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THE ROLE OF FISCAL POLICY IN ACHIEVING ECONOMIC STABILITY IN JORDAN

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ABSTRACT: *The present investigation inspected the effect of fiscal approach estimated by (Government use, Government incomes, inward open obligation, outside open obligation) notwithstanding fares and swelling factors on the Jordanian GDP development. Fiscal approach assumes a huge job in a monetary arrangement because of its capacity to acknowledge objectives went for by a national economy. Its instruments are viewed as one of the primary financial devices to accomplish monetary development and beat obstructions to monetary soundness. Notwithstanding its distributional and pro impacts, financial arrangement has steadiness initiating impacts, for example, government spending and expenses which impact total interest, along these lines influencing in general monetary factors and financial development. The significance of fiscal arrangement radiates from the way that open spending is viewed as the prime drive for financial movement of a nation by affecting the dimension of total interest and subsequently monetary development. Open incomes fill in as the principle wellspring of salary for a nation while open obligation is a piece of the administration's spending, regardless of whether inside or outer. This paper introduces a utilization of a hypothetical model to survey the impacts of monetary arrangement on financial development.*

KEYWORDS: *Fiscal policy, Economic stability, Economic growth, Gross domestic product, Jordanian economy.*

INTRODUCTION

Financial approach assumes a vital job in a monetary strategy because of its capacity to acknowledge objectives went for by a national economy. Its apparatuses are viewed as one of the principle monetary devices to accomplish financial development and conquer snags to monetary strength. Notwithstanding its distributional and pro impacts, financial arrangement has security instigating impacts, for example, government spending and expenses which impact total interest, consequently influencing by and large monetary factors and monetary development (JSF, 2017). The significance of financial approach radiates from the way that open spending is viewed as the prime drive for monetary action of a nation by impacting the dimension of total interest and subsequently monetary development. Open incomes fill in as the primary wellspring of pay for a nation while open obligation is a piece of the administration's spending, regardless of whether interior or outer. Open fund is the central device executed by governments to accomplish monetary, social, and political objectives. Financial approach, in this manner, has obtained a cardinal significance in current monetary frameworks. In Jordan, there was a developing requirement for a sound financial strategy at an

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early stage that has begun developing progressively since 1989 after the Jordanian money deterioration. Jordan's first financial change program was set up until the point when the primary Gulf War in 1990. In 1992, the program was continued and entered its second stage as the second monetary change program and kept going three years, trailed by a third change program until 1998. Jordan's monetary execution was significantly influenced in 1998 because of the drop-in oil costs. Its adverse affected exchange offs with oil, creating Arab nations just as ostracizes' exchanges. Jordan's economy was additionally influenced by authorizations forced on Iraq and the progressive emergencies with the United Nations, just as the weight of outer open obligation. These components profoundly influenced the execution of the general spending plan, parity of installment, and the dimension of financial action. In light of this, the endeavors of monetary change from 1989-1998 were assessed and there having to draw up a medium-go financial change program that spread over the period 1999-2001. It went for tending to disadvantage in the previous program with the goal that it can fortify national monetary change in the entirety of its perspectives and stretch out its extension to envelop different dimensions, for example, joining endeavors to battle destitution and joblessness (JSF, 2017). Inside this specific situation, the fundamental highlights of a national program for financial change were distinguished. The program's primary targets (1999-2001) went for understanding a progressive increment in monetary development rates, controlling expansion rates, upgrading the Kingdom's stores of remote cash, keeping up the security of Jordanian Dinar trade rates, and lessening the deficiency of the administration spending plan as a proportion of GDP. Moreover, it looked to continue with auxiliary modifications that incorporate executing government disability bundles to reduce destitution and joblessness, advancement of remote exchange, and privatization of organizations and areas to offer route to the private segment for more extensive support in financial movement and fascination of outside speculations. So as to push ahead with the change procedure, Jordan consented to a two-year arrangement with the International Monetary Fund for another program on financial change until 2004. The program went for reasonable monetary development that decidedly and straightforwardly influenced the expectations for everyday comforts of nationals by finishing basic alterations and pertinent open strategies. It further went for decreasing the spending shortage as a proportion of GDP and giving wellsprings of subsidizing expected to the program of financial and social change.

LITERATURE REVIEW

Time arrangement proof investigates the dynamic impacts of financial approach on macroeconomic pointers (Shahid and Naved, 2009). Through appropriation of present-day econometric procedures, auto backward disseminate slack ARDL, financial shortfall applies a negative impact on monetary development over the long haul. The effect of a monetary arrangement on financial development is a lot more grounded on a conversion scale channel. An expansionary financial approach sets aside a long opportunity to influence monetary development. Government venture use applies a solid impact over macroeconomic exercises. A stun in government speculation use positively affects private venture, and this demonstrates open and private segments speculations are reciprocal. A stun in beneficial use likewise has appositive and incredible effect on private utilization. Both private venture and capital applied significant effect on the pay per capita in Kenya (Amanja and Morrissey, 2005). Similarly, critical, utilization consumption and government venture assume a noteworthy job within the sight of genuine development in salary per capita in Kenya. The legislature ought to diminish

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inefficient consumption so as to help government venture, being profitable. The connection between government use and financial development evaluates the legitimacy of Wagner's law (Dilrukshini, 2002), the law of expanding open consumption, that any expansion in GDP results in government use development, expanding government presents leads on expanding use and expanding use builds the relativity in general society area. Thinking about different factors, specifically open spending and government incomes, Benos (2009) finds that expanding spending on framework positively affected monetary development, government spending on guard pondered decidedly per capita pay development, and forcing distortionary charges diminished development. With Government spending on capital (instruction, wellbeing, lodging, standardized savings, extravagances, condition, diversion, culture, and religion), government disability pitifully affected per capita development. Out of different factors, financing cost, speculation and assessment spending, spending shortfall, and government utilization, Ocran (2011), utilizing different standard models, for example, VAR, finds that administration utilization spending has an extraordinary positive effect on monetary development. Net settled capital positively affects financial development however not as much as that which government utilization spending has. Duty incomes positively affect monetary development; however financial deficiency appears to meagerly affect monetary development results. Long haul impacts of financial arrangement are estimated embracing unlimited VAR models with factors, for example, open spending, open utilization, immediate and aberrant tax collection, and open venture (Preiera& Roca, 2011). The impacts of strategies inside Keynesian worldview for open use, open utilization, open speculations, and direct tax collection with open venture were especially and impressively positive. Non-Keynesian impacts, then again, were predominately irrelevant. Impacts on the down to earth level demonstrated that any cuts in broad daylight utilization were joined by an expansion in roundabout tax assessment, which would be the most alluring instrument to solidify the financial circumstance in Portugal. Usman and Nurdeen (2010) considered factors including use on wellbeing, training, transportation, broadcast communications, horticulture, field projects, and expansion. Tests connected to watch this relationship incorporated the unit root test and relapse investigation test. Government spending on training, field programs, and intermittent consumptions negatively affected monetary development. Expanding spending on transportation, broadcast communications, and wellbeing prompted an expansion in monetary development.

DISCUSSION AND RESULTS

Results exposed a statistically important impact of public expenditure on economic growth. An increase in public expenditure leads to an increase in economic growth. This is due to the fact that a high public expenditure, when coupled with a flexible and efficient production body, contributes to an optimal use of economic, human, financial, natural, and material resources. This, in turn, leads to an increase in income and GDP as a result of experienced exploitation of resources and production elements. An increase in public expenditure levels leads to an increase in income per capita as public expenditure is considered per capita income. An income increase means consumption increase and ultimately a high aggregate demand in economics. This urges economic institutions and projects to augment their production to meet a demand increase. Ultimately, employment will rise as well as the increase of more incentives for individuals to upgrade their efficiency at work. Income per capita will increase on the one hand while unemployment will drop on the other. All these results will reflect on the economic activity which will increase contributing to a rise in GDP (economic growth). The results agree

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with those of Matthew Kofi Ocran (2011), Shahid and Naved (2010), Chibi and Bin Bozian (2007), and Shokori (2007) in addition to an agreement with the hypotheses of the study. It was found that a statistically significant impact of public revenues on economic growth; a rise in public revenues entails an increase in economic growth. The reason behind this is that public revenues are the key in any planning and policy-making process in economic and social development. If revenues are high, they will help increase spending on investment and employment activities, and they will refresh national economy. In addition, the size of spending on future government actions depends on the volume of incomes. Thus, the process that public revenues carry out, as referred to earlier, relies directly on the volume of public revenues of the government. Public revenues have the same influence exerted by public expenditure, which shows the agreement of the results with those of Matthew Kofi Ocran (2011) and the hypotheses of the study. It was found that a statistically significant impact of internal debt on economic growth, though a negative one. That's it, the higher the local debt is, the lesser the economic growth becomes. This is explained by the fact that a country's choice to pay internal debt through subscription from banks or individuals at a high interest rate in the market leads to what is called "crowding-out effect." As the volume of private investment is a function of the interest rate based on Keynesian theory, public debt ensues a drop-in capital formation rate and economic activity in the private sector shrinks due to the government's crowding-out. As a result, private investment declines and a drop in the demand of private investment indicates a decrease in aggregate demand. This drop which is convoyed by a fixed aggregate supply generates a deflationary effect on the national level in which production and prices decrease that they ultimately bring about a decrease in the national production rate. In conclusion, the effect of internal debt is negative; a result which is consistent with that of Matthew Kofi Ocran (2011) and Shahid and Naved (2010) as well as the hypotheses of the study. It was found that a statistically significant effect of external debt on economic growth, though negative. The higher the external debt is, the lesser the economic growth becomes. It is attributed to the fact that Jordan spends loans on consumptive spending rather than on productive spending which entails an overburden of external debt. Another result is that the government turns from spending these loans on productive income-generating projects that help create job opportunities and increase economic growth. This result corresponds with Matthew Kofi Ocran (2011), Shahid and Naved (2010), and the hypotheses of the study. It was found that a statistically significant effect of exports on economic growth. The effect is positive where the more exports there are, the higher the economic growth is. This is accountable to the fact that an increase in exports increases aggregate demand, which eventually leads to a more aggregate supply to keep pace with the increase in demand. An increase in the number of workers will be needed as well as an increase in income, profits, and saving that will lead to high investment and economic growth. Moreover, an increase in exports yields an increase in foreign currency and enhances the status of the national currency by increasing its purchase power and hence economic growth. This result concurs with the hypotheses of the study. The use of economic policy ought to promote economic stability, improve the resource allocation method, cut back poorness, and promote economic process and development.

GDP Growth: Jordan's economy has never repeated the strong performance of the 1970s. However, from 1990, its performance has not been with this stability. In addition, the recent growth performance has been weak. The economy has also suffered from changing inflation rates.

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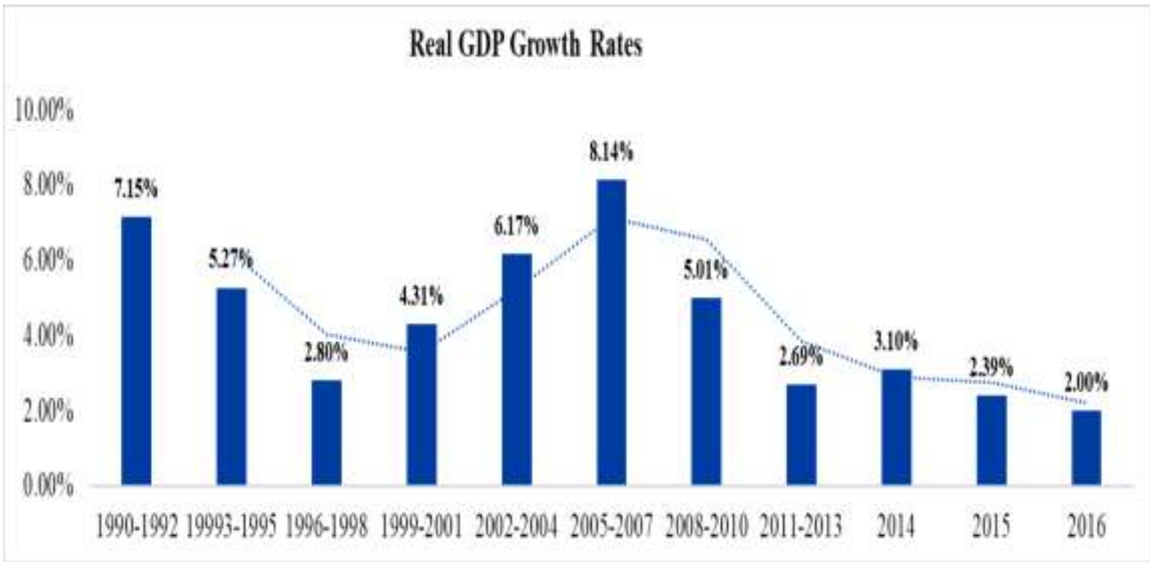
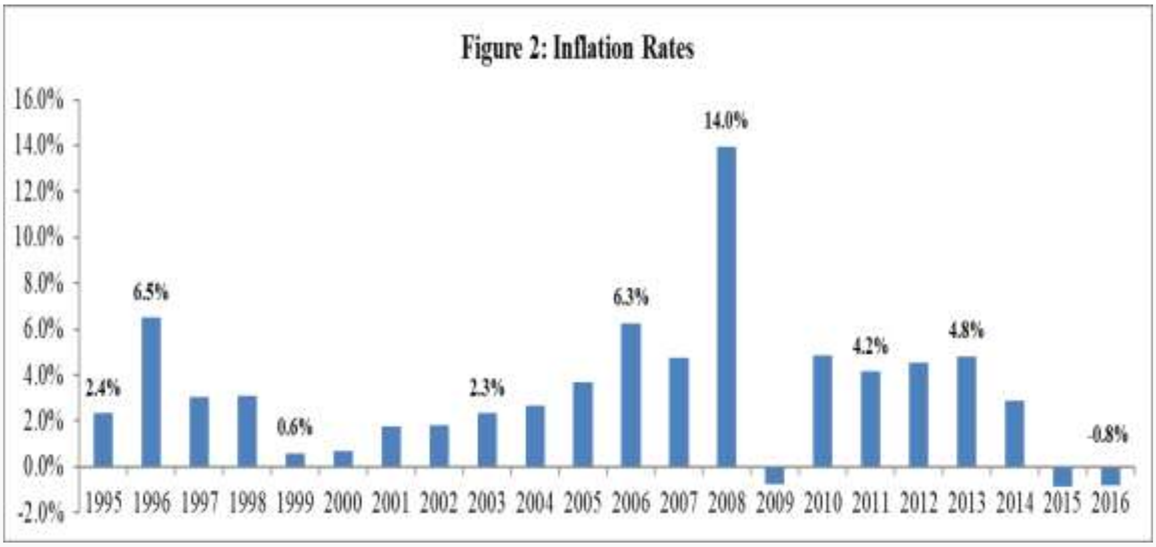


Real GDP Growth Rates



Inflation Rates

Fiscal Policy

Public Spending: Developed economies adopt fiscal countercyclical policies. Even certain emerging economies have progressed from pro- cyclical fiscal policy. The positive (Jordanian) correlation between real public expenditure and GDP implies that macroeconomic stability cannot be promoted (JSF, 2017).

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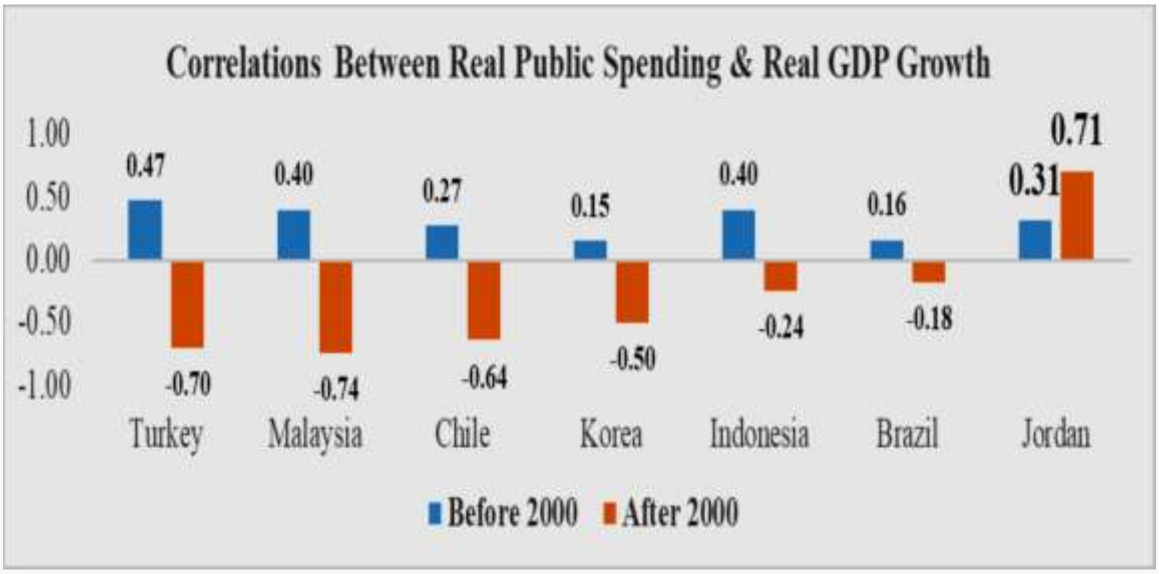
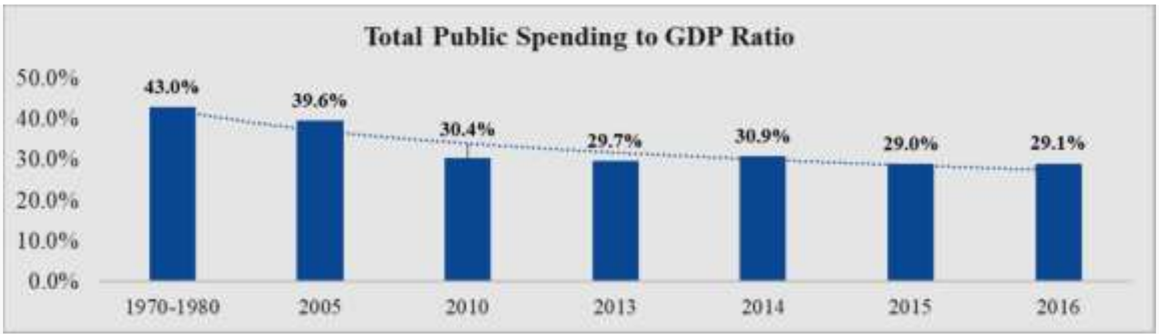
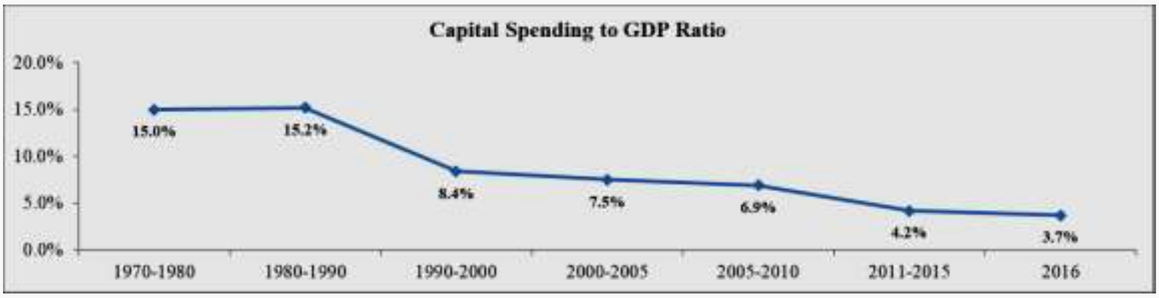


Correlations between Real Public Spending & Real GDP Growth

The total GDP public expenditure ratio decreased from 43% (1970- 1980) to 29,1% by the end of 2016. Most importantly, however, the CAPITAL SPENDING DECREASE.



Total Public Spending to GDP Ratio in Jordan



Capital Spending to GDP Ratio in Jordan

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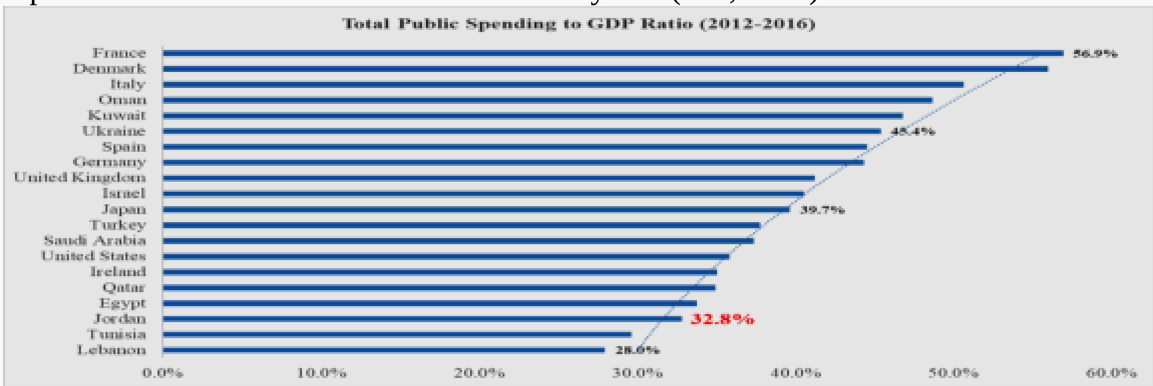
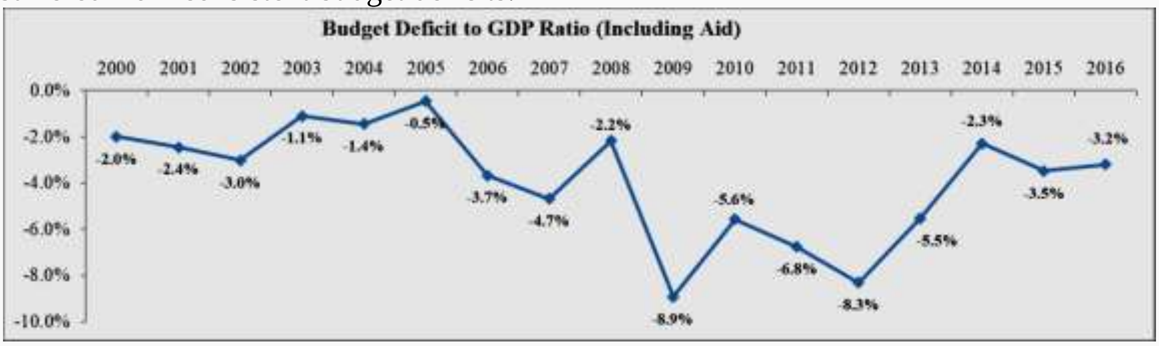
The government's participation in the national economy is fairly limited. Total public expenditure to GDP ratio in Jordan is relatively low (JSF, 2017).



Capital Spending: Capital expenditure: the decline in capital expenditure is obviously deceptive. It reflects the fact that the increase in the population of Jordan, regardless of the influx of Iraq and, more recently, of Syrian refugees, cannot be met by a reciprocal increase in capital expenditure.

The decrease in capital expenditure also works to improve economic growth in Jordan for other reasons. Firstly, a 1% increase in capital expenditure increases GDP by 2.3% -2.4% over the long term (IMF, 2013). Secondly, an increase of 1% in current and capital expenditure increases GDP by 2.4% and 5.8% respectively (ESCWA, 2015).

Budget Deficit: Despite the large inflows of aid, the governments of Jordan have always suffered from consistent budget deficits.



Budget Deficit to GDP Ratio (Including Aid)

Public Debt: Despite the decrease in total public expenditure and the consistent budget deficits, the level of local and external debt increased at alarming levels.

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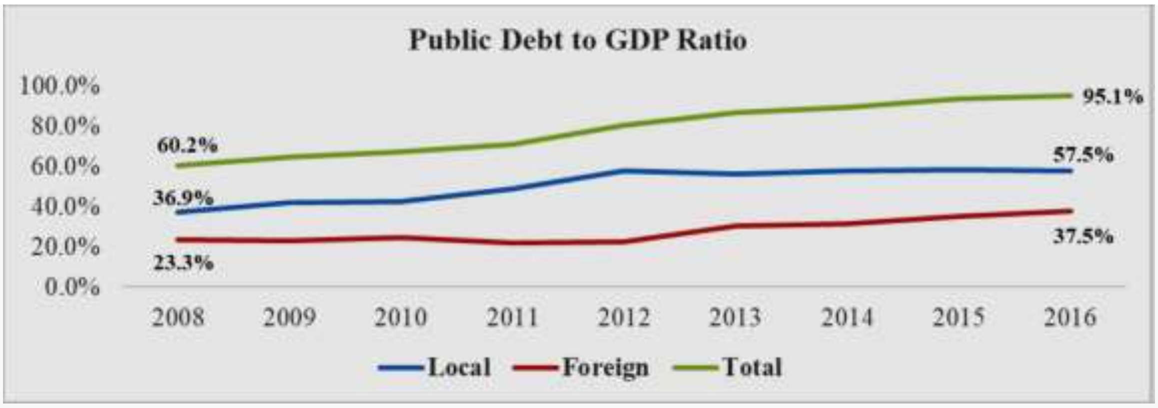
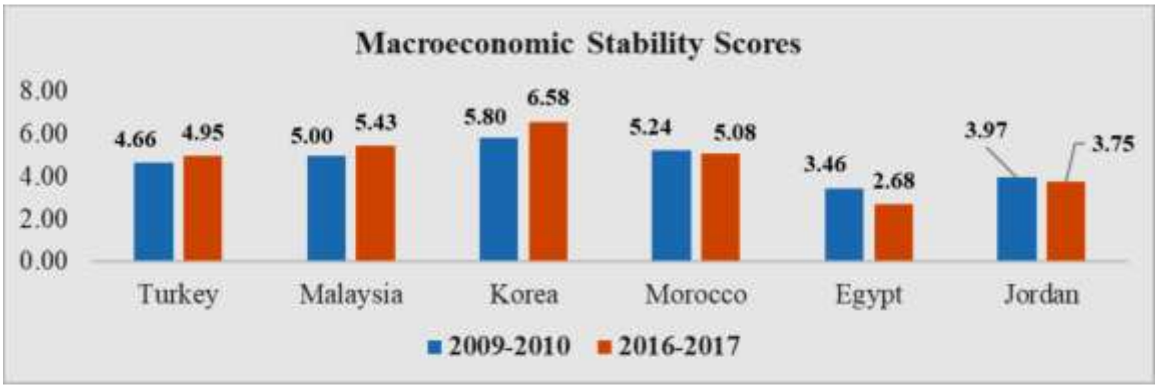


Macroeconomic stability: Jordan ranks 63rd on the basis of the World Economic Forum (WEF) report 2016-2017, which measures the Competitiveness Index for a total of 138 countries. However, Jordan arrives at the 131st in terms of the "macroeconomic stability" dimension. The fact that the macro-economic stability level has deteriorated since 2009-2010 is even more disappointing.



Tax revenue to GDP ratio: In Jordan the tax effort is low compared to other countries. In 1965, for example, while the tax effort of Denmark was much higher than in Jordan, the difference was even greater. Moreover, while Turkey and Greece had tax revenues close to GDP ratios in 1965 in Jordan, the equation has since changed.

Figure 1: Tax Revenue to GDP Ratio

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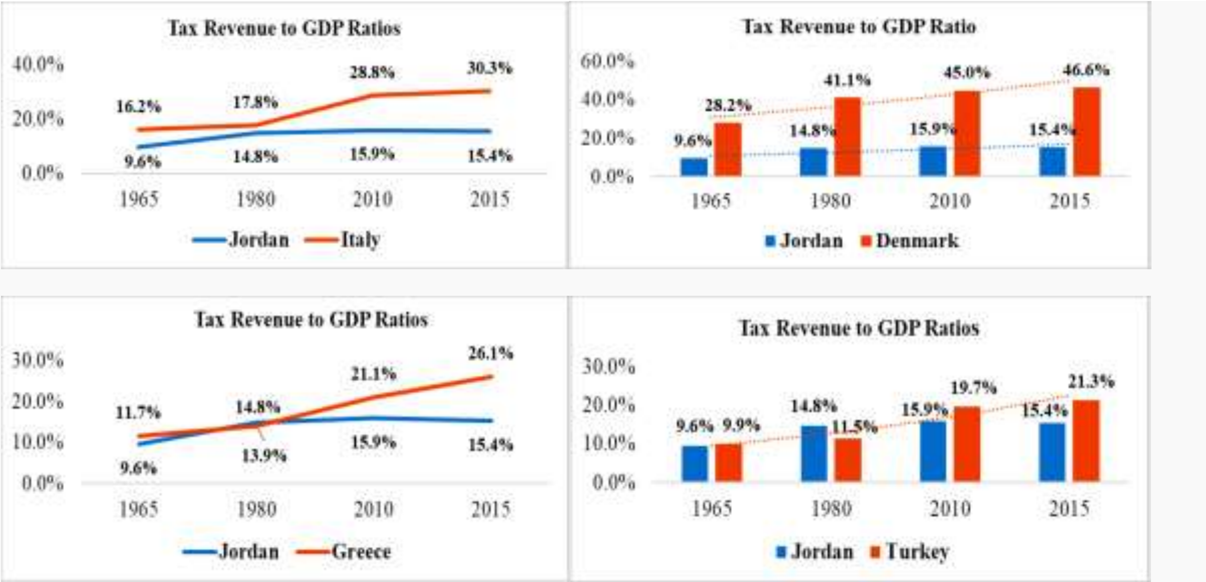

CONCLUSION

Real economic growth must continue to be the challenge of all Jordanians. Strong and stable growth is a powerful tool to reduce unemployment and poverty and to improve the average citizen's quality of life. It is also important to keep in mind that the economy has always been vulnerable to external shocks (for example Oil prices, crises in the Gulf, Syria crisis, etc.). Such shocks increase the likelihood that more households will fall into poverty. Regardless of what determines economic growth and development, fundamental economic logic asserts that economic policies (e.g. Fiscal) and macroeconomic stability (real GDP growth, inflation, budget deficit) are "right "and have limited impacts services for the public. Such participation benefits society reduces (income and opportunity) inequality and promotes growth the tax system and public investment in education, transport, housing and health care can not only promote growth but also reduce poverty (income and distribution of opportunities). In the context of its growth and development goals, it is important to emphasize the short-term and long-term implications of fiscal policy.

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