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**AN ECONOMETRIC ANALYSIS OF GROWTH PERFORMANCE AND
ADJUSTMENT UNDER POLICIES INSPIRED BY THE IMF IN THE PACIFIC
ISLAND ECONOMIES**

BY

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ABSTRACT

This study, utilising a region-country-specific approach, examines the experience of four Pacific island economies (Fiji, Papua New Guinea, the Solomon Islands and Western Samoa) under policies inspired by the International Monetary Fund's (IMF) during 1980-92. To achieve this, the study examines the nature and the causes of economic crises in these countries and IMF's policy response. An empirical analysis of this study starts with a formulation of a growth model within the new endogenous theory of growth, examining the significance of a range of factors thought to have influenced growth performance. The theoretical arguments of IMF-inspired policies and an empirical analysis testing the arguments are also examined. The central concern is how far IMF-inspired macro policies produced desired objectives. This is investigated through an econometric analysis of the relationship between the objective variables of sustained growth, a viable balance of payments and low inflation, and a number of its instrumental tools, and examines the contribution of IMF-inspired policies on the socio-economic development of these countries.

The results show the economic crises during 1980-92 were a product of a combination of internal economic and non-economic and external factors causing sluggish growth, large deficits in current account, deteriorating balance of trade and inflationary pressures. The investigation of the crises revealed that some factors were common in all four countries while others were country specific. Empirical results show high inflation, low levels of outward orientation, high government consumption, exchange rate variability and vulnerability to the vagaries of natural disasters and the international economic environment adversely affected growth performance. Empirical results provide weak evidence of political instability

adversely affecting economic growth while investments in human and physical capital did not contribute to growth.

In evaluating IMF-inspired policies, the developing South Pacific country case studies indicate that such policies have satisfactorily shown most of the desired effects of policy variables on the stated macroeconomic objective of a viable balance of payments in all four countries. However, while some effects of the policy changes on the objective variable are as expected and desirable, their impacts are insignificant in most cases. The growth objective was most effectively met in Western Samoa, balance of payments in Fiji and price stability in PNG.

The theoretical arguments of the study also reveal that IMF-inspired policies have been rigid, inclined to the monetary approach to the balance of payments, but generally failed to take into account the preferences of people in a country and the impact on them. This analysis largely complements this theoretical contention, revealing slowing and sometimes reversing progress in incomes, real wages, food prices, employment creation, provision of health services and nutrition levels, and showing that IMF-inspired policies did not make a significant contribution towards enhancing the standard of living.

The study concludes that solving the development problem of South Pacific countries requires more than simply targeting macroeconomic variables. IMF-inspired policies that take into account the macroeconomic as well as socio-economic variables are a first step in enhancing the growth and development of the developing countries in the South Pacific and providing long-term betterment for the people.

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