

IMF Credit, Institutions, and Economic Growth

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Abstract

This article estimates the relationship between the IMF credit, institutional quality, and economic growth using a panel data set of low and lower-middle-income countries. For this purpose, I use both a traditional panel model specification with forward lags of the dependent variable and a Panel Vector Autoregressive (PVAR) approach. The primary objective is to determine the long-term dynamic interplay between IMF credit, the institutional framework shaped by economic freedom policies, and economic growth. The analysis reveals a positive projected influence on economic growth attributable to IMF credit in subsequent years, notwithstanding the initially observed contemporaneous negative effect. Furthermore, the findings substantiate that IMF credit enhances growth in low and lower-middle-income countries, particularly when these nations have embraced enhanced institutional structures through the adoption of economic freedom policies.

Keywords: IMF credit, Economic Growth, Economic Freedom, Reforms, Institutions, Low-income countries, Lower-middle-income countries.