.

Keywords: economic growth, IMF Programs, South Asian countries

INTRODUCTION

The International Monetary Fund was founded on December 27, 1945, at the Bretton Woods Conference, to support its member nations in reaching economic stability to avoid a crisis similar to the Great Depression of the 1930s. While

preserving financial stability has been the IMF's primary focus over the years, it has since broadened its list of goals and objectives to include alleviating poverty and sustainable economic growth by changing patterns in the market. From now on, any of the 189 member nations suffering financial difficulties can approach the Fund and obtain a loan with a list of requirements to meet. However, in many instances, the terms enforced cause the economic situation of the borrowing nation to decline even further, exposing the borrower to a significant amount of debt (Tahir, 2020).

For countries encountering severe economic inconsistencies, the IMF is a lender of last resort. The IMF emphasized depreciation and stable macroeconomic conditions to reclaim external balances after the oil crises of the 1970s and the worldwide financial crisis of the 1980s. Soon, legislative and institutional reforms were incorporated in the reform agenda portrayed in policy conditionality. In this approach, policy conditionality evolved to include development strategy and related growth policies in addition to more traditional balance of payments and financial considerations. As quickly became evident, adjustments in crucial industry policies were vital to establish external balance and macroeconomic stability, which assisted in the expansion of policy conditionality (Abbot, Anderson & Tarp, 2008).

Following that, the IMF's policy conditionality came under fierce scrutiny from both political parties (Bird & Willett, 2004; IEO, 2007). The first argument is the standard one of IMF conditionality. On the right, it is seen as not enforcing policy limitations, while on the left, it is criticized as harsh, intrusive, and counterproductive. The IMF recognized that the expansion of policy constraints went too far in answer to these criticisms. Additionally, the IMF has clarified that it intends to bring attention back to concerns that are under the institution's core strengths (IEO, 2007). Conditionality requirements are to be made simpler to use IMF language. However, the IMF still perceives conditionality as an effective instrument that encourages economic reforms.

The IMF has stressed more over the years that its strategies should support developing a structure for long-term economic growth (IMF, 2005a; IEO, 2007). Therefore, macroeconomic stability, balance of payments stability, and depreciation become interim objectives that are important to the extent that they facilitate economic growth. An established body of investigation now exists that examines the IMF about its goal of enabling long-term economic growth. Although there is some disputation, the evidence is not compelling (Vreeland, 2006). Still up for discussion, though, is how to read into the IMF's alleged failures.

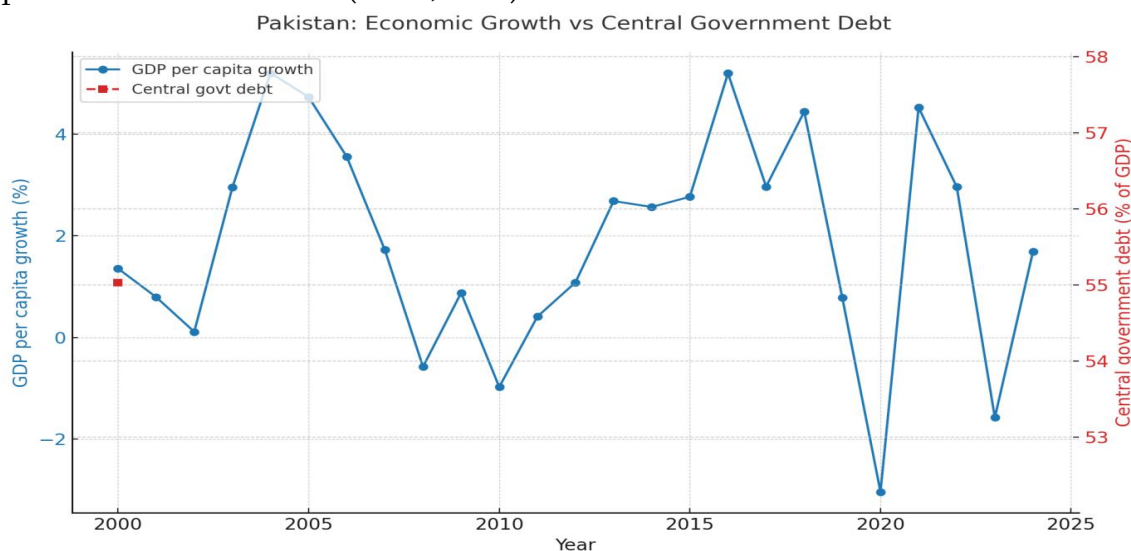
The IMF, as some have noted, takes an approach that suits everyone. This stance claims that the IMF's policy template is both flawed and unreasonably strict (Stiglitz, 2000, 2001, 2004; Vreeland, 2006). Others argue that their main offender is the lack of commitment to conditionality. Partial compliance threatens the complete reform package to an extent that program performance entails the adoption of the entire range of IMF policy conditions (Krueger, 2004). This latter viewpoint is more aligned with recent IMF ideas on conditionality (Rodrik, 2006). Unfortunately, applying economic proof to sort out this contention is quite tricky. We are unable to

vote in favor of either of these two perspectives, as we have yet to demonstrate that participation in IMF programs has an encouraging effect on economic growth. In actuality, the two points might reasonably argue that the absence of reform proposals aligns with their evaluation, given our inability to fully account for the degree of conditionality conformity, which is exceedingly difficult. However, humans can use indirect inference. The most significant result is that compliance is only a problem when IMF conditionality delivers the ideal kind of reforms (Goldstein, 2001).

Patel (2017) claims that IMF projects, including the Extended Fund Facility, give economies in recession monetary aid and policy guidance so they may strengthen their economies and lay the groundwork for long-term, sustainable growth. Furthermore, the IMF's dedication to structural reforms, such as budgetary reductions and better governance, has enhanced economic efficiency and facilitated steady expansion in emerging economies, according to Khan and Singh (2019). In line with the research, IMF efforts may promote long-term development goals and help with tackling financial risks when they are carried out well.

In the context of South Asia, nations like Sri Lanka and Pakistan have repeatedly borrowed from the IMF and have relied on its support during periods of macroeconomic crisis, while India and Bangladesh have engaged more selectively. India's reliance on IMF programs has been nil since 2000, while other South Asian countries have remained in the programs on and off due to bouts of economic instability. The region, throughout the years, has presented mixed evidence on growth outcomes associated with IMF involvement.

The Pakistani economy is no different; over the last 18 years, it has been observed that whenever the economy grows at an accelerated rate, fiscal managers tend to increase expenses, which ultimately leads to a significant fiscal disparity. There is a dual deficit as a result of the fiscal deficit, manifesting in a balance of payments deficit. As a result, the government has been approaching the IMF since 1958. What is troubling is that every preceding administration has done so for the past two to three decades (Tahir, 2020).



It clearly shows that economic growth and debt levels often move in opposite directions, but there are periods—like 2020–2021—where both indicators shifted sharply due to external shocks.

The gap that remains unexplored in the differential impact of IMF programs on economic growth within the region of South Asia, using robust panel data methods to justify country-specific characteristics and temporal effects. This study aims to fill that gap by empirically analyzing the overall impact of IMF program participation on GDP per capita in Pakistan, Bangladesh, and Sri Lanka from 2000 to 2003, offering critical insights on whether IMF involvement has benefitted or stagnated economic growth in South Asia.

Countries	Years of IMF Programs	Duration
India	-	0 years
Pakistan	2000, 2001, 2008, 2013, 2020, 2019, 2023	7 years
Bangladesh	2003, 2012	2 years
Sri Lanka	2001, 2003, 2009, 2016, 2023	5 years

Participation of South Asian Countries in IMF Programs since 2000.

Research Objectives

- To examine the overall impact of the IMF program on economic output in Pakistan, India, Bangladesh, and Sri Lanka.
- To compare the economic consequences of countries partaking in IMF programs with those of countries not participating.
- To identify and analyze the political, institutional, and economic factors influencing the success or failure of the IMF program in South Asian countries.

Research Questions

- What is the short-term impact of IMF program participation on the economic growth of South Asian countries?
- How does the regularity of IMF program engagement encourage cross-country variations in the economic performance of South Asia?
- To what extent does involvement in IMF programs exert differential effects on economic progress in the short run vs. the long run, across South Asian economies?
- How does the intensity or compliance level of IMF conditionalities influence growth outcomes?

LITERATURE REVIEW

Although Fund projects have substantially enhanced the nations' external current account and balance of payments positions, Khan (1990), using data for 259 projects between 1973-1988 for 69 countries, shows that the supporting documentation on growth is unfavorable primarily. According to Conway (1994),

fund programs have a negative influence on growth in the short term but have a beneficial effect after a sufficiently long period of time.

The quantity of conditions and a nation's previous consumption of IMF financing have a favorable correlation, according to Dreher and Vaubel's (2004) research into the relationship between IMF conditionality and borrowing behaviors. They illustrate that demand for IMF loans surges during recessions, global demand shocks, fixed overvalued currency rates, and election-related fiscal expansions using a public choice model and 2SLS estimates. In the meantime, conditionality expands as global interest rates rise, World Bank lending grows, and reserves shrink. The variety of guidelines had minimal impact on the target variables, according to their evaluations of 206 letters of intent from 1997 to 2003. By establishing the distinction between IMF financing and associated aid, the paper addresses concerns about moral hazard while presenting the case that, in order to improve efficiency, conditionality should be streamlined, simpler, and focused on controllable instruments. It also implies that IMF testing should move from *ex post* to *ex ante*.

Blackman and Unigovskaya (2004) explored how IMF conditionality influenced output recovery in transition economies in the 1990s, with a specific focus on performance criteria (PCs) and structural benchmarks (SBs). SBs target long-term structural reform and are country-specific, whereas PCs set standard macroeconomic targets across programs. The study failed to uncover an immediate association between SBs and economic growth using the IMF's MONA database. Though the specific cause was still unidentified, it did show that nations that fully adopted IMF programs tended to have sustained real GDP growth for at least three years. This could be due to a more substantial program commitment (Rashid et al., 2025).

Using a production-function framework and accounting for selection bias using a bivariate probit model with limited accessibility, Przeworski and Vreeland (2000) executed one of the most adapted studies on the impacts of IMF programs on economic growth. Using data from 79 developing nations from 1970 to 2000, they consistently treated all of the key IMF arrangements (SBA, EFF, SAF, and ESAF). According to their discoveries, the average growth rate of nations enrolled in IMF programs was 2.04%, while the average growth rate of non-participating countries was 4.39%. This resulted in a 2.35 percentage point growth distinction. According to the study's findings, IMF program participation contributes to approximately two-thirds of this disparity (1.53 points), implying that even after governing for the original circumstances, these programs tend to slow growth both during and after application.

Joyce (2006) identified how important a nation's domestic political framework is to the successful operation of IMF programs, claiming that program design should take into consideration aspects like political stability, bureaucratic quality, ethnic divisions, and special interest groups. He recommended that this tactic strengthen the programs' ability to lure private investment as well as their execution. The association between institutions, program implementation, and

macroeconomic outcomes was further highlighted by Nsouli et al. (2004). Their results indicate, for example, that internal tensions can haphazardly raise inflation, that stronger law and order and bureaucracy decrease inflation, and that a smaller army presence strengthens the current account. The lag effects in IMF adjustment programs could be explored in future studies.

In a thorough examination of structural adjustment lending, Easterly (2005) questions why the World Bank and IMF continue to lend money to nations despite repeated program failures that are attributed to infractions. He uses a medical analogy to argue that repeated loans suggest inefficient initial treatments, referring to nations that have had slight macroeconomic improvement but were under IMF programs for 61% of the period between 1980 and 1999, such as Ghana, Pakistan, and Niger. Easterly points out that external pressures frequently trigger lending to persist as donors try to preserve an illusion of credibility through IMF backing; the IMF's 2002 Independent Evaluation Office report additionally underscores this point. Some nations, like Pakistan, experienced explosive development but also substantial budget deficits and growing debt, while other nations, like Uganda, witnessed growth despite persistent inflation and black-market premiums. He questions why, after 2000, Pakistan continually required more loans despite its modest growth (2.7% per capita and 3.3% terms of trade). In the end, he stresses the pointless nature of repeated adjustment lending, which is additionally reinforced by the incorporation of nations like Pakistan in the HIPC list, which implies that program failure has been formally acknowledged.

Short-term vs. Long-Term Effects of IMF Programs on Growth:

A considerable body of literature has evaluated the temporal impact of IMF programs on economic performance. In the short term, IMF-supported stabilization often involves fiscal consolidation and monetary tightening, which can cause recessionary effects (Barro & Lee, 2005; Dreher, 2006). While these policies exist to correct the macroeconomic imbalances, they may suppress domestic demand and output in the immediate aftermath of program adoption. Przeworski and Vreeland (2000) used a fixed-effects panel model on 135 developing countries. They concluded that IMF programs do not improve economic growth in the short run and further argue that these short-term contractions are mutual and often an inevitable consequence of IMF-prescribed adjustment. Moreover, their analysis also states that program-induced austerity decreases government spending, which hinders output initially.

According to a study conducted across 138 countries by Barro and Lee (2005), while there were adverse short-term effects on growth during involvement in the IMF program years, positive effects in the medium to long term were experienced, only under the condition of those countries that had strong institutions and complied with conditionality. Furthermore, Dreher (2006) formed a distinction between participation, loan size, and compliance and concluded that while participation alone does not boost growth, countries that comply with IMF conditions tend to experience positive outcomes after a few years.

Besides, Easterly (2005) stresses that IMF stabilization programs mostly tend to focus on macroeconomic correction, rather than development and growth objectives. However, in the absence of fundamental structural change, growth does not speed up meaningfully in the long run.

The pool of these studies suggests that short-term contractions are common in IMF programs. However, the long-term effects differ depending on compliance and institutional quality and capacity, factors that can be measured using lagged variables or interaction terms.

Compliance vs. Conditionality:

Dreher and Jensen (2007) employed a global panel of IMF programs. They found that the number of conditions is often less important than the extent of compliance achieved through policy changes and reforms, which is rarely fully implemented. The results of the study suggest heterogeneous effects depending on implementation quality and speed.

Moreover, Bird (2001) argues in their study that the IMF designs its programs in such a way that it assumes high levels of domestic ownership and political will of countries that are often absent. He observes that conditionality without compliance creates a loop of repeated borrowings without sustainable and visible improvements. These assumptions do not hold in many countries, especially developing nations, as they confront political constraints, institutional fragility, and public resistance to austerity measures, thus undermining any effective implementation. The repeated borrowing, therefore, creates “a cycle of dependence” where countries frequently participate in IMF agreements, fail to execute core conditions, and return for additional assistance without achieving the long-term macroeconomic stabilization objectives (Shabeer, 2022; Shabeer & Rasool, 2025).

In addition, Stone (2004, 2008) provides persuasive evidence that IMF conditionality is not applied uniformly across countries. That enforcement of conditionalities often reflects the geopolitical interest of influential IMF stakeholders, particularly the United States. Stone presents that countries with strategic value to the U.S. tend to receive lenient treatment in the context of program design and enforcement. A salient example of this case is Pakistan's IMF engagement in the post-9/11 period, where, despite Pakistan's repeated lapses in policy compliance and program benchmarks, the nation continued to receive disbursements, basically due to its geopolitical importance in the U.S.-led War on Terror.

Similarly, Moser and Sturm (2011) focus their analysis on IMF lending outcomes in Sub-Saharan Africa and draw attention to a more constructive dynamic. Their study reveals that positive growth effects from IMF programs were observed only when strong conditionality was combined with genuine reform efforts by recipient governments. In simpler words, the success of these programs was reliant on the severity of program requirements as well as the domestic political will to execute the requirements and implement reforms genuinely. This strengthens the view that conditionality alone does not bring results unless accompanied by eloquent domestic obligations and capability, along with the IMF's approach to

tailoring its conditions to the political and institutional realities of each country (Shabeer & Riaz *et al.*, 2022; Shabeer & Zafar *et al.*, 2024; Rashid *et al.*, 2025).

Institutional vs. Economic Outcomes:

Beyond just macroeconomic indicators, IMF programs influence fiscal institutions, central bank behaviour, and governance structures. Vreeland (2003) in their study stressed that IMF programs are not neutral technocratic tools; instead, they are political contracts that can shift power towards technocratic agencies such as central banks and finance ministries, significantly affecting institutional autonomy.

Gould (2003) conducted a study in which they examined how IMF programs affect domestic politics, observing that the IMF tends to empower certain technocratic or financial elite groups while regulating others, including labour groups and civil society actors, which can create institutional distortions due to the absence of democratic legitimacy or public accountability.

In the context of a broader global analysis, Abouhard and Cingranelli (2009) study 131 countries across more than two decades and produce strong empirical evidence that IMF programs negatively impact political rights and civil liberties, especially when implementation of conditional reforms is incomplete or inconsistent. Their findings further suggest that the austerity and restructuring measures usually attached to IMF assistance often incite domestic unrest or authoritarian establishment, mostly pronounced in countries with weak institutional frameworks, where governments subdue discord to enforce unpopular reforms.

Focusing on post-communist Eastern Europe, Pop-Eleches (2009) offers a more conditional view. He states that IMF programs can lead to developments in institutional quality, but only when reforms are supported domestically. Otherwise, IMF engagements may encourage existing authoritarian tendencies, as governments absorb and exploit external funding to stay in power while avoiding institutional and other necessary policy reforms. This study aims to highlight the context-dependent nature of institutional outcomes, implying careful alignment of external incentives with internal political dynamics to avoid counterproductive effects.

Lastly, Khan and Sharma (2001), after conducting an internal IMF evaluation, emphasize that country ownership is the most critical factor in the success or failure of conditionality-driven reform. Their report concludes that where governments are fully committed to a reform agenda, IMF programs can benefit from meaningful institutional transformation. Their conclusions have positively influenced consequent IMF strategies that emphasize participatory policy frameworks and tailored conditionality for each country to boost reform credibility.

Even though the pool of existing literature offers valuable information on the outcomes of IMF programs, several gaps in the literature still exist. Firstly, in most studies, IMF engagement, particularly in the South Asian context, is treated as a binary condition that fails to adequately explore the delayed and dynamic effects of program participation on economic outcomes. Secondly, while conditionality and compliance have been analysed individually, little is examined about how they interact and perform together to affect economic performance, particularly across

countries with different levels of geopolitical magnitudes. Thirdly, despite South Asia's lengthy and varied history of IMF involvement, the majority of the institutional impact literature is conducted in Sub-Saharan Africa, Latin America, or post-communist Europe, with sparse regional concentration on South Asian.

In an attempt to fill up these gaps, this study employs a fixed-effects panel regression on three South Asian nations (Pakistan, Bangladesh, and Sri Lanka) between 2000 and 2023. Lag structures are used to examine both immediate and long-term effects. Additionally, this methodology provides a comparative perspective on nations with varying degrees of IMF involvement, offering a sophisticated, region-specific comprehension of how IMF programs influence economic growth, contingent on institutional and political conditions.

Author(s)	Methodology	Key Findings	Limitations
Khan (1990)	Panel analysis of 259 IMF-supported projects (1973–1988)	Mixed results: improvement in balance of payments, but limited evidence on growth enhancement.	Lacks differentiation by region or institutional quality; outdated for post-1990s reform debates.
Conway (1994)	Time-series & panel data across countries	Short-term growth effects are harmful; long-term effects are mildly positive.	Ambiguous time threshold for when benefits emerge.
Przeworski & Vreeland (2000)	Bivariate probit + production function (79 developing countries, 1970–2000)	IMF program participation is associated with a 2.35% lower growth rate compared to non-participants.	Does not capture heterogeneity in conditionality or compliance quality.
Barro & Lee (2005).	Cross-country regressions (138 countries)	Short-term adverse growth effects; long-term positive only with strong institutions.	Focuses more on average effects, underplaying regional or political variation.
Dreher (2006)	Dynamic panel GMM estimations	Participation alone does not increase growth; compliance is key to long-term benefits.	There is a limitation in explaining why countries fail to comply.
Bird (2001)	Theoretical & empirical policy analysis	Conditionality often mismatched with domestic political	Normative critique with less formal modeling.

		will leads to repeated borrowing cycles.	
Stone (2004, 2008)	Case studies + statistical modeling	Geopolitical ties (e.g., to the U.S.) reduce enforcement of conditionality (e.g., Pakistan post-9/11).	Generalizability beyond strategic contexts (e.g., U.S. allies) is unclear.
Moser & Sturm (2011)	Regression on Sub-Saharan African data	Positive growth outcomes only when reform efforts match strong conditionality.	Regional focus; limited external validity beyond SSA.
Blackman & Unigovskaya (2004).	MONA database analysis on transition economies	Structural benchmarks are not directly correlated with short-term growth, but full adoption correlates with sustained recovery.	Does not clarify the causality between adoption and growth.
Gould (2003)	Political economy analysis	IMF empowers financial/technocratic elites; weakens labor and civil society actors.	Primarily qualitative and politically framed.
Abouharb & Cingranelli (2009).	Large-N statistical analysis (131 countries, 1981–2003)	IMF programs linked to erosion of civil liberties, especially under poor compliance.	Focuses primarily on political outcomes; weak linkage to macroeconomic performance.
Pop-Eleches (2009)	Case study + quantitative analysis (Eastern Europe)	Institutional improvement is conditional on domestic support; otherwise, it fosters authoritarianism.	Regional specificity; may not generalize globally.
Khan & Sharma (2001).	Internal IMF evaluation	Country ownership determines the effectiveness of conditionality and institutional reform.	Limited transparency in the dataset (as internal evaluation).
Easterly (2005)	Historical critique + country cases	Repeated IMF lending without	A strongly critical tone may downplay

		structural improvement indicates policy failure (e.g., Pakistan).	partial successes.
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Theoretical Framework

The study's theoretical perspective relies on a variety of economic and political economy models that simultaneously explain how IMF programs influence South Asian countries' economic growth, primarily through conditionality and policy reforms. Based on the Washington Consensus and structural modification theory, the IMF advocates reforms geared toward markets, trade facilitation, and restricted spending in the expectation that these approaches may strengthen the macroeconomy and stimulate long-term growth. However, from a Keynesian viewpoint, such restrictive policies inhibit consumer demand and impair short-term growth, especially following economic downturns. An additional element is incorporated by public choice theory, which suggests that domestic political players might agree to IMF campaigns to secure funding rather than to enact real measures. This could result in low compliance and limited advancement. In addition, institutional economics emphasizes that political stability, administrative performance, and governance quality are crucial for the effectiveness of IMF actions; even well-designed programs might struggle in weak organizational structures. Finally, the moral hazard argument raises suspicions that periodic IMF bailouts could diminish countries' motivation for establishing viable business practices, promoting dependability rather than inhibitions. All together, these theoretical frameworks show that the impacts of IMF initiatives on development differ based on the way conditionalities are constructed, implemented, and accepted within each South Asian country's internal political and organizational structures.

However, the theoretical context for this study most closely aligns with the principal-agent theory in international political economy. The main themes of this theory include asymmetric information, monitoring and enforcement, and goal divergence. In the case of this study, IMF programs represent the principal's tools, conditionalities imitate mechanisms for affiliating agent behaviour with principal objectives, institutions and compliance are acting as mediating variables that capture the agent's capacity and willingness, and lastly, GDP per capita is the definitive outcome of interest, formed by how effectively agents execute the principal's agenda.

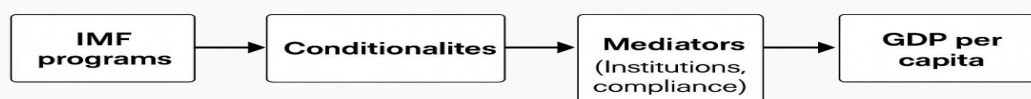


Fig.2.1. Conceptual Framework Illustrating the Pathways from IMF Programs to Economic Growth

METHODOLOGY

The purpose of this chapter is to outline the research techniques and methodological framework employed to analyze the impact of IMF programs on the economic growth of South Asian countries. This study is quantitative explanatory research using macro-level panel data regression to assess the impact of IMF programs on the economic growth of South Asian countries. The panel consists of 3 countries, Pakistan, Bangladesh, and Sri Lanka, with a period ranging over 25 years, from 2000 to 2024. Since it is panel research, the study examines both time series (within-country) and cross-sectional (between-country) variation, thus improving control over unobserved heterogeneity. The empirical model is estimated:

$$GDPPC_{it} = \beta_0 + \beta_1 GFC_{it} + \beta_2 FDI_{it} + \beta_3 CAB_{it} + \beta_4 TR_{it} + \beta_5 IMF_YEAR_{it} + \beta_6 IMF_LAG_{it} + U_{it}$$

Where GDP per capita is taken as the dependent variable, which serves as an appropriate proxy variable for economic growth, and the independent variables include general government final consumption expenditure, foreign direct investment, current account balance, and trade. In addition, a new variable that assesses the impact of IMF programs and its lagged value is also generated and included in the analysis for impactful results.

Variables	Variables Description	Data Source
GDP per capita (constant 2015US\$)	Adjusted for inflation, measures output per person expressed in constant 2015 USD.	World Development Indicators
General Government Final Consumption Expenditure (% of GDP)	Total government spending on goods and services to cater to the community's needs. Expressed in share of GDP	World Development Indicators
Foreign Direct Investment, net inflows (% of GDP)	Investment inflow in a country in enterprises operating in the economy	World Development Indicators
Current Account Balance (% of GDP)	Net exports of goods and services, primary and secondary income, expressed as a share of GDP	World Development Indicators
Trade (% of GDP)	Total sum of exports and imports of goods and services, expressed as a share of GDP	World Development Indicators
IMF Programs	A dummy variable that	The author's estimations

	indicates whether a country is participating in an IMF lending program in a given year	
Lagged IMF Programs	A one-year lag of the IMF program variable indicates whether the country was in an IMF program in the previous year.	The author's estimations

Data Description

GDP per capita is taken as the dependent variable as it adequately captures the economic growth performance of South Asian countries, with it serving as a standard measure of economic progress. It further reflects the average income levels and the overall welfare of the population and is used widely in empirical growth literature to represent long-term economic development.

The key explanatory variable under consideration is the IMF program's participation. This dummy variable represents whether a country was under an IMF program in a given year and the lagged effect of participation (whether a country was in the program in the previous year of a given year). These variables are constructed to reflect both the short-term and delayed consequences of IMF engagement, primarily to distinguish between short-term and long-term effects.

The general government final consumption expenditure represents the fiscal policy stance and government demand stimulus. Since IMF programs primarily emphasize spending reforms and stress macroeconomic stabilization, these variables are selected to capture the effects of government spending on economic performance.

Along with GFC, the IMF also puts pressure on countries to improve their investment climate, liberalize capital flows, and enhance investor confidence; therefore, the study incorporates foreign direct investment inflows to describe its relationship with GDP. Tracking FDI helps in measuring whether structural reforms under the program help countries attract foreign investors.

One of the significant concerns of IMF stabilization programs includes the external sector dynamics and the sustainability of foreign financing, thus increasing the importance of assessing the impact of the current account balance on the economic performance. This variable is important because IMF programs are essentially initiated due to balance of payment problems. Furthermore, incorporating trade openness into estimations takes a step further in improving the current account balance. This approach is also assessed as a means to track the integration of countries under consideration into the global economy, which is a key objective of the IMF programs.

The analysis was initiated by performing preliminary models like Pooled OLS, Fixed Effects, and Random Effects to assess the model fit. Next, the Hausman test was performed for model selection between FE and RE. Since the results were significant, the study employed the Fixed Effects technique to make estimations. For

further verification, Breusch-Pagan LM tests produced insignificant results, further confirming the use of FE estimations.

Sample Size and Structure

The panel includes 3 South Asian countries – Pakistan, Bangladesh, and Sri Lanka – observed annually from 2000 to 2024. So, the total observations ($n * T$) are 75. Since the study employs lagged variables, the number of observations reduces slightly to 61, because of the first year of data being lost during the lag transformation.

Data Cleaning and Preparation

Data collection was conducted from various sources, including the World Bank's World Development Indicators (WDI), IMF MONA database, and national sources. Moreover, variables are also standardized across countries to ensure consistent units. There was a minimum problem of missing variables. The reason is that wherever present, the missing values were handled through listwise deletion to maintain data integrity in fixed-effects regressions. GFC, CAB, TR, and FDI were in string form, which were then converted to numeric form to carry on with the estimations. IMF_year was constructed as a dummy variable, using binary coding (1=IMF program active, 0=otherwise). These variables were formulated using STATA time-series commands to reflect temporal dynamics.

RESULTS AND DISCUSSION

Diagnostic Tests and Robustness Check:

The study performed diagnostic tests to ensure the robustness of fixed effects regression results. Multicollinearity was tested using Variance Inflation Factors (VIF), which indicated no serious collinearity concerns, with all VIF values lower than 2 and a mean VIF value of 1.50. Using the correlation matrix, it is further supported that most pairwise correlations are below 0.40, except for the correlation between IMF_year and IMF_LAG, which reaches a moderate level ($r=0.528$, $p<0.01$). This is not unusual due to sequential program coding. Heteroskedasticity was tested using cluster robust standard errors at the country level, guaranteeing valid inference. The robust regression results verify the significance of IMF program participation ($\beta = -31.764$, $p<0.01$), whereas other variables mostly remain insignificant. FDI showed weak significance ($p<0.01$), particularly. Overall, the model demonstrates robustness, no problem of multicollinearity, adjusted standard errors, and steady and reliable findings across specifications.

The Hausman test determined the relevance of fixed-effects over random-effects models. The test yielded a chi-square statistic of 65.86, with a p-value of 0.0000, evidence towards strong rejection of the null hypothesis that the difference in coefficients is not systematic.

Fixed Effects Results:

The FE regression model has a within R-squared of 0.1154, indicating that 11.5% of the variation in GDP per capita over time within countries is explained by the explanatory variables. The R-squared value of 0.5428 indicates moderate

explanatory power across countries, despite the overall R-squared being low (0.0018). The model is statistically significant at a 5% level of significance, as indicated by the lower p-value (0.0451) and the F-statistic (5,91) value of 2.37. The rho value of 0.7841 suggests that nearly 78% of the total variation in GDP per capita is due to unobserved country-specific effects, further implying and justifying the need for a fixed effects model. Moreover, the F-test that signifies that all unit effects equal zero, has a value of 77.33 and a highly significant p-value of 0.0001, confirming the presence of strong fixed (country-specific) effects in the model.

Variable	Coefficient	Std.Error	T-statistic	p-value
Gfc	2.422	2.213	1.09	0.277
Fdi	-2.465	2.524	-0.98	0.331
Cab	-0.718	2.052	-0.35	0.727
Tr	-2.163	2.768	-0.78	0.437
Imf_year	-131.677	55.740	-2.36	0.020
Imf_lag	-143.056	53.761	-2.66	0.009
_cons	2044.996	199.295	10.26	0.000

The effect of the IMF Program is statistically significant at the 5% level of significance, with a p-value of 0.020. The negative coefficient of -131.68 indicates that the country's participation in an IMF program results in a decrease of almost 132 USD in GDP per capita, when other variables are held constant. Additionally, the lagged effect also shows a significantly adverse effect on the GDPPC. A 1-year lagged participation of a South Asian country in an IMF program produces a decrease of almost 143 USD in GDP per capita of the nation. These results imply that there is a delayed negative impact of IMF programs on economic output. This positively supports the hypothesis that IMF Programs may be responsible for short-term economic contraction. All other variables have statistically insignificant effects on GDP per capita, where government consumption shows a positive but insignificant effect, and FDI, CAB, and TR have negative and insignificant results. This suggests that these variables may be dragging the GDP per capita under certain conditions; however, these results are not conclusive. Countries under IMF conditionalities may be at a danger of experiencing short-term economic output loss, which reinforces the need to evaluate IMF program design, implementation, and complementary reforms. Several mechanisms explain the contraction in GDPPC due to IMF_YEAR, including an austerity-driven contraction, among others. This is because IMF programs commonly involve subsidy removal, fiscal consolidation, and monetary tightening, leading to repressed demand, reduced investment, and slow output in the short to medium term (Przeworski & Vreeland, 2000; Dreher, 2006). The adverse lagged effect mainly suggests that growth suppression often continues into the next fiscal year due to persistent austerity. Moreover, governments may continue to implement contractionary policies to meet structural benchmarks long after the program disbursements end. Barro and Lee (2005) support this argument by stating that IMF-

imposed policies often delay the return to robust growth, particularly in countries with minimal institutional capacity.

Furthermore, when countries repeatedly partake in IMF arrangements, in this case, Pakistan has completed over 20 IMF arrangements, without a strong domestic commitment to reform, growth, and development, then program fatigue sets in (Easterly, 2005; Bird, 2001). This results in low compliance with conditionality, undermining potential benefits, and superficial implementation of structural benchmarks, more driven by the need for disbursement rather than actual reform. The adverse lag effect may also be a sign of reform fatigue, because in South Asian nations, the initial momentum for reforms weakens after the first year of program participation. Moreover, factors such as institutional pushback, public resistance, and political turnover also become reasons for the delay in full implementation. Eventually, South Asian countries fall into the trap of a cycle of dependency where the country repeatedly returns to the IMF without tackling underlying structural issues.

Additionally, studies show that geopolitical benefits frequently influence program design and enforcement. Stone (2004, 2008) states that countries with strategic importance, such as Pakistan during the U.S.-led War on Terror, are prone to receive lenient treatment, which includes less rigorous administration of conditions and continued IMF support despite non-compliance. The study also points out that this can undermine the credibility of IMF-conditionality, resulting in ineffective programs that fail to address structural issues or fiscal indiscipline, thereby leading to long-term underperformance. Abouharb and Cingranelli (2009) found that IMF participation weakens civil and political rights, typically in developing countries, increases the chances of authoritarian backsliding or governance disturbances, and instantaneously lowers economic recovery. In the context of the social aspect, many IMF conditions affect the vulnerable segments of society in a chain reaction of sorts. Subsidy cuts are followed by significant public sector retrenchment and rapid price hikes due to deregulation, which causes a public uproar against program participation. The public reaction often leads to protests, strikes, and political turnovers in democracies like India, Bangladesh, and Sri Lanka. Moser and Strum (2011) stress that reform credibility and domestic political will are the leading proponents of program success. Although the short-run impact appears negative, properly implemented IMF-mandated structural reforms could lead to positive growth in the medium to long term. The means to achieve this success are deregulation, financial reforms, and fiscal consolidation, which could improve efficiency and competitiveness. However, due to a significant lack of institutional capacity in most South Asian states, these reforms would be diluted, thereby deferring their benefits.

Moving on to the other variables, the insignificant impact of FDI on GDPPC occurs potentially due to low absorptive capacity, institutional weakness, or sectoral misallocation in most of the South Asian economies. According to Blomstrom and Kokko (2003) and Alfaro et al. (2004), unless recipient nations own strong financial

institutions and human capital, FDI has little or no significant contribution to productivity or long-term growth objectives. Similarly, the reason for the failure of CAB and TRADE to demonstrate a significant effect is structural imbalances in trade, as many South Asian countries are heavily reliant on commodity exports or remittances, with restricted capacity to influence global integration for growth (Rodrik, 2006). Moreover, growth dividends are hardly yielded when trade liberalization ensues without complementing adequate industrial or infrastructure development, catering to trade openness. GFC has positive, insignificant results that imply that fiscal spending in South Asian countries is consumed mainly by non-developmental expenditures, such as salaries, subsidies, and defence, instead of allocating these funds to productivity-enhancing investments. Alesina and Perotti (1996) infer similar findings and argue that specific public spending patterns can be neutral or even harmful for long-term growth.

CONCLUSION AND POLICY RECOMMENDATION

IMF programs are meant to provide long-term macroeconomic stabilization opportunities for member countries, particularly to those that struggle, internally and externally, to maintain their fiscal performance, institutional capacity, and financial reformation. The results of this study present a negative relationship between the GDP per capita of South Asian countries and the years of their participation in IMF programs. The results are far stark in the case of the lagged period, where an average decline of \$143 per capita is observed. This suggests that the economic cost of IMF conditionalities is not immediate; instead, they become pronounced in the years following program implementation. Other variables such as FDI, TRADE, CAB, and GFC failed to show significant results, potentially due to weak absorptive capacity or economic rigidities in the region.

Along with the disbursement of program funds, the IMF must undertake several activities in order to ensure a seamless transition of economies into achieving their macroeconomic stabilizing goals. First, a few actions of surveillance can be applied to maximize the value-added provisions to the South Asian region, with the help of reinforcing the regional resident representative office with increased local staff to provide better and transparent oversight of the three countries under consideration. In addition, the organisation must strengthen its surveillance of the financial sector, along with focusing on discussions on long-term growth and private sector development, potentially through increased collaborations with other multilateral agencies (Maret and de la Cases, 2022).

Second, instead of focusing only on fund provision, the organisation may also explain to the member countries of South Asia the benefits of non-financial, low-access, and precautionary programs to address resilience-building issues in the region. The Fund can act as a financial advisor, elaborating on realistic macro-frameworks and offering effective program design and conditionality, considering the available data and differing institutional capacities across South Asian countries. Additionally, rather than adopting a one-size-fits-all approach, the IMF should tailor lending kits

to the specific needs of member countries. This approach also allows for the relaxation of constraints in emergency funding situations, such as natural disasters.

Third, capacity development activities are crucial for resilience building, such as debt management, fiscal rules, and resilience financing strategies, and macroeconomic analysis with the view of enhancing and improving policy design and implementation. The primary focus and attention must be given to the capacity enhancement of countries, and greater efforts to address the roots of fragility should be made as well, so that falling into IMF programs can become sustainable in the future.

Limitations and Future Research:

While the study maintains its valid and reliable findings throughout, it is constrained by its inability to measure the depth and type of conditionalities or the degree of program compliance, due to data limitations and unavailability. Thereby, the implementation of programs across countries is not fully captured and measured. Furthermore, the study includes a short cross-section, and future research could incorporate a larger, more diverse cross-section. Along with this, future research could further benefit from qualitative assessment of reform implementation, country-specific case studies, or compliance indices to infer better results and improve understanding of channels through which the program affects long-term growth.

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