Does finance matter for growth in the small, open Pacific Island Countries?

Parmendra Sharma and Neelesh Gounder

ABSTRACT

A body of evidence accumulated over the past several years, via different methods and estimation techniques, using firm–and household–level data, across many regions and countries show that finance matters for growth. Yet the role of finance in fostering growth in the Pacific, ironically, a region in dire need of sustainable growth and development, continues to appear less important, possibly for the reason that the relationship in the case of the region is not properly understood, due in turn to perhaps a lack of systematic empirical evidence. This study provides a first cross–country insight into the finance–growth nexus in the Pacific. Results, using balanced panel data extending 25 years, and the dynamic Generalised Method of Moments (GMM) estimation technique, show that finance is likely to matter for growth in the small, open Pacific Island Countries as well. Our findings strengthen the growing finance–growth literature, further alleviate scepticisms that may arise from shortcomings of different methods and estimation techniques, and have important policy implications for the Pacific.

Key words: Finance, economic growth, Pacific Island countries, panel data