

# The Impact of the Fiscal and Quantitative Monetary Policies on the Domestic and Foreign Direct Investment in Jordan. An Empirical Study

Ateyah M. ALAWNEH<sup>1</sup>  
Torki M. AL-FAWWAZ<sup>2</sup>  
George N. SHAWAQFEH<sup>3</sup>

<sup>1</sup>Department of Finance and Banking Sciences, Faculty of Business Administration, Tafila Technical University, Jordan

<sup>2</sup>Department of Finance and Economic, Faculty of Finance and Business Administration, Al Al-Bayt University, Mafraq, Jorda, <sup>2</sup>E-mail: [alfawwaz@abu.edu.jo](mailto:alfawwaz@abu.edu.jo) (Corresponding author)

<sup>3</sup>Department of Finance and Banking Sciences, Faculty of Business Administration, Ajloun National University, Jordan

**Abstract** *The study aims to demonstrate the impact of fiscal and the quantitative monetary policy on the domestic and Foreign Direct Investment in Jordan during the period (2000-2011), where the study used two models, the first model is to assess the impact of the fiscal and quantitative monetary policy on the domestic investment, the study found that there is a negative relationship between the re-discount rate and the domestic investment, but not statistically significant, while there is a positive relationship with a statistically significant between the mandatory cash reserve and domestic investment, due to the presence of excess cash reserves at banks in Jordan. The study also showed a negative relationship between taxes and domestic investment, and a positive relationship between governmental capital spending and the domestic investment, this means the political effectiveness of the fiscal impact is greater than the monetary policy effectiveness on the domestic investment. The second sample demonstrates the impact of the fiscal policy and the quantitative monetary on Foreign Direct Investment, The study showed that there a presence of a statistically significant negative relationship between the re-discount rate and Foreign Direct Investment, while it showed a positive relationship between taxes and Foreign Direct Investment, the reason is that the government grant a tax exemptions to encourage Foreign Direct Investment.*

**Key words** Fiscal monetary policies, foreign direct investment, Jordan

DOI: 10.6007/IJARAFMS/v5-3/1812

URL : <http://dx.doi.org/10.6007/IJARAFMS/v5-i3/1812>

## 1. Introduction

The fiscal and monetary policies are considered one of the policies that Jordan relied upon in motivating the economic activity, where Jordan has sought to adopt a free market policy, where it used the quantitative monetary policy to influence the economic activity through the re-discount rate policy and the mandatory cash reserve, Jordan also worked on the adoption of open market operations since 1993, through the issuance of certificates of deposit, selling and purchasing to influence economic activity, beside that the fiscal policy is used through tax policy and government spending to influence economic activity, the monetary authority in Jordan use the quantitative monetary policy in effecting the foreign and domestic investment by raising the re-discount rate, as well as the mandatory cash reserve, and selling certificates of deposit to influence the cash reserves of banks to limit the credit facilities to finance foreign and domestic investment, and follow the contractionary fiscal policy by raising taxes and reducing government spending, therefore this study came to demonstrate the impact and effectiveness of the tools of fiscal and monetary policy at the domestic and Foreign Direct Investment.

## 2. Literature review

Several studies were written in the theoretical side of the issue of fiscal and monetary policy, but a few take the construction of statistical models that explain this relationship and analyze it, as there is no study that relates this relationship to Jordan, hereinafter a brief overview of the most important of these studies:

Anja Baum and Gerrit B. Koester (2011) discussed the impact of fiscal policy on economic activity over the business cycle – evidence from a threshold vector auto regressions (VAR) analysis, the study analyzed the quarterly German data from (1976–2009) in a threshold SVAR, they found that hiking spending yields for a short-term fiscal multiplier of around 0.70, while the fiscal multiplier resulting from an increase in taxes and social security contribution is -0.66, in addition they found important implications for the optimal fiscal policy mix over different stages of the business cycle.

Léonce Ndikumana (2014) searched the implications of monetary policy for domestic investment through its impacts on bank lending to the private sector and interest rates in sub-Saharan African countries, the study based on a sample of 37 sub-Saharan African countries over 1980-2012, the study found that monetary policy affects domestic investment negatively indirectly through the bank lending or quantity channel, as well as directly through the interest rate or cost of capital channel.

Isika Babaita, Abdulrheem Abdulrasheed and Yusuf (2011): The study aims to show the impact of fiscal and monetary policies on the economic activity levels in Nigeria, the standard analysis showed the lack of impact of a statistically significant for the government current spending, government capital spending and tax revenues on the economic activity, and also the lack of impact of a statistically significant for the money supply on the economic activity in Nigeria, the study showed that capital spending and tax revenues do not take place on economic activity and so, does not have an impact on economic growth.

Zulkefly Abdul Karim (2010) searched the impacts of monetary policy on institutions' investment in Malaysia, the study used dynamic neoclassical framework in an autoregressive distributed lagged (ARDL) mode, the study showed the impact of monetary policy on institutions' investment spending, the study also reveal that the impact of monetary policy channels to the institutions' investment are heterogeneous, therefore the small institutions that faced financial constraint responded more to monetary tightening as compared to the large institution.

Tobias Olweny and Mambo Chiluwe (2012) searched the impacts of monetary policy on private sector investment in Kenya during (1996-2009) by tracing the impacts of monetary policy through the transmission mechanism to explain how investment responded to changes in monetary, they founded that government domestic debt and Treasury bill rate are inversely related to private sector investment, while money supply and domestic savings have positive relationship with private sector investment consistent with the ISLAM model.

Hadiwibowo *et al.* (2010) examined the impact of fiscal policy on investment and economic growth in Indonesia. The result showed that there are significant relationships between fiscal policy variables and investment. While government development expenditure increases investment and economic growth.

Isaac and Samwel (2012) they study the effects of fiscal policy on private investment and economic growth in Kenya. For the period 1973 to 2009. The results revealed that fiscal policy impacts on investment and investment plays a main role in economic growth in Kenya.

Akpo *et al.* (2015) tested the impact of fiscal policy on investment expenditure in Nigeria for the period 1970-2010. They found that fiscal policy has a significant impact on investment expenditure. And the Gross Domestic Product and government expenditure have significant impact on investment.

Afonso and Sousa (2009) examined The Macroeconomic Effects of Fiscal Policy in Portugal: a Bayesian SVAR Analysis. The study showed that positive government spending shocks have a negative effect on real GDP and Positive government revenue shocks tend to have a negative impact on GDP; and lead to a fall in the price level.

Rashmi Banga (2003) examined Impact of Government Policies and Investment Agreements on FDI Inflows: Where the study try to answer the question of how the government policy and investment agreements affect to attract Foreign Direct Investment from developed countries to developing countries, in order to answer the question; the study stands on analyzing the Foreign Direct Investment flows agreements to fifty countries of South and East Asia, where the study found that there was no statistically significance of the fiscal policy to attract Foreign Direct Investment from developed countries to developing countries, because of the differing politics in these countries, the study also found the impact of the investment agreements, but there impact in developed countries is higher than developing countries.

Elif Arbatli searched the economic policies and FDI Inflows to emerging market economies:

The study showed that external factors as a policy of foreign trade, tax rate, exchange rate, in addition to the policy of external capital flows management which plays an important role in influencing Foreign Direct Investment, while there is a negative impact of internal factors as the political stability and internal events on the flow of Foreign Direct Investment. Magdalena Rădulescu and Elena Druica (2013) searched the impact of the fiscal policy on attracting the foreign direct investments (FDIs) in Romania during 2000-2001. The study showed that the role of the economic factors as the rate of interest and inflation is important on the Foreign Direct Investment, while the impact of fiscal policy through tax policy is weak in attracting Foreign Direct Investment, but this study suggests the need to focus on non-financial factors (infrastructure, legislation and political stability). Also, Solomon (2012) made an interesting analysis regarding the impact of Euro-Area accession on fiscal and budgetary policy in Romania.

The researcher believes that what distinguishes his current study over the above studies lies in two key points: the period that the current study based upon is from (2000-2011), while the second point lies in using the statistical quantitative methods and inferential statistics topics, including the hypotheses that were not used by the studies mentioned above, making the current research results are of great reliability, because it depends on testing using of sound scientific methods.

### **3. Methodology of research**

The study covered the period 2000–2011, the present study chose independent variables monetary policy tools that include (re-discount rate, obligatory reserve and open market operation), also the present study chose fiscal tools that include (taxation and government capital expenditure), because they play a great role in the Jordanian economy, the source of the data used in the present study is the data base of Central Bank of Jordan, Department of Statistics - Jordan.

#### **3.1. Independent Variables**

##### *A. Quantitative Monetary Policy Tools in Jordan*

1. Open market operations (outstanding balance of deposit certificates in Jordanian Dinars): The Central Bank buys and sells bonds, treasury bills and any other commercial papers, with the aim of a direct impact on the volume of cash reserves at banks, the certificates of deposit, window deposit and repurchase agreements include (Central Bank of Jordan, various issues).

2. Re-discount rate: It is the interest rate that the commercial banks borrow from the central bank or it is called for the trade and financial securities discount operations in the Central Bank (Central Bank of Jordan, various issues).

3. Mandatory cash reserve: It is the minimum value that licensed banks should keep with the Central Bank of Jordan to fulfill the mandatory cash reserves imposed on deposits with licensed banks value (Central Bank of Jordan, various issues).

##### *B. The Financial Tools in Jordan*

1. Taxes: Where taxes in Jordan include taxes imposed on income, profits, taxes on financial transactions, taxes on goods and services, taxes on trade and international transactions (Central Bank of Jordan, various issues).

2. Governmental Capital Spending: It is expenses that are allocated for the purchase of long-lived assets to create and increase money-kind, example: new construction, maintenance and major repairs (Central Bank of Jordan).

#### **3.2. Dependent Variables**

A. Direct Domestic Investment: It is the spending on fixed capital goods in addition to the change in inventory (Central Bank of Jordan, various issues).

B. Direct Foreign Direct Investment: It represents the net balance of non-resident investment in equity and reinvested earnings net in addition to any other obligations on institutions resident in Jordan (Central Bank, various issues).

Two multiple regression models will be adopted to study the impact of monetary and fiscal policy at the domestic and Foreign Direct Investment, as follows:

*The First Model:* We will rely on the multiple linear regression method by using the (E-views) program to study the impact of independent variables on the domestic investment, where the below form were constructed:

$$I = F (CD, RS, OB, T, EX) \quad (1)$$

*Whereas:*

I: The domestic investment in Jordan in million dinars value during the year t.

CD: The outstanding balance of certificates of deposit in million dinars during the year t.

RS: The re-discount rate by the Central Bank of Jordan during the year t.

OB: The value of the mandatory cash reserves in the Central Bank of Jordan in million dinars during the year t.

T: Taxes in million dinars value during the year t.

EX: Government capital spending in million dinars during the year t.

Based on the results of the researcher, we can write the multiple regressions equation as follows:

$$I = a + B1\Delta CD (-2) + B2\Delta RS (-2) + B3\Delta OB (2) + B4T (-4) + B5(-4) + E \quad (2)$$

Whereas B1, B2, B3, B4, B5, B6 are the partial regression coefficients for independent variables, which through their signals, we can identify the direction of the relationship between the independent variables and the dependent variable.

*The Second Model:* We will rely on simple linear regression method by using the (E-views) program to study the impact of the independent variables on the domestic investment, where the form below was constructed:

$$FDI = F (CD, RS, OB, T, EX) \quad (3)$$

Based on the results of the researcher, we can write the multiple regression equation as follows:

$$= a + B1CD (-1) + B2RS (-1) + B3OB (2) + B4T (-1) + B5 (-2) + E IFD$$

Whereas B1, B2, B3, B4, B5, B6 are the partial regression coefficients for independent variables, which through their signals, we can identify the direction of the relationship between the independent variable and the dependent variable.

### **3.3. Study Hypotheses**

Depending on the literature review and economic theory, the present study finds the following alternative:

*Hypotheses:*

*H1: There is a negative relationship between Outstanding Balance of treasury Bills and domestic investment.*

*H2: There is a negative relationship between re-discount rate and domestic investment.*

*H3: There is a negative relationship between obligatory reserve and domestic investment.*

*H4: There is a negative relationship between taxation and domestic investment.*

*H5: There is a positive relationship between capital government expenditures and domestic investment.*

*H6: There is a negative relationship between Outstanding Balance of treasury Bills and foreign direct investment.*

*H7: There is a negative relationship between re-discount rate and foreign direct investment.*

*H8: There is a negative relationship between obligatory reserve and foreign direct investment.*

H9: There is a negative relationship between taxation and foreign direct investment.

H10: There is a negative relationship between capital government expenditures and foreign direct investment.

#### 4. Regression Analysis

The First Model: The reliance on multi-linear regression method was adopted to study the impact of the independent variables on the domestic investment and with the assistance of the (E-views) program, the model was estimated and the results appeared as follows:

$$I = 310726 - 106.9933 \Delta CD (-2) - 176.109 \Delta RS (-2) + 161.1225 \Delta OB (2) - 319.0198 T (-4) + 618.1176 EX (-4).$$

Table 1. The results of the regression model

Dependent Variable: I

Variable	Coefficient	t-Statistic	Prob.
D (CD, 2)	-106.9933	-6.393386	.0236
D (RS, 2)	-1764.109	-0.237463	.8344
D (OB, 2)	161.1225	4.430974	.0473
T (-4)	-319.0198	-7.997530	.0153
EX (-4)	618.1176	4.970568	.0382
C	310,726.0	10.04335	.0098

R- Squared: 99%

Adjusted R- Squared: 98%

F-Statistic: 121

Prob (F-statistic): 0.00

Durbin-Watson stat: 2. 72

It is clear from the model that the explanation coefficient average (Adjusted R- Squared:% 99) shows that changes in the together independent variables explain about (99%) of the changes in the dependent variable, while the value of (F-statistic), was valued at (121) and with a possibility of Prob statistic (F-) and valued by zero, this means that the model is statistically significant, and the Durbin Watson (DW) coefficient was (2.72) that the model is appropriate and statistically significant as there is no autocorrelation problem or (Systematic Error) or there is a difference between the expected and the real for the dependent variable. The researcher makes some standard tests to ascertain the extent of STABILITY TEST and its (Validity Test) of the model through tests and the figure shown below Figure (1), the bias proportion was zero, the variance proportion by (1%) and the value of covariance proportion equal (99%), which is an indication that the error in the model is a random error.

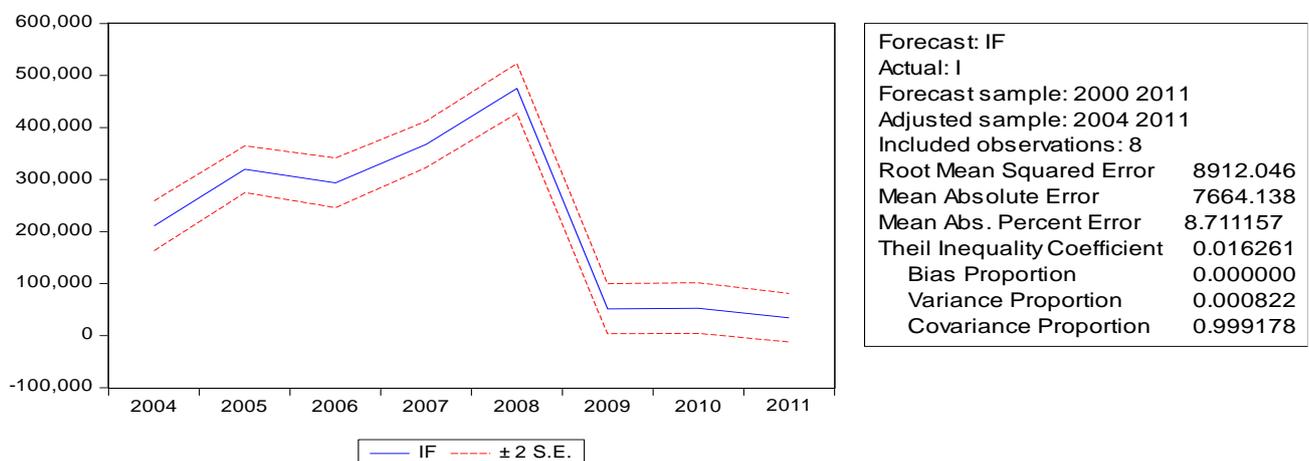


Figure 1.

Based on the standard model, we can conclude the following:

1. The impact of the outstanding balance of certificates of deposit on the domestic investment, the first hypothesis (There is a negative relationship between Outstanding Balance of treasury Bills and domestic investment).

It has shown from the standard model estimation that the relationship between the change in the outstanding balance of certificates of deposit and a change in the domestic investment is negative, in terms of the estimated outstanding for the impact of the balance of certificates of deposit had reached (-106.9933), that there is an inverse relationship between the impact of a change in the outstanding balance of certificates of deposit to the change in the domestic investment, and this result was consistent with the literature or the financial and economic hypotheses which concluded that there is a negative relationship between the outstanding balance of certificates of deposit and domestic investment.

Based on T-Test, this result has a statistical significant at the level of (5%) in the sense that the confidence level for this variable is equal to (95%) and thus accept the hypothesis which states that there is a negative relationship between the outstanding balance of certificates of deposit and domestic investment.

2. The impact of the re-discount rate on the domestic investment, second hypothesis (There is a negative relationship between re-discount rate and domestic investment).

It has shown from the standard model estimation that the relationship between the change in the re-discount rate and the change in the domestic investment is negative, but not with a statistically significant at the level of (5%), due to increased liquidity of commercial banks in Jordan, which means that this tool is weak to affect the domestic investment.

3. The impact of mandatory cash reserves on the domestic investment, third hypothesis (There is a negative relationship between mandatory reserve and domestic investment).

It has shown from the standard model estimation that the relationship between the mandatory cash reserve and a change in the domestic investment is positive, as the estimated coefficient for the impact of the mandatory cash reserve has reached (161.1225), which means that the relationship is positive between the impact of a change in mandatory cash reserve on the change in the domestic investment, and this result was not consistent with the literature or financial and economic hypotheses, which concluded that there is a negative relationship between the mandatory cash reserve and domestic investment, and the reason for this is to increase liquidity at banks, which works to increase the surplus reserve with commercial banks in Jordan during the years of the study, which works to increase the banks' ability to extend credit to finance investment.

Based on T-Test, this result is statistically significant at the level of (5%) in the sense that the confidence level for this variable is equal to (95%) and therefore not to accept the hypothesis which states that there is a negative relationship between mandatory reserve and domestic investment.

1. The impact of taxes on the domestic investment, fourth hypothesis (There is a negative relationship between taxation and domestic investment)

It has shown from the standard model estimation that the relationship between taxes and the change in the domestic investment is negative, as the estimated impact of the tax impact had reached (-319.0198), that is, there is an inverse relationship between the impact of a change in the taxes on the change in the domestic investment, and this result was consistent with the literature or financial and economic hypotheses, which concluded that there is a negative relationship between taxes and domestic investment. Based on T-Test, this result is statistically significant at the level of (5%) in the sense that the confidence level for this variable is equal to (95%) and thus we can accept the hypothesis which stipulates that there is a positive relationship between taxes and domestic investment.

2. The impact of capital governmental expenditure on the domestic investment, fifth hypothesis (There is a positive relationship between capital government expenditure and domestic investment).

It has shown from the standard model estimation that the relationship between capital government expenditure change in the domestic investment is positive as the estimated coefficient impact of capital government expenditure has reached (618.1176), that is the relationship is positive between the impact of a change of capital government expenditure on the change in the domestic investment, and this result was consistent with the literature or the financial and economic hypotheses, which found a positive relationship

between capital government expenditure and the domestic investment. Based on T-Test, this result has a statistical significant at the level of (5%) in the sense that the confidence level for this variable is equal to (95%) and thus accept the hypothesis which stipulates that there is a positive relationship between capital government expenditure and the domestic investment.

*The Second Model:* The reliance on multi-linear regression method was adopted to study the impact of the independent variables on Foreign Direct Investment (FDI) with the help of the (E-views) program, the model has been estimated and the results appeared as follows.

$$FDI = -3995.914 + 1.726074 CD (-1) - 680.4752 RS (-1) - 6.840165 OB (2) + 10.37314 T (-1) + 0.212335 EX (-2)$$

Table 2. The Results of the Regression Model

<i>Dependent Variable: FDI</i>			
Variable	Coefficient	t-Statistic	Prob.
CD (-1)	1.726074	6.160869	0.0035
RS (-1)	-680.4752	-4.761631	.0089
OB	-6.840165	-4.064659	.0153
T (-1)	10.37314	10.34605	0.0005
EX (-2)	0.239559	0.212335	.8422
C	-3995.914	-4.643240	.0097

R-Squared: 99%  
 Adjusted R-Squared: 99%  
 F-Statistic: 205  
 Prob (F-statistic): 0.00  
 Durbin-Watson stat: 3.33

It is clear from the model that the adjusted interpretation coefficient (Adjusted R- Squared % 99) shows that changes in the independent variables together explain about (99%) from changes in the dependent variable, and the value of (F-statistic) value amounted to (205) and with a probability Prob statistic (F-) valued to zero, and this means that the model is statistically significant, and the coefficient Durbin-Watson (DW) reached (3.33) that the model is suitable and statistically significant as there is no problem or autocorrelation (Systematic Error) or difference between the expected and the real for the dependent variable. The researcher conducted some standard tests to ascertain the extent of Stability TEST and its suitability (Validity Test) of the model through tests and the figure shown below in figure (2), the bias proportion is zero and the variance proportion by 1% and the value of covariance proportion equal to (99%) which is an indication that the error in the model is a random error.

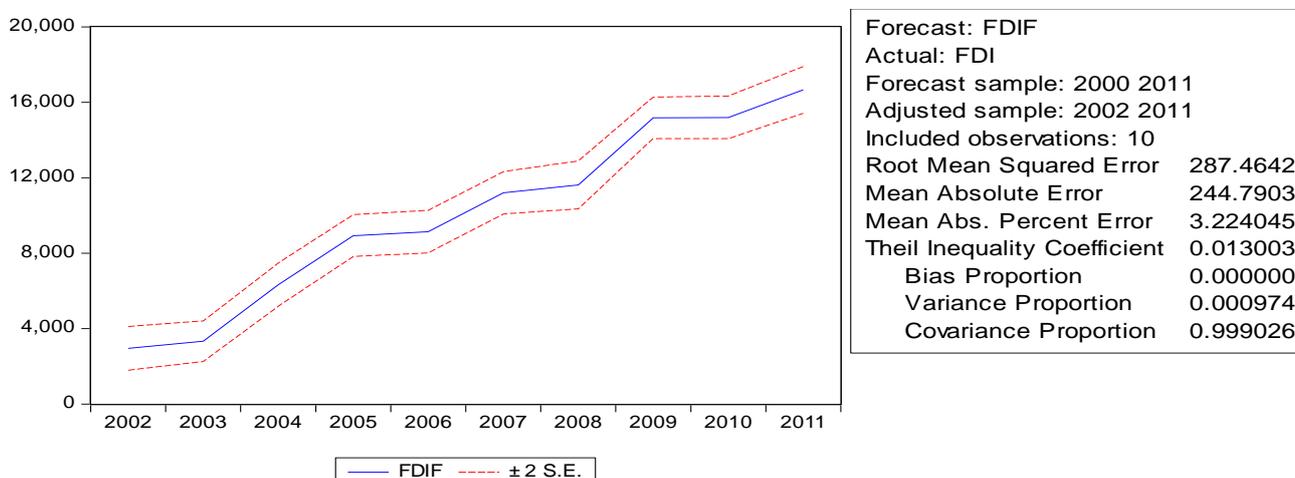


Figure 2.

Based to the standard model, we can conclude the following:

6. The impact of the outstanding balance of certificates of deposit on the domestic investment, first hypothesis (There is a negative relationship between outstanding balance of treasury bills and foreign direct investment).

It has shown from the standard model estimation that the relationship between the change in the outstanding balance of certificates of deposit and the change in the domestic investment is positive, in terms that the estimated factor for the outstanding balance of certificates of deposit has reached (1.726074), which means that the positive relationship between the impact of the change in the outstanding balance of certificates of deposit to the change in Foreign Direct Investment, and this result was not consistent with the literature or financial and economic hypotheses, which concluded that there is a negative relationship between the outstanding balance of certificates of deposit and Foreign Direct Investment, and that because of that certificates of deposit are in local currency and this means a decrease in genuine domestic investment and at the same time, the opportunity for genuine Foreign Direct Investment will increase, also lends itself to foreign investors to exploit the areas of investing in Jordan.

Based on the T-Test, this result has the statistical significant at the level of (1%) in the sense that the confidence level for this variable is equal to (99%) and therefore not accepting the hypothesis, which stipulates that there is a positive relationship between the outstanding balance of certificates of deposit and Foreign Direct Investment.

7. The impact of rediscount rate on Foreign Direct Investment, seventh hypothesis (There is a negative relationship between re-discount rate and foreign direct investment).

It has shown from the standard model estimation that the relationship between the re-discount rate and the change in Foreign Direct Investment is negative, as the estimated impact of the rediscount rate had reached (-680.475), which means that there is an inverse relationship between the impact of the change in the rediscount rate on the change in Foreign Direct Investment, and this result was consistent with the literature or financial and economic hypotheses, which concluded that there is a negative relationship between the re-discount rate and Foreign Direct Investment, and this means the effectiveness of this tool in affecting the Foreign Direct Investment.

Based on the T-Test, this result is statistically significant at the level of (1%) in the sense that the confidence level for this variable is equal to (99%) and therefore can accept the hypothesis, which stipulates that there is a negative relationship between the re-discount rate and Foreign Direct Investment.

8. The impact of obligatory cash reserve on Foreign Direct Investment, eighth hypothesis (There is a negative relationship between obligatory reserve and foreign direct investment).

It has shown from the standard model estimation that the relationship between the obligatory reserve and the change in Foreign Direct Investment is negative, as the estimated impact of the obligatory cash reserve had reached (-6.840165), which means that there is an inverse relationship between the impact of the change in obligatory cash reserve on the change in Foreign Direct Investment, and this result was consistent with the literature or financial and economic hypotheses, which concluded that there is a negative relationship between the obligatory cash reserve and Foreign Direct Investment, and this means the effectiveness of this tool in influencing on Foreign Direct Investment.

Based on the T-Test, this result is statistically significant at the level of (5%) in the sense that the confidence level for this variable is equal to (95%) and thus can accept the hypothesis which states that there is a negative relationship between the obligatory cash reserve and Foreign Direct Investment.

9. The impact of taxes on Foreign Direct Investment, ninth hypothesis (There is a negative relationship between taxation and foreign direct investment).

It has shown from the standard model estimation that the relationship between the taxes and the change in Foreign Direct Investment is positive that the estimated impact of tax has reached (10.37314), that there is a positive relationship between the impact of the tax change on the change in Foreign Direct Investment, and the reason is that the government is encouraging Foreign Direct Investment through tax exemptions and tax cuts for many of the inputs of Foreign Direct Investment.

Based on the T-Test, this result is statistically significant at the level of (1%) in the sense that the confidence level for this variable is equal to (99%) and therefore not accepting the hypothesis, which stipulates that there is a negative relationship between the taxes and Foreign Direct Investment.

10. The impact of capital government expenditures on Foreign Direct Investment, tenth hypothesis (There is a negative relationship between capital government expenditures and foreign direct investment).

It has shown from the standard model estimation that the relationship between the change in capital government expenditures and changes in Foreign Direct Investment is positive, but not statistically significant at the level of (5%), because of government spending for infrastructure constructing refer its impact indirectly on Foreign Direct Investment, which means that this tool is weak in influencing the Foreign Direct Investment directly.

## 5. Conclusions

1. There is a statistically significant negative relationship between certificates of deposit and domestic investment, and that means the effectiveness of the tool in influencing domestic investment.

2. There is a negative relationship between the re-discount rate and domestic investment, but not statistically significant and the reason is due to the increased liquidity of commercial banks in Jordan, therefore they rarely borrow through commercial paper discount from the Central Bank.

3. There is a positive relationship with a statistically significant between certificates of deposit and domestic investment, which means a weakness of the tool in influencing domestic investment, because of the increased reserve surplus with banks in Jordan.

4. The existence of a statistically significant negative relationship between taxes and domestic investment, which means an effective tax policy to influence the domestic investment in Jordan

5. The existence of a positive relationship statistically significant between capital government expenditures and the domestic investment, which means the effectiveness of government spending policy in a direct impact on increasing domestic investment in Jordan.

6. There is a positive relationship statistically significant between the outstanding balance certificates of deposit and Foreign Direct Investment, and this is due to that the certificates of deposit issued in local currency, lead to lower domestic investment and a rise in real Foreign Direct Investment opportunities.

7. A negative- positive relationship statistically significant between the re-discount rate and Foreign Direct Investment, which means; it is an effective tool in influencing Foreign Direct Investment.

8. A negative relationship statistically significant between the obligatory cash reserve and Foreign Direct Investment, and that means there is an effective tool in influencing Foreign Direct Investment.

9. The existence of a statistically significant positive relationship between taxes and Foreign Direct Investment, and the reason that the Jordanian government offers tax exemptions to encourage and stimulate Foreign Direct Investment in the country that works on operating and reducing unemployment.

10. The existence of a positive relationship between capital government expenditures and Foreign Direct Investment, but not statistically significant, and the reason that the government projects such as the infrastructure, education and services may not have an impact on Foreign Direct Investment directly, which means a weakness in government spending policy in effecting the Foreign Direct Investment.

Finally, this study recommends adopting the literary persuasion policy to direct banks to strengthen their role in domestic investment, as well as the need for fiscal policy in Jordan granting tax exemptions to encourage domestic investment and using financial instruments more developed than certificates of deposit and re-discount rate on the commercial paper of the Islamic deeds.

## References

1. Arbatl E. (2011). *Economic Policies and FDI Inflows to Emerging Market Economies*, IMF Working Paper Middle East and Central Asia Department, p. 25.
2. Babaita I., Abdulrasheed A. and Mustapha (2011). *Impact of fiscal and monetary policy on level economics activity in Nigeria*, Lapa journal of management science, jms/vol.1.2/0002.
3. Banga R. (2003). *Impact of Government Policies and Investment Agreements on FDI Inflows*, working paper no. 116 Indian Council for Research on International Economic Relations Core-6A, 4<sup>th</sup> Floor, India Habitat Centre, Lodi Road, New Delhi-110 003.
4. Baum A. and Koester G.B. (2011). *The impact of fiscal policy on economic activity over the business cycle—evidence from a threshold VA analysis*, Deutsche Bundesbank, Wilhelm-Epstein-StraBe 14, 60431 Frankfurt am Main, Postfach 10 06 02, 60006 Frankfurt am Main.

5. Central Bank of Jordan, various issues
6. Jordan Department of Statistics, various issues.
7. Ndikumana L. (2014). *Implications of Monetary Policy for Credit and Investment in sub-Saharan African Countries*, Department of Economics and Political Economy Research Institute, University of Massachusetts at Amherst.
8. Olweny T. and Chiluwe M. (2012). *The Effect of Monetary Policy on Private Sector Investment in Kenya*, Journal of Applied Finance & Banking, vol.2, no.2, pp. 239-287.
9. Rădulescu M. and Druica E. (2014). *The impact of fiscal policy on foreign direct investments. Empiric evidence from Romania*, Economic Research, Vol. 27, No. 1, pp. 86–106, <http://dx.doi.org/10.1080/1331677X.2014.947133>.
10. Solomon A.G. (2012). *Impact of Euro-Area accession on fiscal and budgetary policy in Romania*, Procedia-Social and Behavioral Sciences Journal, Vol. 62(24) pp. 733-738, <http://www.sciencedirect.com/science/article/pii/S1877042812035653>
11. Zulkefly A.K. (2010). *Monetary Policy and Firms' Investment in Malaysia: A Panel Evidence*, IIUM Journal of Economics & Management 18, no. 2, by The International Islamic University Malaysia, pp. 221-253.