

ABSTRACT

Growth policies (fiscal and monetary) remain the focal point of researchers and economic experts in history to date. It is tried to find why some countries' growth stable and others remain unstable. Growth mainly related to the policies and institutions of a country besides a number of other variables. The countries have strong institutions and good governance achieved stability and known as developed countries whereas the countries keep weak institutions and poor governance are called developing economies. These countries needs correct growth policies i.e. counter cyclical growth policies.

Cyclicity of growth policies especially fiscal policy got much importance in the last few years. Counter cyclical fiscal policy again become the centre of research to overcome the crises (Feldstein, 2009). Likewise monetary policy got much importance. Counter cyclical growth policies are essential for developing economies like SAARC region for stability. The main purpose of this study is to analyze whether in selected SAARC countries' (Bangladesh, Bhutan, India, Nepal, Pakistan and Sri Lanka) growth policies are pro cyclical, counter cyclical or acyclical. In order to evaluate the nature of these growth policies, the role of institutions (Economic and Political) and governance is also analyzed. The study uses GMM and 2SLS techniques to evaluate the growth policies. It is found that growth policies of the region are pro cyclical. This shows that there is no significant role of institutions in growth. The governance is also poor. In the presence of weak institutions and poor governance, countercyclical growth policies can not be adopted. Counter cyclical growth policies, strong institutions and good governance are the only source to bring stability in the countries of SAARC region.