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CHAPTER ONE

Introduction to the study

1.0 Introduction

Financial markets take on a very important role in the economic activity of any country. It is important to present briefly the most recognized financial institutions and instruments available on financial markets before starting to display this significance through the eyes of economic indicators.

Financial intermediaries function as a middle man between those with surplus capital and those who need funds to expand their business, or sometimes only to multiply their money. Financial intermediaries usually operating on the capital markets are: banks (business or investment), insurance firms, credit unions, mutual funds, public or private pension funds, government agencies, central banks, or brokerage agencies (Odunga & Ayuyi, 2016).

Basically, any type of financial institution can deal with financial instruments, buying and selling stock and bonds, gold, international currencies, oil, or any other economic-value goods or services. The most exchanged financial instruments, however, are: stock, bonds, bills or notes from the treasury, foreign currencies, gold, silver, and oil, and any other derivatives (Odunga & Ayuyi, 2016). It can be easily observed that a financial market is a broad term describing any marketplace in which buyers and sellers are involved in the trading of assets such as equities , bonds, currencies and derivatives.

Financial markets nowadays can be found in almost every nation in the world. Some are very small, with just a few participants, while others like the New York Stock Exchange (NYSE), trade in trillions of dollars every day (Aregbeshola, 2016). Investors and government agencies have access to a vast array of financial markets and exchanges representing a wide range of products. Some of these markets were always open to private investors; others remained until the very end of the twentieth century the exclusive domain of major international banks and financiers.

Therefore, the most important thing is that all these financial markets through their financial intermediation play a very important role in every country life by helping them to develop themselves. From the literature it is very easy to notice that on financial markets a high volume of money is traded using securities and other commodities. However, what this research paper is coming to present is how these financial markets can have an effect on the economic activity in terms of growth, unemployment rate and the stability of financial and fiscal system of Jordan.

The country's economy is the one of the key elements factor in achieving economic growth. Economic growth is an expansion in the creation of services as well as goods over a particular period. To be most precise, the measurement must eliminate the impacts of inflation. Economic growth allows more financial benefits for organizations. Therefore, stock costs rise, that gives organizations funding to contribute and procure more representatives and hire more employees. As more employments are hired, wages rise. Customers have more cash to purchase further goods and services. Purchases drive wider economic development. Consequently, all nations need positive financial development. This makes monetary development the most viewed financial measure (Kimberly, 2019).

Foreign exchange rate can develop a boost to the financial growth in the country. The lesser the exchange rate, the cheaper the exports and increase demand for goods and services. This applies additional benefits which improves financial growth in the economy. A solid exchange rate is usually a hint for a more economic strength. In the long run, a solid exchange rate leans towards presenting growth in nations with low inflation, enhancing competition in market and providing better performance economically (Bernal-Ponce, Castillo-Ramírez and Venegas-Martínez, 2020). There is no warranty on selecting a suitable exchange rate in order to stabilize the economy, however, the choice is by developing proper exchange rate system that depends on specific features of the country. Foreign exchange rate affects economic growth and vice versa because solid growth in the country attracts more foreign investments and funds which reduces the demand of foreign currencies but rather improve in foreign currency supply in the country (Brigitta, 2016).

Therefore, foreign exchange market is going to be one of the variables that will be studied in this research. Moreover, the study will also investigate the impact of stock markets & derivatives market on the economic activity in Jordan.

1.1 Background

To begin with the basis of the financial market in Jordan, one most go back to the first establishment. Jordan's Central Bank (CBJ) started operations on 1 October 1964 (Shodhganga, 2020) Prior to 1964, the Jordan Currency Board, established in 1950, had confined its role to maintaining deposits of sterling assets against the issue of Jordan dinars as a local currency. So it had no function in regulating money supply or credit, nor could it regulate banks by monitoring credit quantity, direction, and cost. On the other hand, the role of the Central Bank lies in the adoption of such monetary and credit policies that can guarantee both the stability of the Jordanian currency and that of the economy (Al-abedallat, 2017).

By the end of 1988, there were seven financial intermediaries operating in Jordan as follows:

	Name	Year of establishment
1.	Arab Finance Corporation (AFC)	1979
2.	Jordan Securities Corporation (JSC)	1980
3.	Jordan Financial Investment Company (JFIC)	1981
4.	Jordan Finance House (JFH)	1981
5.	Islamic Investment House (IIH)	1981
6.	Finance and Credit Corporation (FCC)	1982
7.	Jordan Investment and Finance Corporation (JIFC)	1982

The purpose of setting up these financial intermediaries was to mobilize the financial resources and encourage local people to invest, as well as attract foreign and Arab financial resources so that they can be invested in the country (Al-Tal, 2014). The five roles performed by the financial intermediaries are can be divided as follows:

1. Money Market Operations

Such financial intermediaries mobilize the residents and non-residents' deposits in both local and foreign currencies. The minimum deposit maturity is for six months (medium- and long-term). They can also issue deposit certificates, and deal with treasury bills, government bonds and foreign exchange credit instruments.

2. Financial Market Operations:

The purpose of the financial market operations is to act as a broker in the Amman Financial Market (AFM) and deal in Amman Financial Market (AFM) listed shares and securities. Those financial firms list the securities and bonds issued by local companies in both domestic and international markets. They will handle and underwrite local debt issues, corporate bonds and syndicated loans as well as handle portfolios of clients.

3. Investment and Finance Operations:

To encourage local investment, the financial intermediaries extend their loan transactions in the form of various monetary and financial instruments. These investments contribute directly 76 to domestic investment by enabling them to invest in the establishment of new branches and companies.

4. Credit facilities

Extending loans and credit facilities (except over-drafts) is one of the important functions of those companies. The facilities extended for various construction projects will not be for less than six months. They also fund foreign purchases, in addition to the credit facilities, which are backed by export credit guarantee institutions and other specific official institutions abroad. They help finance capital equipment imports and issue warranty letters for those projects.

Other activities:

These companies mainly rely on their own capital and deposits to invest in the country. They handle inheritance and save funds and spend their earnings according to customer's wishes. They also open mutual funds, and also manage the accounts of these clients as allowed by them.

The most significant institution established by Jordan's Central Bank was the development of the Amman Financial Market (Stock Exchange). It began as a public financial institution (with legal financial independence) in early 1978, after conducting the studies with the assistance of the International Finance Corporation. Amman Financial Market's goal was to promote investment in securities and stocks (Alzoubi, Jaraa & Alshurideh, 2012).

Before the establishment of the Amman Financial Market (AFM), the buying and selling of stocks used to take place through a few real estate agents and bankers. But after AFM's establishment, it directly markets for Trading securities with exchange commission for the capital market. All transactions in share buying or selling or transfer of ownership must be registered at Amman Financial Market (AFM). AFM is both a market for securities trading and a regulatory agency for the securities market.

The establishment history has been looked at and now it is the time to compare the current and future plan. According to Jordan's National Vision Strategy, there has been a development strategy called the Capital Market Development Strategy and Roadmap. This is intended to support Jordan's efforts to build economic growth, create jobs and raise the material standard of living for all of its residents. It is rooted in "Jordan 2025: A National Vision and Strategy" and is a set of suggested decisions to be taken by the Government under that framework.

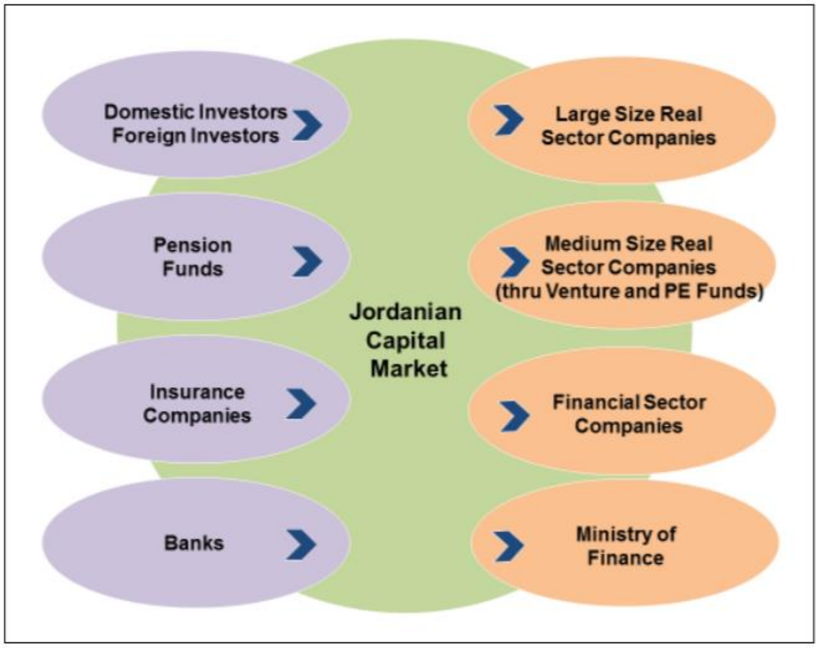


Figure 1: Components of Jordanian Capital Market

The figure above represents the intermediaries present within the Jordanian Capital Market. Since the stock market matches investors to firms, it directly increases the amount of investment entering the economy. This encouraged investment leads to business growth that contributes to overall economic growth (increases in GDP). Enterprise growth also leads to job creation within the enterprises themselves, and has further spillover effects for the rest of the economy in Jordan (Al-khattib & Alsafar, 2013)

Investment through the capital market is thus a vital, positive force for raising the material standard of living which is one of Jordan's main objectives in 2025. The corporate securities market in Jordan has all of the components required for operation. The JSC's oversee the market. As the centralized, organized and transparent trading mechanism, trade is facilitated by the ASE. The SDC provides clearing and settlement to process ASE trades and also maintains ownership records for publicly issued securities.

MSMEs have been identified by Jordan 2025 as a key driver of growth and employment. A study from the World Bank found that SMEs provide more than 60 per cent of developing countries' jobs. In high-income countries, they contribute 51 per cent of GDP but only 16 per cent in low-income countries, suggesting a lot of room for growth. They consider finance is a key constraint in most cases. Banks are the key source of finance but short-term loans must be repaid, placing pressure on cash flows and slowing growth. Banks also need collateral which can be challenging. Be it family , friends, venture capital investors or specialist funds, equity investors can be a better fit for the growth of the economy according to the strategy. Investors with good equity add management and strategy which proves the importance of the presence of financial markets within Jordan.

1.1.1 The Economic Outlook in the Middle East

In order to study how financial markets can affect economic activities, it is important to have an overview of the existing economic situation. Since Jordan is located in the Middle East, hence the economic activities of the region plays an important role in impacting Jordan's economic activity. This is why it is important to have a general outlook on the state of the economic activities that occur within the Middle Eastern region.

Generally speaking, an efficient and well-regulated financial sector stimulates savings, improves capital allocation, and has proved vital to help produce and sustain high levels of economic growth. It goes without saying that in countries in the throes of violence and instability such as Libya, Syria and Yemen, financial market liberalization has been a distant, if not unachievable, prospect for decades. Nor should it be suggested that these countries follow the advice of Iraqi advisors, who set out to reopen the Baghdad Stock Exchange in the face of electricity shortages and corruption in the country just months after the U.S. invasion of 2003 (Gordon, 2017).

On the other hand, there are other countries within the middle who are experiencing the development and deepening of their financial sectors which provides a positive feedback loop in the domestic economy for those enjoying relative stability. Furthermore, promoting local capital that feeds into job creation can help these countries address proverbial economic challenges such as oil price uncertainty (for oil-exporting countries) and remittances and aid (for non-oil-exporting countries) (Gordon, 2017).

The GCC countries are considered the momentum towards the more inclusive financial markets in the MENA region, but the evolution has been inconsistent even there. The capacity of households and companies in other MENA countries to access capital for expenditures or expansion is bleak. According to the Global Findex database of the World Bank, as of 2014, the percentage of adults with a financial institution account was only 14 per cent in the MENA region, an appallingly low number compared to high-income countries where 94 per cent of the adult population had a financial institution account. This pace is the lowest of all developed regions and unfavorably contrasts with the developed world's average account penetration at 54 per cent.

As it can be noted from the history of the economic outlook, there is a visible amount of disparities within the Middle East. This can be illustrated with a figurative example where based on a statsictical report by PWC (2019) they assumed that 82 percent of adult Bahrainis held accounts with a financial institution, but only 27 percent in Tunisia held such accounts, and 14 percent in Egypt.

Similarly, as the vast majority are paid in cash, only a small fraction of Arabs receive their wages through the banking sector, a state of affairs that further undermines the incentive to keep savings in a bank that can be lent to the private sector (Gordon, 2017). By contrast, according to Gordon's study, more than 90 per cent of Iranian adults held bank accounts, a situation driven almost entirely by the 2010 government subsidy reform plan requiring Iranians to hold a bank account to receive cash subsidy payments.

All these difference present within one region causes a fluctuation in the levels of economic activity because based on the activities performed in each countries, the economy will either grow or stay stable or fall. For instance, according to the figure below, due to the COVID-19 situation, the economic outlook in the Middle East will not get any better.

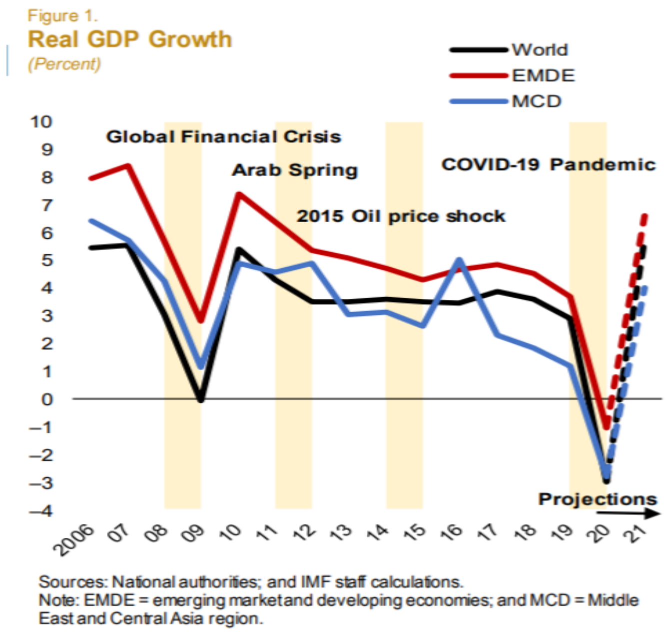


Figure 2: GDP outlook of the Middle East

As the COVID-19 pandemic spreads around the world, growth in the Middle East is expected to fall from 1.2 per cent in 2019 to 2.8 per cent in 2020 which is lower than growth levels throughout the global financial crisis of 2008 and the oil price shock of 2015 before rising to 4.0 per cent in 2021, as the virus risks recede and global policy initiatives promote recovery (International Monetary Fund, 2020) . In line with the rest of the world, the regional forecast for 2020 has been significantly revised down from the October 2019 World Economic Outlook (5.7 percentage points lower), reflecting mainly the expected economic impact of the pandemic, which has spread to almost every country in the region, with Iran being one of the biggest players.

Another issue which has affected the economy within the middle eastern region is the oil prices. Since the outbreak of COVID-19, oil prices have fallen by about 50 per cent to the lowest point in more than 20 years after inflation adjustments, as travel restrictions introduced by governments around the world have reduced demand for oil, and in the absence of a new production agreement between the Petroleum Exporting Countries Organization and other major oil producers (OPEC+)

(International Monetary Fund, 2020). Many commodity prices have fell sharply on the back of declining global growth.

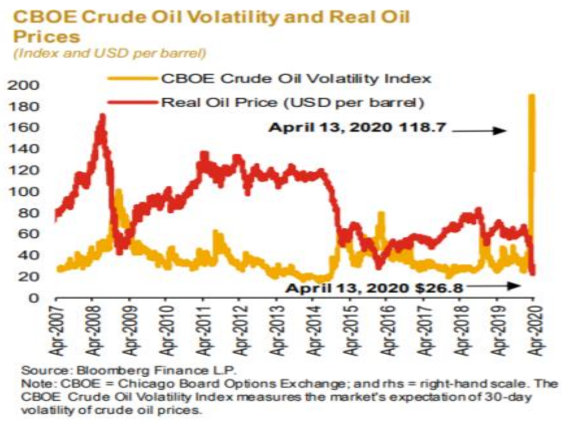


Figure 3: Oil price fluctuation after COVID-19

It is thus analyzed that the declines in oil prices are so great that fiscal and export revenues are expected to decline across all of the region's oil-exporting countries, including those that could be successful in gaining market share from higher cost producers. The lower oil and commodity receipts will erode policy space in some countries to address the crisis, put pressure on foreign exchange rates and government budgets, and weaken external positions.

1.1.2 THE ECONOMIC OUTLOOK IN JORDAN

Jordan has demonstrated its capacity to stay resilient, maintain internal cohesion and reinvent itself in the face of adversity. According to the Economic Policy Council (2017) of Jordan. The combination of the global financial crisis of 2009, Arab spring regional instability, energy crisis, closing of trade routes resulting in de facto economic siege (exports to Iraq amounted to 20 percent of Jordan's total exports), a decrease in remittances, security costs, and rising food and oil prices has left Jordan's economic and fiscal drive significantly stained. Jordan's GDP growth averaged 6.5 percent between 2000 and 2009, but average growth was only 2.5 percent between 2010 and 2016. In addition, Jordan 's total public debt grew at a rate that exceeded economic growth. This has resulted in a debt-to-GDP ratio of 95% at the end of 2016, compared to approximately 61% in 2010 (Economic Policy Council, 2017).

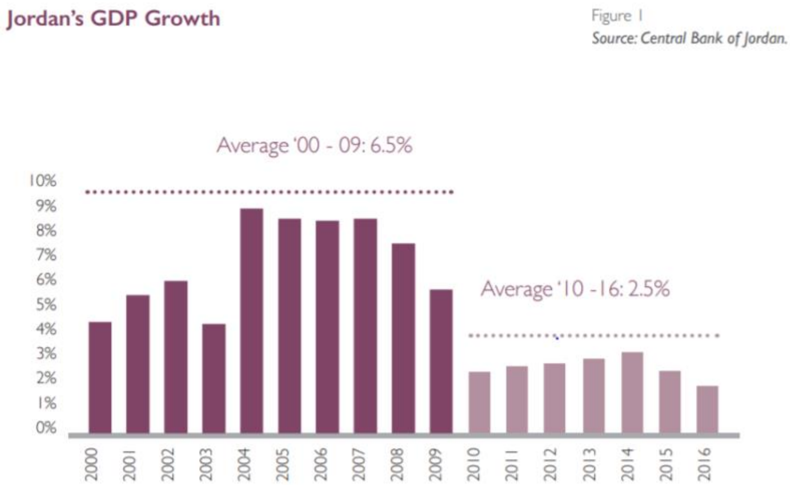


Figure 4: Jordan's GDP growth

The Jordanian economy has been severely impacted by the refugee influx and grown increasing dependence on international grants that followed the Syrian and subsequent refugee crisis (Economic Policy Council, 2017). Growth edged up to 2% in 2019 from 1.9% a year earlier and was mainly supported by the services sector in 2019, slightly offsetting a slowdown in economic activity.

However, regardless of the crisis that occured, In 2019, Jordan pursued important structural reforms, introducing new regulations to govern aspects of financial transactions, such as insolvency, digital payments, and public procurement. In so doing, the country became one of the top 20 performers in the World Bank's 2020 Doing Business report, which takes into account progress on making it easier for small- and medium-enterprises to operate (The World Bank, 2020).

According to IMF (2020) in their forecasts from 14th April 2020, due to the outbreak of the COVID-19, GDP growth is expected to fall to -3.7% and pick up to 3.7% in 2021, subject to the post-pandemic global economic recovery.

Jordan is one of the few countries in the Middle East that does not rely as much on its natural resources due to scarcity of hydrocarbon and water resources (Nordea, 2020). However, it is also one of the most committed countries to financial reforms within its region suc as privatisation, tax reforms, opening of the banking sector, etc.

In addition to the COVID-19 crisis, Jordan also has to deal with a high unemployment rate, that rose further to 19.1% by the end of 2019 (ILOSTAT), a high poverty rate and high levels of inequality. Furthermore, unemployment affects university degree holders and women much more negatively, further contributing to inequalities. In 2015, the debt-to - income ratio of households in Jordan was 69%, up sharply from 54% in 2010, a trend that has almost certainly continued to rise in low growth and high unemployment (Gordon, 2017). Jordan's household debt-to-wealth ratio experienced even greater changes, rising from 38 per cent in 2010 to 60 per cent in 2015 (Jordan's Central Bank, 2017). The Jordanian government has acknowledged the value of financial inclusion for poverty reduction and the Central Bank has in place a plan for financial inclusion.

However, Jordan's development has benefited from international aid as the country has been able to become a central element of stability in the Near and Middle East, ensuring peace on the borders it shares with its neighboring countries.

Therefore, it can be noted that many external factors such as instability within the middle east, worldwide pandemic(covid-19) and unemployment can affect economic activity. This study is aimed at analyzing how the role of financial markets can affect economic activity within the country.

1.2 Objectives of the study

As shown in the analysis above, the economic outlook of a country can be affected by various external factors. Hence, the purpose of this study is to specifically examine the relationship between financial markets such as Foreign Exchange Markets, Derivatives Markets and Stock Market in relation to the economic activity in Jordan. Therefore, the objectives can be summarized as below:

1. To examine the impact of Foreign Exchange Markets on the economic activity in Jordan.

2. To examine the impact of Derivatives Markets on the economic activity in Jordan.

3. To examine the impact of Stock Market on the economic activity in Jordan.

1.3 Hypothesis of the Study

The hypothesis of this study assumes that financial markets greatly impact economic activity. The result of the impact could either be positive or negative, hence the assumed economic activity could either rise, fall or remain stable, depending on the situation and the external factors. Therefore, the hypothesis of the study is as below:

H01: Foreign Exchange Markets has a significant effect on economic activity in Jordan.

H02: Derivatives Markets has a significant effect on economic activity in Jordan.

H03: Stock Market has a significant effect on economic activity in Jordan.

1.4 Significance of Study

This study aims to examine three (3) different factors that is related to financial markets present within the Jordanian environment. The research will examine its impact separately on Jordanian economic activity. The importance in which conducting this study is to allow new technique in understanding the factors affecting the economic activity using analysis contribute with future studies. This enables professionals and allow experts proceed in developing new strategies in enhancing development in the country and so on nations. The researcher seeks that, this study provides useful and beneficial knowledge toward the country's need and the extend of impact in which the factors plays in the economic activity. The researcher hopes to contribute various advantages in term of not only practically but also theoretical, especially in the academic perspectives.

1.4.1 Theoretical perspectives

With respect to theoretical perspective, this study will provide value to the knowledge seeker to understand about the factors impacting economic growth in Jordan as well as the technique in which studies can be implemented in other nations too. The research would assist other individuals to practically prove the theory and proceed with the research for future work as technology changes, generation changes and ideas generates.

1.4.2 Management perspectives

With respect to management perspective, this study is compelled to also assist management to increase awareness on investment, export, import and others when dealing with entrepreneurs and other stakeholders and provide them the knowledge in which they seek to succeed in their strategies when involving themselves within the Jordanian economy.

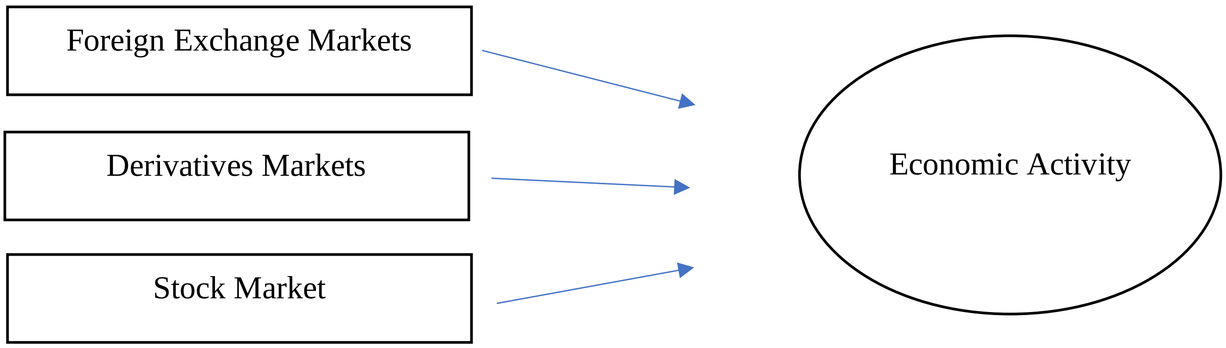
1.4.3 Academic Perspectives

With respect to academic perspective, this study supports the academic sector as it will definitely seek future researching and especially students who are expected to generate new mechanism, ideas and theories in enhancing the Jordanian economy. The research current factors considered may be the main reason in enable new generations gather more details and analysis to demonstrate better outcomes.

1.5 Scope of the Study

The focus of this study research is to identify the relationship as well as the effect between the financial markets and economic activity in Jordan. The independent factors will provide an insight toward how each element affects the Jordanian economic activity in an individual behavior and hence, a brief understanding will enable professionals the knowledge of the role in which each element plays toward the Jordanian economy and its development. The data of this study is tight to public data gathering through primary research. The results demonstrate a generalized representation of the Jordanian economy with some reference to the Middle Eastern economy as a whole.

1.6 Proposed Research Framework



The figure above displays the conceptual framework that is proposed for this study. Even though the This framework proposed that the 3 dimensions that are Foreign Exchange Markets, Derivatives Markets, Stock Market have an influence on the employee retention positively. This conceptual framework will study the effect of the stated financial markets on the Economic Activity in Jordan.

1.7 Term definitions

Term	Conceptual Definition	Operational Definition
Economic Activity	Economic activity is the activity of making, providing, purchasing, or selling goods or services. Any action that involves producing, distributing, or consuming products or services is an economic activity within the country	Economic activity is the dependent variable in this study which will be assessed for its dependency on the study independent variables.

	(National Institute of Statistics and Economic Studies, 2019)	
Economic Growth	Economic growth is an increase in the capacity of an economy to produce goods and services, compared from one period of time to another. (National Institute of Statistics and Economic Studies, 2019)	Economic growth will be assessed with correlation to the general dependent variable in this study.
Financial Markets	A financial market is a market where buyers and sellers trade commodities, financial securities, foreign exchange, and other freely exchangeable items (fungible items) and derivatives of value at low transaction costs and at prices that are determined by market forces.	Financial markets is the general term which includes the three variables that this study is going to investigate.
Foreign Exchange Markets	The foreign exchange market is a global market for currency trading. For each currency, that market determines foreign exchange rates. It covers all aspects of the acquisition, selling and exchange of currencies at current or defined prices	Foreign exchange market is one of the three independent variables that will be examined for its relationship with the dependent variable (Economic Activity)
Derivatives Markets	The derivatives market is the derivatives investment market, financial instruments such as futures contracts or options that are derived from other types of money.	Derivatives market is one of the three independent variables that will be examined for its relationship with the dependent variable (Economic Activity)
Stock Markets	The stock market refers to the collection of markets and exchanges where daily	Stock market is one of the three independent variables that will be

	buying, selling, and issuance of publicly owned companies' shares occurs.	examined for its relationship with the dependent variable (Economic Activity)

1.8 Deliverables

Chapter one consisted of an overall introduction and overview of the topic of the study which is the Impact of Financial Markets on Economic Activity. The literature found on the background of financial markets and the discussed issues indicates why conducting this study is important and how the focus of this research could contribute to the literature gap present about the Jordanian economy. Moreover, the research objectives were identified, and the research questions and research framework were designed. The contributions of the study were determined, and the focus area were determined and described briefly. Moreover, the operational terms that are used were stated and briefly defined.

Chapter two consists of a literature review and analysis on the dependent and independent variables of this study. The variables include; Foreign Exchange markets, stock markets and derivatives markets. The topic of the research was discussed and comparative studies by previous researchers on the similar topic will be referred to. The independent variables will defined and an extensive research on materials by previous researchers were included in order to ensure a clear understanding of the variables.

Chapter three will discuss and conclude the overall findings of the results based on the research, with comparison to the previous findings on the same topic. The research questions articulated in chapter one will be answered with the provision of an overall analysis. Chapter three will also provide the implications and limitations of this study. Moreover, recommendations on how the Jordanian government could regulate the markets in order to better safeguard and grow the economy will be discussed. Additionally, areas for further research were highlighted and by the end of the chapter the researcher concluded the overall findings.

CHAPTER TWO

Literature review

2.0 Financial Markets, Monetary Policy, and Fiscal Policy of Jordan

Research shows that economic growth is catalyzed by local financial markets operations, mainly by increasing resident corporations' access to and cost of capital. Research also shows that established local financial markets can stimulate economic growth by increasing the productive allocation of capital (Aregbeshola, 2016). In particular, healthy local financial markets allow investors to quickly and cheaply rebalance their portfolios, and if this happens within a financial market, investors will be more willing to remain hence facilitating the economic activity in Jordan.

Various authors which will be cited in the literature have established strong linkage in the growth and finance nexus. However, the issue of causality between local financial market development and economic growth remains largely inconclusive. While some studies have found financial market to have enhanced economic growth, others have found the evidence in support of this hypothesis to be weak.

Generally, local financial markets were found to foster collaborations between the public and private sectors by promoting private sector involvement in successful investments. In pursuit of economic efficiency, the shifting of production resources from the public to the private sector in order to enhance economic productivity has become inevitable as exhaustible national financial resources are constantly being overrun and economic activity movement (Prochniak and Wasiak, 2016).

Some of the components of the financial market, especially banks facilitates the flow of long-term funds from surplus units to deficit units within the economy. Owing to limited savings and inadequate depth of local financial markets in the developing world, improved capital inflow generally allow a country to run current account deficit without depleting the national foreign reserves (Aregbeshola, 2016).

Regarding the interdependence between the existence of a stable and balanced monetary policy and proper functioning of financial markets, analysis concluded showed that, as in the above, this interdependence is tied. Consequently, in countries where monetary policy is focused on regulated inflation, foreign exchange rate stability, stable and lower credit rates, access to loans and the capital market, the financial system grows, enabling access to both domestic and international investments (Mosteanu, 2017).

Balance of payments summarizes the economic transactions between a country and the rest of the world. Balance of payments describes the balance of an international payment of a country and its place in the foreign investment (Mosteanu, 2017). Balance of payments represents the stability of an economy. A country where financial markets are developed, and where investment flows, is viewed as a healthy economy.

Monetary and fiscal stability are essential for creating a secure and attractive investment environment, providing vision clarity, boosting confidence and reducing risk. Keeping this in mind, the Central Bank aims to achieve its objectives of preserving monetary stability in the Kingdom, ensuring the convertibility of the Jordanian Dinar, contributing to banking and financial stability, enhancing the resilience of the banking system, fostering the ability of other banking and financial institutions to face threats, and contributing to the promotion of financial stability (the Economic Policy Council, 2017).

The Central Bank of Jordan has adopted a flexible monetary policy to accomplish the aforementioned, highly responsive to changes and developments in local, regional and global economies. Within this policy, the Central Bank continues to work on the use of monetary instruments, including interest rates and open market instruments, to increase the attractiveness of assets denominated in Dinars, and to provide the appropriate volume of funds to be lent to banks at competitive cost (the Economic Policy Council, 2017).

In addition, they are targeted, according to the policies ensuring a safe buffer of foreign reserves and fostering the efficiency and stability of the banking system according to best international practices and standards. Contributing to the promotion of inclusive economic growth by ensuring that financing needs are supported with credit costs that stimulate development, without infringing the other objectives of the Central Bank, fostering and deepening financial inclusion, spreading a culture of financial literacy and protecting consumers, mobilizing more sources of funding for micro, small and medium-sized enterprises hence enhancing the role of the Jordan Loan Guarantee Corporation in guaranteeing credit for exports which is really important for the country's economic activity.

In addition to the above, the adoption of an effective and flexible fiscal policy stimulates economic growth, improves the investment environment and helps build a diverse and stable medium- and long-term economic base. It involves assessing the size of the public sector according to best practices and resolving systemic imbalances in the budget of the State which will in turn improve the Kingdom's credit rating in-line with monetary policy as well as insure the compliance of financial legislation and policies.

Jordan's fiscal policy guarantees social safety net development, and boosts targeted economic sectors. Therefore, taking into account the macroeconomic environment, the economic cycle and the external factors, such that, in situations of recession and slowdown, fiscal policy is expansionary and contractionary in situations of steady increase in inflation levels, where possible. In addition to the above, the fiscal policy takes into account obligations to the target and healthy levels of the Gross Domestic Product (GDP) budget deficit and public debt. The monetary strategy, last but not least, adheres to the economic viability of capital investments and the potential effect on them.

2.1 The Interdependence Between Financial Markets, Social stability and Unemployment Rate

Established economies use capital markets to increase their economic level, keep their balance of payments and finances in check, and sustain economic and social stability (Uruakpa, 2019). In under developed or emerging economies, capital markets have regularly turned to fund their balance of payments or to boost capability growth and social stability level.

On the other hand, for emerging economies, the establishment and growth of financial markets requires or involves a process of reforming the financial system, adjusting to investor demands, implementing new norms on the basis of internal forces and in line with integration requirements in a regional or broader international context, insuring and sustaining economic and financial stability (Prochniak and Wasiak, 2016).

As a conclusion, financial markets really facilitate the development of countries, by putting together investors, individuals, and governments which have money or which are in need. Thus, financial markets participate actively in building and developing a sustainable economy.

In terms of the Jordanian economy, as mentioned in the section above, Jordan suffered from chronic economic crisis represented by high rates of unemployment reaching 18.5% in 2018, moderate economic growth of around 2%, poverty, huge debt of about $40 billion in 2018 and a debt to GDP ratio of about 95% (The World Bank, 2018). This economic slow down can be attributed to the influx of more than a million of refugees, rising public debt resulting in a removal of subsidies on major food items, regional instability causing massive reduction in tourist activity, decreased foreign investment, increased military spending and the collapse of trade with major trading neighbors Syria and Iraq.

Thus, it can be deduced that financial markets promote capital flows from surplus investors to vulnerable ones. During the first step all sides profit from the transfer of capital. Investors want to invest and sell their money surplus, and individuals and business owners want to cover the costs and make income. In the second step, we can easily see how the growth of investment, the growth of demand, contributes to an rise in the number of jobs while reducing unemployment.

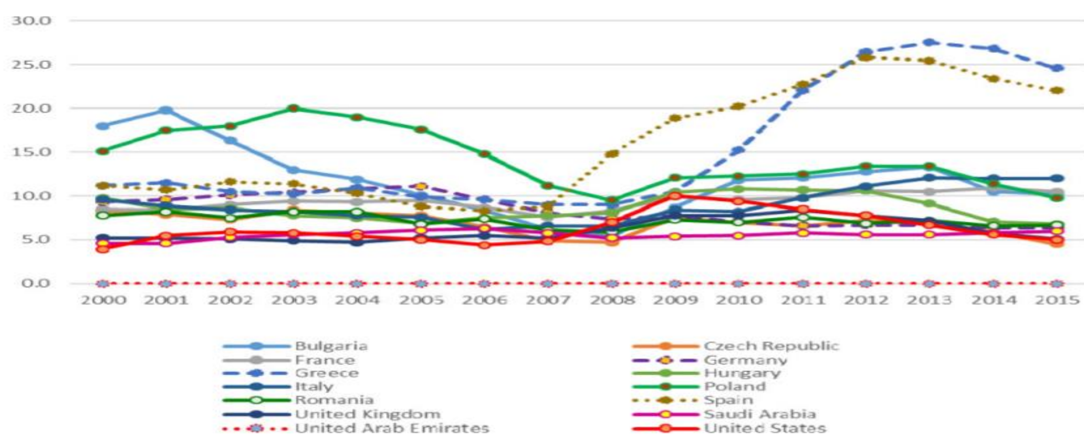


Figure 5: Unemployment rate

The research performed and associated data concerning foreign investment mentioned above, we can see that countries where there is a established financial market and high investment, then the unemployment rate is small (USA, Saudi Arabia, and Germany). Countries with political stability but not so developed a financial market have also reported a low rate of unemployment (Romania and Hungary), as seen in the above figure (Prochniak and Wasiak, 2016).

Hence, it can be concluded that Economic Activity, in this case; Unemployment & Social Stability, is quite impacted by Financial Markets in a country. The following sections will study these financial markets in detail.

2.2 Impact of Foreign Exchange Markets on Economic Activity

Thanks to the global globalization and exchange-rate crisis after the 1960s, the foreign exchange market is the largest and most volatile one of the financial markets for both developed and developing countries (Ekmekçioğlu, 2012). The foreign-exchange market is the focus not only on the firms, but also on the street people. The fundamental cause of this concern is the exchange rate that is the principal of the foreign exchange market.

In the modern economic times the foreign currency trade is a common site all over the world. There are hundreds of currency dealers trading in Dollars, Pounds, Yen, Euro, and many other currencies all around the world. The foreign exchange market is the process by purchasing power is transferred from one country to another, obtains or credits international trade transactions, and minimizes exposure to foreign exchange risk (Kizito, 2012). A foreign exchange trade is an arrangement between a buyer and a seller that for some other currency, a given amount of one currency is to be delivered at a defined rate. The foreign currency price is a foreign exchange rate. The foreign exchange market consists of two levels: interbank or wholesale, and consumer or retail.

Participants include foreign exchange traders from banks and non-banks, individuals and companies performing business and investment transactions, speculators and arbitrators, central banks and treasuries, and foreign-exchange brokers (Kizito, 2012). A quotation or quote from foreign currencies is a declaration of willingness to buy or sell at an agreed cost. Quotations in the real world include a bid-ask set. For one currency, a offer is the exchange rate at which a dealer buys another currency. A order is the exchange rate a dealer sells the other currency at. The spread is the difference between the price of the bid and the price of the question. This distribution mirrors fees and transaction costs.

There has been ongoing discussion in developing countries on the correct exchange-rate strategy . The discussion focuses on the extent of exchange rate volatility in the face of internal and external shocks. Fluctuations in exchange rates are, in effect, likely to influence economic efficiency.

Therefore, evaluating their impact on production growth and price inflation becomes important in determining the desirability of exchange rate fluctuations. Those effects are dictated by the demand and supply networks. A domestic currency depreciation can stimulate economic activity by initially raising the price of foreign goods relative to home goods (Suliman and Elian, 2014). Through rising the domestic industries' international competitiveness, depreciation of the exchange rate diverts investment from foreign products to domestic goods.

According to Igan (2016) there are three forms of foreign capital flows to the emerging countries to facilitate economic activity. These are bond funding, commercial banking loans, and foreign investment leading to a moving sector. To be more detailed, the emerging countries can issue bonds to foreign investors to increase the capital inflow for investment. Those bonds can be in foreign currency or domestic currency. There are of course different risks for the investors. There is an inflation risk when bonds are issued in the domestic currency, while they are also subject to default risk in the sense that when bonds are issued in the foreign currency, a poor country may not be able to reimburse that bond. If option to sell bond doesn't work to raise capital, then these countries can borrow from foreign commercial banks.

Commercial bank loans can either be short- or long-term. A group of banks or a single bank can also set interest rates or be flexible. A foreign direct investment is the last form of capital mobility. That is another form of flow of capital to emerging countries.

Direct investment is the most important one among the three forms explained above (Igan, 2016). Therefore, capital flow as the form of direct investment is the driving force of growth and raises the employment in emerging country hence facilitates economic activity.

Thus, we can deduce that foreign direct investment (FDI) is essential to economic development. It is economic and technological forces that drive the growth of international output. This is also driven by the on going liberalization of foreign direct investment and trade policies. Globalization in this sense gives developed countries an unparalleled opportunity to attain rapid economic development through trade and investment (Al Shukri, Aldiabat and Alali, 2018).

Particularly in developing countries, like Jordan, the importance of FDI has increased and has become seen as the best source of external funding available. Moreover, most developing countries if not all-seeking to draw FDI as a mechanism for funding their economic growth in order to first raise national income, and then the real per capita income to boost living standards (Kharabsheh and Aldaher, 2018). To attain these goals, which need financial resources, many developing countries are eventually forced to use foreign funding, including FDI (Ekmekçioğlu, 2012).

More literature have been reviewed by the author of this study to further understand the impact. For instance one study by Abu Ghunmia et al . (2013) explored the relationship between macroeconomic variables and FDI over the long term. The findings of this study indicate that free trade has a substantial effect on foreign direct investment. For the period 2002-2011, Al-rawashdeh et al. (2014) analyzed the influx and outflow of foreign direct investment into Jordan. The results of this study showed a positive relationship between the national gross product, the net foreign reserves, the index of electricity output, the rate of transparency and FDI.

Moreover, Alsmadi and Oudat (2019) have studied the relationship between FDI and financial growth in Bahrain during the 1978-2015 period by taking into account the political tensions that have arisen in the Middle East region, called the Arab Spring. The results of this study show a positive short- and long-term link between financial growth and FDI.

Additionally, Researchers initiated study to understand the correlation between foreign direct investment and economic growth in Malaysia as a role of financial development and an insight toward between recommendation in the economy, one of these studies was published in the International Journal of Economics and Financial Issues (2017). The effect of FDI as well as economic development on the growth of economy between 1975 and 2014 was analyzed. Figure below based on their study illustrates that there is a positive effect of FDI on economic growth in both short and long-term.

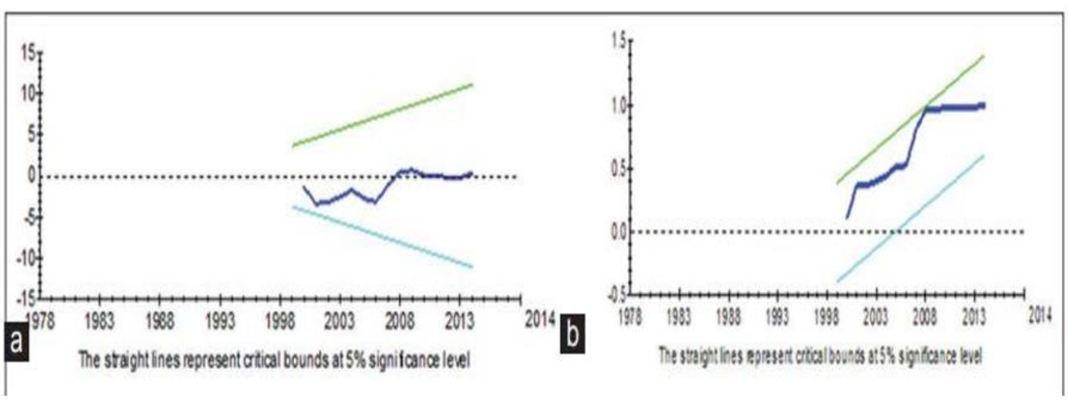


Figure 6: Correlation between foreign direct investment and economic growth

The final important identification of the study is that, financial development indicators and the integration between FDI as well as financial development are critically correlated with expected positive signs which provides explanation why greater local financial intermediaries may link the

FDI inflows of profitable divisions and thus to additionally invigorate economic growth (Alzaidy, Ahmad & Lechehab, 2017)

Generally, the impact of foreign currency trading has wide magnitude and among them most significant is currency union increases trade. According to Mashkoor (2015) it was concluded that the influence of currency trading worldwide is very large. Currency trading is influenced by many factors such as actual exchange rates and export levels. Economist is conducting research to find out the relationship between these two variables i.e. real exchange rate, degree of out since devaluation of currency is the most commonly used complete tools in flourishing any country's economy. When currency devaluation or deflation happens, the price of the imports rises relative to the export rates, leading to an improvement of the trade balance and thus an improvement in the trade balance hence improvement has a positive relationship with the foreign sector of economy.

Hence, it can be said that the single responsibility for facilitating international trade lies with the foreign exchange market. The exchange of currencies allows institutions to do business outside the nation's borders. Similar to every other market, a strong currency has more interest and is capable of leading the foreign market. Traders' activities in the foreign exchange sector also influence its growth. When there is market volatility, forex market speculators trigger changes to the prices.

Forex trading impacts both the short- and the long-term economy (Bernal-Ponce, Castillo-Ramírez and Venegas-Martínez, 2020). Economic activity influences the demand for a given currency, which in turn affects the currency value. When the currency is in constant demand owing to increased tourism or earnings from manufactured goods, then the economy is expected to increase. Often short-term changes become important particularly when the demand has long been dormant (Bernal-Ponce, Castillo-Ramírez and Venegas-Martínez, 2020). Countries that have consistently focused on adding value to their goods in the forex market attract good revenues. Eventually, the demand factors eventually decide the output of the forex market, and therefore the economy as a whole.

Karimi and Yusop (2013) reported that policymakers across a wide range of nations are engaged in developing a broad range of incentives such as tax incentives and export processing zones to pull more FDI, as it is expected to have a decisive effect on local economic objectives. Blast in FDI growth over the 1990's, especially in developing nations, has inspired a rise in literature focusing on the impact of FDI on the development dynamics estimated by GDP in the beneficiary country which then improves the economic activity positively.

2.3Impact of Stock Markets on Economic Activity

Traditionally, the stock market has been regarded as an economic determinant, because as stock prices increase, there are two effects: the effect on wealth and the impact on value. The wealth impact means that as stock prices increase, people assume that the value of their financial assets is rising, thus their wealth is rising, which is expressed in more goods and services consumption (Mo, 2017).

There have been great debate in the literature on the impact of stock market on the economic performance, as some believe that higher stock prices increase the wealth of people and stimulate further investment leading to higher consumption and investment, consequently higher GDP. Others cast doubts on the robustness of that view.

In Jordan, an emerging market, the Amman Stock Exchange plays a crucial role in the economy as the share of market capitalization to GDP was more than 200% until 2008 but dropped drastically during the economic turbulences after the Arab Spring to reach only 57% in 2018 (Alrefai, 2020).

Year	# of listed companies	MKT capitalization (JD million)	Value traded (JD million)	MKT capitalization/GDP (%)
2005	201	#	16871.0	326.6
2006	227	#	14209.9	233.9
2007	245	#	12348.1	289.0
2008	262	#	20318.0	216.7
2009	272	#	9665.3	149.6
2010	277	#	6690.0	122.7
2011	247	#	2850.2	102.7
2012	243	19141.5	1978.8	93.5
2013	240	18233.5	3027.3	83.0
2014	236	18082.6	2263.4	75.8
2015	228	17984.7	3417.1	70.7
2016	224	17339.4	2329.5	65.0
2017	194	16962.6	2926.2	61.8
2018	195	16122.7	2319.3	56.7

Source: Key statistics of the ASE, 2018

Figure 7: Indicators of Amman Stock Exchange

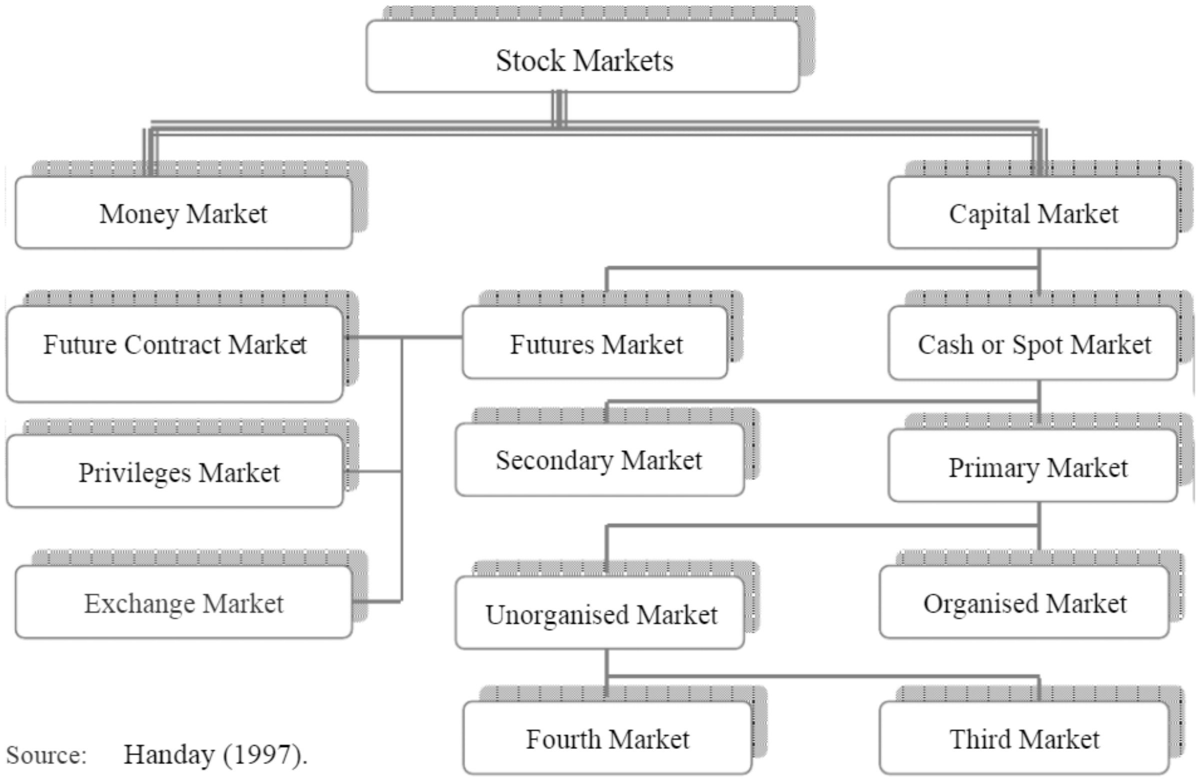
The value traded increased from JD16, 871 million in 2005 to JD20, 318 in 2008 when there was a boom in the stock market, but reduced drastically by more than 110% in 2009 to JD9, 665.3 million due to the market crash and continued deteriorating thereafter to reach only JD2319.3 by 2018 (Alrefai, 2020). Moreover, the market capitalization to GDP ratio reached a record high of 326.6% in 2005 but dropped drastically to 56.7 in 2018 due to the regional turbulences and the influx of thousands of Syrian refugees to Jordan (. The figure above showcases the GDP ratio and value traded starting from 2005 to 2018.

The topic of the real economy's effect on the stock market has been controversial. Many assume that stock prices are a strong determinant of the economy by impacting wealth and valuing future values. According to (Omet & Mashhawre, 2015) A stock market is said to be efficient if the current securities prices represent all the information available. This efficiency is an important prerequisite for performing their primary position in the stock markets; the allocation of limited capital resources. For instance, stock prices in an efficient market provide investors with a fair measure of the success and values of the businesses.

The operationally effective market enables customers to get their orders executed as efficiently and as cheaply as possible. It is meant by immediacy that buyers and sellers expect to trade immediately rather than wait for enough orders to arrive on the other side of the trade. In this case , it is assumed that the price would be similar to that of the last known transaction.

Based on the above two definitions, we can see that they are interrelated. For example, a stock price in an efficient market provides investors with a good measure of any firm's performance and its value. In other words, an efficient market can discipline managers and consequently improve the allocational efficiency of capital. Moreover, an allocationally efficient market must be operationally efficient as well. Indeed if transaction costs are high, this tends to inhibit capital movements and hence discourage the efficient allocation of resources even if the market is pricing its securities in an efficient manner.

To further understand how stock markets can impact economic activity, it is important to understand what it is made up of. The figure below shows the classification of stock markets.



Source: Handay (1997).

Figure 8: Stock Market Classification

As displayed in the figure above, stock markets can be classified as debt and equity markets, short-term debt instruments (money market) and longer-maturity financial assets (capital markets), including cash or spot market and futures markets. Hence, this section will study the way money markets and capital markets can impact economic activity.

One can not over-emphasize the importance of the money market to the growth and development of the Jordanian economy in general. This is because the market acts as an intermediary channeling funds from the surplus side to the Jordanian population's deficit side for short-term investments mainly in trade and commerce. Thus, money market growth smoothes financial intermediation advancement and boosts the lending to the economy (Ikpefan & Osabuohien, 2012).

Money markets play a key role in the management of liquidity by banks and monetary policy transmission, regulation of money supply and demand-pull inflation, deciding short-run interest rates (Ekmekcioglu, 2013). The money market is a crucial component of the financial system as it is the focus of monetary operations carried out by the central bank in its pursuit of monetary policy goals. It is a short-term fund market with maturity ranging from overnight to one year and contains financial instruments that are considered to be near money substitutes.

Moving on to the the capital markets, it has been shown that capital markets are relevant in providing long-term funding to the listed companies, fostering the role of the private sector in stimulating growth (Coşkun, Seven, Ertuğrul and Ulussever, 2017), strengthening the international risk mechanism and improving the resource allocation mechanism (Coşkun, Seven, Ertuğrul and Ulussever, 2017). Both principles encompass pricing flexibility and operating performance.

The history of capital market growth in the MENA region is significant because very few stock exchanges have been founded in the last ten years, from 2007 to 2015 (OECD, 2012), whereas some stock exchanges have been operating since the 18th century and have emerged from different economic contexts (OECD, 2012). The stock market in Egypt is an excellent example of a long-established market that has attracted a lot of investor interest in recent years.

Founded in the late 18th century, it is the region 's oldest 4 market, but its operations were suspended for a number of years during the 1950s and 1960s, other markets were developed late in the 1980s and 1990s, such as those in the Gulf Cooperation Council (GCC), (OECD, 2012). The region's stock exchanges remain focused on attracting domestic listings, and several bursaries do not especially seek to attract international firms (OECD, 2012).

For some industries, some nations, such as Jordan, have restrictions on foreign investors, while other markets, such as Egypt , Morocco, and Turkey, have no restrictions on foreign investment (Assaf, 2006). Saudi Arabia, for example, is largely inaccessible to foreign investors, while Dubai and Bahrain are comparatively more available to international capital flows (Balcilar, Demirer, Hammoudeh, 2013).

The existence of foreign issuers in most of MENA markets remains minimal or non-existent. Only NASDAQ Dubai and Dubai Financial Market have drawn major international issuers in relation to their total market size. Some foreign issuers have other markets in the country, such as the Kuwait Stock Exchange, but their presence is limited: of the 229 companies listed at the end of 2010, only 13 were foreign-owned (OECD, 2012).

Moving on, to explain how economic growth has directly influenced by capital market development, a significant review of plenty literature from different research studies are considered here. The relationship between economic growth and the development of the stock market is understood from the point of view of a mutual causal relationship in the sense that there are factors that can simultaneously affect the development of the capital markets and the growth of the economy, where these effects will in sequence impact changes on both.

Echekoba et al ., (2013) examine the relationship between the capital market and economic growth by analyzing the effect of the capital market under a democratic rule on the development of the Nigerian economy. Their analysis is based on data from time series. The results show that while total market capitalization and all share indices have a positive impact on the rate of growth in GDP, total stock valuation has a negative effect on the rate of growth in GDP, and none is important.

Queen (2015) examine the effect that capital markets have on economic growth. The findings indicated a strong link between South Africa's economic development and the capital markets. In addition, the state should emphasize variables that add to capital market growth, such as financial institution development.

Sabariah and Norhafiza (2016) examine the impact on the Malaysian economy of the stock market and the debt market in order to further understand the presence of a co-integrating link between real growth per capita domestic product, stock market and debt. Compared to the bond market , the stock market is found to show greater impact on Malaysian economy. In addition, the stock market is found not like the debt market but to exercise uni-directional causality on the economy.

Torbira and Joshua (2017) examine how capital market development as a subsection of financial development has openly influenced economic growth in the countries of Mexico, Indonesia, Nigeria and Turkey. The results show that number of registered financial securities is the country group's most influential measure of capital market development on economic growth. This pointer was known to be adverse and significantly related to gross domestic product (GDP), but was optimistic and significantly related to gross fixed capital investment and gross domestic savings ratios to GDP. Furthermore, statistical evidence indicates that Indonesia is typically positively impacted by capital market development , especially since it both increases gross fixed capital formation and gross domestic savings ratios. However, in this case, it shall be noted that Indonesia is located within South East Asia hence the environment and economic activity might be different than Jordan as it is located in the middle east and Economic Activity is different.

Araoye, et al . , (2018) used time series data for 30 years from 1985 to 2014 to research the impact of stock market development on Nigeria's economic growth. The economic growth was represented by GDP, whereas the stock market was represented by the variables involved; the size and liquidity ratio of market capitalization and market turnover. The empirical findings indicate that the stock market is important in evaluating Nigeria's economic growth by following the model of error correlation and it has been found that the stock market has had a marginal effect on economic growth.

Hassan M. Kabir, Benito Sanchez, and Jung-Suk Yu (2011) concluded that there is a positive relationship between economic growth and financial development in developing countries. In addition , studies such as Bayar Yilmaz (2015), Ikikii Stephen and Nzomoi Joseph (2013), Ho and Odhiambo (2012) found that the development of the stock market had a positive effect on economic growth, while Ake and Ognaligui (2010) found a negative or insignificant effect on economic growth.

It can be concluded that stock markets do have an impact on economic activity in terms of growth, resource allocation, and debt. Majority of the literature found, recent and old contribute to similar conclusions that stock markets have a positive impact on economic activity. Despite the presence of contradicting opinions, it can be noted that the difference in conclusions might be due to the difference of scope of study. However, generally, it can be contended that financial intermediation such as stock markets plays a key role in economic growth by improving productivity and technical change. Financial development especially within the stock markets has an impact on economic growth by raising and pooling funds to enable riskier investments to be made; allocating resources to their most productive uses; monitoring effectively the use of funds; providing risk mitigation instruments, particularly for small and medium-sized enterprises; and reducing inequality. These intermediaries are becoming key players in the promotion of technological innovation and economic growth.

2.4 Impact of Derivatives Markets on Economic Activity

Derivatives are financial instruments that derive payouts from certain, more basic financial variables, such as a stock price, commodity price, index ratio, interest rate or exchange rate. The demand for derivatives is enormous. The notional sum of over-the-counter (OTC) derivatives that is outstanding on the global market reaches $640 trillion, with a total aggregate market value of over $27 trillion (Sundaram, 2012). In both developed economies and emerging markets, the rise in derivatives use over the past two decades has been rapid; in both OTC contracts and exchange-traded contracts; and across the board.

Establishing the first derivative exchanges in the 1970s and 1980s and the advent of derivative product developments gave asset managers and market participants broad access to a wide range of new financial instruments and enabled the creation of new trading strategies. New prospects for risk sharing and risk diversification exposed interdependencies between the various sectors of the financial market (Haiss and Sammer, 2010). It can be anticipated that the emergence of new asset classes and that institutional frameworks will improve the financial sector 's ability to stimulate economic growth, while financial developments can also affect the financial sector (Haiss and Sammer, 2010). The question remains if financial markets have a positive influence on economic growth and if financial development enhances growth in a country's economy or vice-versa.

The number of derivative exchanges in both developed and emerging market economies has multiplied several fold since the mid-1980s. Emerging markets can gain significant benefits from the establishment of derivatives trading activities, including risk transfer capability, lower transaction costs, and public information accessibility. The success of a derivatives market, however, depends on the wholeness of the foundations on which it was built, the structure adopted and the variety of securities traded (Al Janabi, 2016)

Consequently, the introduction of derivative markets in emerging markets includes other prerequisites, including the establishment of liquid and well-functioning cash markets, as well as well-grounded credit and financial service institutions with a large number of traders, speculators and hedgers (Hong Vo et al., 2019). In addition, a legal environment framework which includes a property rights system and enforceable trading contracts. Support from local government and policy-makers, as well as adequate financial resources to develop a successful clearing company that will help eliminate exposures to counterparties and credit risk in addition to this the absence of similar competing derivative securities (on local cash markets' main indicators) in well-established foreign derivatives securities exchanges.

The effects of an economy's derivatives markets may vary widely. Many researchers concentrate on their beneficial contributions as frameworks for risk management, offering tools for companies to protect against contingencies and better financial market knowledge. However, other researchers focus on the disadvantages of derivatives markets and their role in attracting speculators, increasing spot market volatility and exacerbating financial crises.

Over the past few decades, derivatives markets have seen tremendous growth, while derivatives returns could be much greater (Hong Vo et al., 2019). Of note, derivatives can also help to achieve an effective distribution of risk across the economy as a whole. These are also important in allowing the markets to give investors new opportunities. In addition, derivatives provide financial markets with knowledge, and thus play a role in helping to minimize potential volatility on global capital markets. Lastly, derivatives markets help participants form expectations of underlying asset prices to manage the risks associated with price changes; thereby facilitating future decision-making processes which could later on impact ongoing economic activity (Hong Vo et al., 2019).

Theoretically, the existence of derivatives markets speeds up the monetary-policy transmission cycle into the real economy by rising market imperfections. Research shows that knowledge is more rapidly incorporated into securities prices in the presence of derivatives due to the correlation between the derivative markets and the underlying markets. If this is the case then derivatives trading is likely to reduce the impact of monetary policy on real production.

To further understand how derivative markets can impact economic activity, according to Gupta (2014) The acceleration of the monetary-policy transmission mechanism takes place through the financial markets. Therefore it can be said that the monetary sector represented alongside the traditional financial sector by the derivatives markets reinforces real fluctuations. Hence derivatives markets indirectly through the financial markets have an impact on the economy's actual economic activity.

The empirical findings of the study can be summarized in the figure below which shows a strong relationship between the economic and monetary sectors and a strong relationship between derivatives markets and the financial sector which indirectly implies derivatives markets indirectly influence the real economy through financial markets.

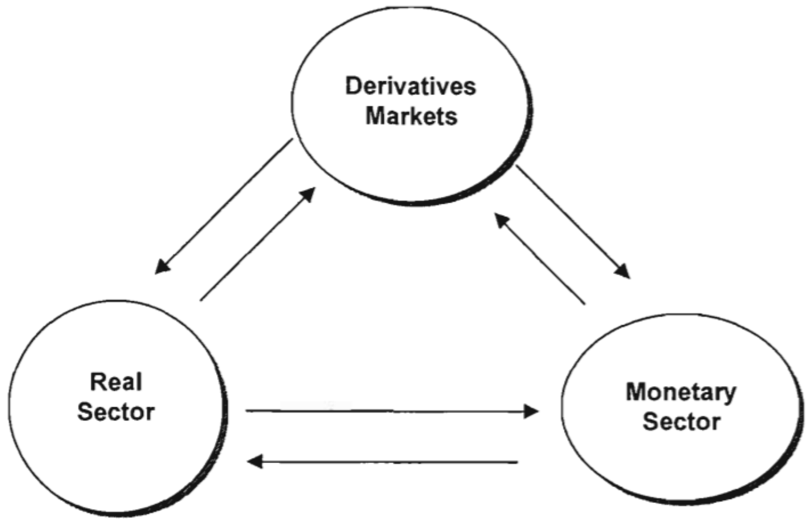


Figure 9: Relationship between Derivatives & Real Sector

In addition to the above, a couple of literature have been reviewed. In one of the studies by Baluch and Ariff (2007), they found a relationship between the derivatives markets and economic growth, indicating that if there is enough liquidity in the underlying cash market, derivatives trading can be sustained and contribute significantly to economic growth through risk transfer.

Sipko (2011) further studies the relationship between the development of the market for derivatives and the real economy. He emphasizes that the derivatives market's trading volume has increased significantly in recent decades, and that this increase has made a significant contribution to the global financial crisis. The author also compares nominal and real GDP overall growth to the global derivatives market, and in particular to the over-the-counter market (OTC).

Based on time series data collected by this literature, the causal relationship between the Derivatives market and economic growth in both developed and developing countries is highlighted in the study by Sendeniz-Yüncü et al . (2018). They find that the two variables of concern have a long-run relationship in 29 out of the 32 countries studied, and that middle-income countries have a granger-causality effect from the derivatives market to economic growth while the effect is reversed in high-income countries. These authors distinguish those unidirectional opposite causes between market development of derivatives and economic growth. On the one side, the course begins with the creation of potential markets for economic growth in most countries who have low GDP. On the other hand, in countries with a higher real per capita GDP, economic growth tends to lead to the development of a derivatives market.

In another literature study by Pradhan et al. (2014), they performed an analysis among four economic components including the banking sector, stocks and economic growth and macro variables, such as foreign direct investment (FDI), trade openness, inflation rate, and government consumption and expenditure. Of these selected variables, the financial sector, banking, and derivatives market are found to fuel economic growth, while the macro variables, namely FDI and trade openness, tend to spur economic activity through the stock market and the banking channel.

Therefore, we can say that theoretically, the existence of derivatives decreases the impact of monetary policy on real economic activity and vise the other way around that is, a given amount of monetary stimulus would have a lesser effect and increases the speed at which monetary policy is transmitted through the economy.

However, the economies of today exhibit market imperfections. Such imperfections can take the form of increased volatility, high transaction costs and asymmetries in the details. The presence of these frictions leads to money playing an economically non-neutral role (Babu, 2018). The derivatives markets can also also be non-neutral in their effect on the real economy. The financial markets will reduce the actual effects of monetary policy behavior by raising frictions.

Therefore, to conclude, based on the above literature and comparisons from different authors, Empirical evidence provided in this work indicates that markets for derivatives can have significant impacts on economic development. Greater efforts to establish derivatives markets would help improve economic growth, thus enhancing social welfare.

Chapter Three

Implications, Recommendations & Conclusion

3.0 Introduction

The research has been able to highlight several significant factors that can showcase the impact of different financial markets on the economic activity of Jordan. This chapter demonstrates the division of the implications of studies into two categories; theoretical implications and practical implications. Additionally, the limitations discussing how the project could've been conducted more effectively will be highlighted and suggestions will be recommended. Moreover, this chapter provides a detailed recommendation that is targeted towards how the efficiency of financial markets can affect economic development. Lastly, this study will be tied up and provided with an overall conclusion in this chapter.

3.1 Implications of the study

From the theoretical point of view, this study has significant implications, as the findings of the study would hopefully contribute to the building of new knowledge. It has contributed further insight into the existing literature on economic activity and financial markets implications. The results in this study are consistent with previous studies which were reviewed previously. It is hoped that the current study will help to identify new areas for further research on the factors influencing economic development especially in Jordan.

From a practical point of view, the completion of this anticipated research could enable policy makers in the economic industry to the importance of these financial markets and how they can contribute to the economic activity in the country. Specifically, the findings may be used in the planning, development, implementation and evaluation of the current financial systems used in the country. As there are strong push and pull factors within the economic industry, and the issue of not being able to control current situations especially due to the current COVID-19 pandemic. Having such knowledge can give confidence where to utilise their investments in terms of policy developments.

Overall, the result from this thesis should be of interest for economists and policy makers to get an understanding of the importance of maintaining efficient financial markets.

3.2 Limitations and suggestions for further research

Due to the limited scope, findings and conclusions derived from the study may potentially be limited in generalization. It is possible that the findings and conclusions of this study may not apply to different economic environments outside of the scope of this study. Therefore, it is suggested to focus future studies on a specific category as it could possibly add another dimension to this research.

In general, the suggestions for further research is to expand the scope of this study in order to further verify the findings of the research. For instance, to further expand this study a quantitative analysis can be conducted with either a questionnaire or a survey. Hence, not only a larger sample size could broaden the range of responses, but also future studies on this topic is recommended to be conducted as a qualitative study too. This would allow more detailed, personalized and real answers with reasoning and explanation from millennials instead of just relying on a likert scale to identify their responses.

Additionally, this study's reach was limited by the time it was given to complete the research. Could further research have been done if more time had been sufficient.

Furthermore, given the importance of economic activity as a factor, research shall be taken to identify in more detail. This is to more fully grasp the features of the Jordanian Financial Markets, further studies and research have to be carried out. For example, to better understand the actions and dynamics can be applied a more thorough analysis on the essence of volatility co-movements with other stock exchanges or financial markets.

3.3 Discussion of findings

This study has three research objectives which are; to determine the relationship between Foreign Exchange Markets, Stock Markets and Derivatives Market with Economic activity. This chapter will fill in the research objectives by answering the research questions and discussing in detail, the findings of this study based on the comparison to previous studies.

3.3.1 Impact of Foreign Exchange Markets on Economic Activity

Generally, the findings of this study regarding this variable imply that the such markets can influence economic activity in different ways. Hence, the developed hypothesis is supported. It is important to note that there was not much literature investigated the variables within the Jordanian context. However, in an older study by Sufian & Moise (2010), they discussed the relationship between FDI, economic development, and openness by using data of 36 countries. The results show that some of these variables have a positive impact on the flow of foreign investment, such as GDP and the degree of openness, while some others have negative effects, such as the corruption index, inflation rate, and government spending. Hence, it can be deduced that Foreign Exchange Markets have a significant impact on Economic Activity.

3.3.2 Impact of Stock Markets on Economic Activity

In terms of the impact of Stock Markets on Economic Activity, the findings are quite similar as well. As stock markets are made up of money & capital markets, there are various influences that contribute to the economic activity of a country, and in the case of this study, Jordan. Stock markets aid to channel funds from the surplus side to the deficit side of an economy. The movement of funds and the accessability to international markets impacts the country's GDP. Thus, the country's GDP forms a part from the economic activity hence it can be deduced that stock markets do play a role. In this scenario, the hypothesis developed in the first chapter is supported as there is a significant impact on economic activity.

3.3.3 Impact of Derivatives Markets on Economic Activity

The findings of this study in terms od Derivatives Markets indicates that derivatives market are found to fuel economic growth in a country. As they provide means of risk management for investors who trade and induce financial knowledge. Investors participating within the Jordanian Financial Markets can be more comfortable in trading, the more comfortable they are, the more activity they will induce. Hence, the more activity that is induced, it will leave a significant effect on the economy. Moreover, as the literature within the Jordanian context is not strong and widely available, based on previous studies allow us to conclude that greater efforts to establish derivatives markets would help improve economic growth, thus enhancing economic activity and social stability.

3.4 Future prospects with respect to COVID-19

As we are currently going through a global pandemic, the conclusions of this research differs from the conclusions of previous literature. This is because according to Khatoun & Shamma (2020), concerns about the effect of coronavirus on the global economy and corporate profits have taken financial markets by storm. Middle East North Africa (MENA) markets were also caught up in the crosswinds of coronavirus, following lower global market lead.

So many things occurred during this pandemic that losses were compounded by a massive drop in oil prices after Saudi Arabia pulled out from OPEC+ negotiations and dramatically increased oil output. The virus outbreak is expected to have a temporary, but sharp, impact on consumption and business activity over the coming months. Sectors most likely to be affected include retail, tourism and hospitality, and financial markets which have already experienced a decline in demand (Khatoun & Shamma, 2020).

According to IMF (2020), the economic growth within the middle east will deacrease by -2.8% within this year but will later increase again in 2021. The figure below showcases the estimated economic outlook with regards to COVID-19 impact. It is shown that the economic growth for majority of the regions and countries will decrease tremendously. This is something that the Jordanian government should look out for when approaching the development of the financial markets within the country.

Latest World Economic Outlook Growth Projections

The COVID-19 pandemic will severely impact growth across all regions.

(real GDP, annual percent change)	2019	PROJECTIONS 2020	PROJECTIONS 2021
World Output	**2.9**	**-3.0**	**5.8**
Advanced Economies	**1.7**	**-6.1**	**4.5**
United States	2.3	-5.9	4.7
Euro Area	1.2	-7.5	4.7
Germany	0.6	-7.0	5.2
France	1.3	-7.2	4.5
Italy	0.3	-9.1	4.8
Spain	2.0	-8.0	4.3
Japan	0.7	-5.2	3.0
United Kingdom	1.4	-6.5	4.0
Canada	1.6	-6.2	4.2
Other Advanced Economies	1.7	-4.6	4.5
Emerging Markets and Developing Economies	**3.7**	**-1.0**	**6.6**
Emerging and Developing Asia	5.5	1.0	8.5
China	6.1	1.2	9.2
India	4.2	1.9	7.4
ASEAN-5	4.8	-0.6	7.8
Emerging and Developing Europe	2.1	-5.2	4.2
Russia	1.3	-5.5	3.5
Latin America and the Caribbean	0.1	-5.2	3.4
Brazil	1.1	-5.3	2.9
Mexico	-0.1	-6.6	3.0
Middle East and Central Asia	1.2	-2.8	4.0
Saudi Arabia	0.3	-2.3	2.9
Sub-Saharan Africa	3.1	-1.6	4.1
Nigeria	2.2	-3.4	2.4
South Africa	0.2	-5.8	4.0
Low-Income Developing Countries	5.1	0.4	5.6

Source: IMF, *World Economic Outlook*, April 2020

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Several countries in the world have adopted similar strong steps to control the viral epidemic, similar to others. Those include closures of schools, travel bans, closing of frontiers, limits on religious expression, closing of malls and restaurants and the cancelation of cultural events. Governments also plan stimulus measures and assistance measures to help the economy. The Governments' response to the COVID-19 pandemic by the Gulf Cooperation Council (GCC) was swift and detailed. Both have taken immediate measures to prevent the spread of the virus.

Because of this, Jordan has been quicker than anyone in the region taking drastic steps to curb the spread of the virus by enforcing a tight lockdown that has brought large economic sectors to a standstill. Jordan has halted all international flights and closed all border crossings with Syria , Iraq, and Saudi Arabia for passenger travel and placed a curfew under strict emergency laws.

Moreover, the central bank took a series of measures to mitigate the impact by lowering interest rates and reducing compulsory reserves for commercial banks to inject extra liquidity in excess of 500 million dinars ($705 million) (Al-Khaledi, 2020). It also prodded banks to lend an additional 500 million dinars at interest rates that did not exceed 2 per cent to support firms that were affected by closures(Al-Khaledi, 2020). As the main concern was keeping industry and small businesses from faltering, a resilient banking sector with over 30 billion dinars in deposits underpinned the country 's monetary stability(Al-Khaledi, 2020).

As mentioned in the beginning of this section, since there was an oil fluctuation, according to Fariz, Jordan which imports all its energy needs could benefit from a steep drop in oil prices as the coronavirus pandemic pummels demand as the reduction in oil prices reduces the burden on the economy(Al-Khaledi, 2020).

3.5 Recommendations

The interaction between financial markets represents one of the most persistent questions of financial econometrics, all that in the purpose of train got investigate the main factors that drive prices changes in financial markets. The issue of financial markets and how they can impact economic activity is dependant on how policy makers and governments regulate and develop the market. Therefore, this section will discuss some recommendations.

The author has reviewed some of the studies in order to derive recommendations. One of the studies came to address the case of Jordan after reviewing various studies on a number of states in the Middle East and North Africa (MENA) region, where a number of these studies concluded that there is a relationship between the development of infrastructure and institutions and the efficiency of their financial markets, subject to the presence of oil and mineral wealth in this status (Hamouri, 2014). Hence the importance of this study has emerged to show the relationship between infrastructure and institutions development in Jordan and the efficiency of financial market given that Jordan is scarce in natural resources and oil. Therefore, it is recommended that governments put an effort in improving the building of the financial infrastructure within the country to ensure a safe and low risk environment within the financial markets.

In another study by Mugableh (2019), the researcher states that by increasing government spending, or by cutting taxes, or both can be used to derive growth. But if this strategy fails to achieve the desired rate of growth then the government won't get the required collection of tax revenue to fund government spending in the coming years.

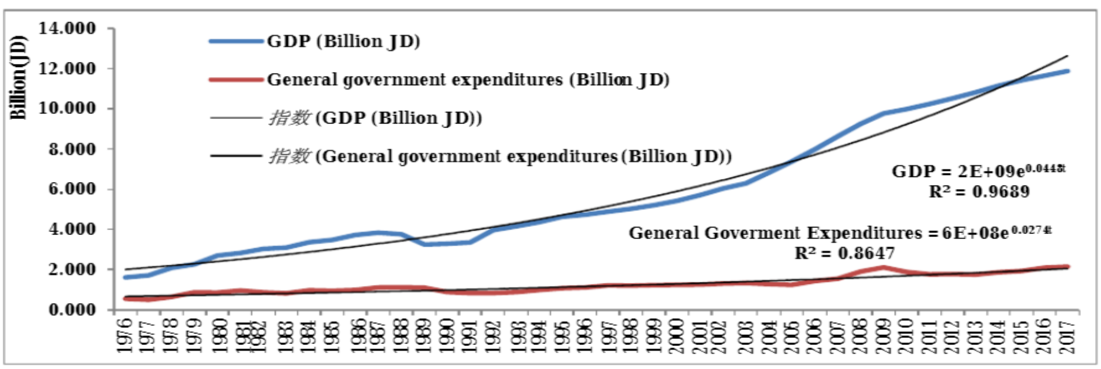

Figure 10: GDP growth rates in Jordan up to the period of 2017

As seen in the figure above, the GDP growth rate for the period (1976-2017) is highly symmetrical, with an average of 4.5 percent. Likewise, with an average of 2.7 percent, the growth rate of general government spending was steadily increasing. Hence, his hypothesis has been supported.

Therefore recommendations can be derived on the basis of the above findings. Jordan 's government policymakers should focus on introducing expanded fund facility projects for the International Monetary Fund, and the Jordan Economic Growth Plan 2018-2022. Such projects will achieve macroeconomic targets. In addition, Jordan's government policy makers should pursue an expansionary fiscal policy to improve long-run and short-run economic growth.

Generally speaking, despite the current COVID- 19 pandemic the Middle Eastern economies are fast growing, Jordanian companies and financial institutions are proactively expanding. In view of such global expansion, it is necessary to contribute to the enhancement of market functions in the entire Middle East region and to the growth of ME economies by providing maximum financial support to help exercise their full potential.

To pave the way for Jordan's economy and financial and capital markets to grow alongside ME economies, it is also necessary for governors to help countries in developing their financial infrastructure, as well as to establish a business climate that is conducive for Jordanian companies and financial institutions to operate in Middle Eastern nations .

In order to achieve a more sophisticated and competitive Jordanian economy, steps need to be taken to assist foreign investment in Jordan too. At the same time, Jordanian companies, which have just started to engage in forward-looking investments in the midst of moving away from deflation, need to further enhance their competitiveness by reforming their management structure and industrial structure, with the Middle Eastern (ME) companies rapidly increasing their competitiveness(OECD, 2016). Companies are expected to improve their appeal for investment from the standpoint of supplying risk capital and financing for increasing companies, whereas financial intermediaries and asset managers are expected to provide diverse and desirable financial products and services.

In light of this, strategic steps need to be taken aimed at significantly improving comprehensive financial knowledge, such as the ability of financial institutions to recognize companies with growth potential and support their growth by offering consultancy services, their ability to provide high-quality products and services and the ability of institutional investors and fund managers in finance (OECD, 2016). Therefore, in order for Jordan to grow alongside the ME area, it is important for Jordanian companies to aggressively expand to the ME on the premise of active and healthy turnover in Jordanian industries and businesses while at the same time gaining the trust of international peers in Jordanian industries and businesses' competitiveness and economic environments.

In addition , in order to change the flow of funds and increase the attractiveness of Jordan's financial and capital markets globally, in addition to reviewing financial regulations, it is necessary to secure and develop highly qualified human resources with a high level of global business expertise in the respective industries, including institutional investors and financial institutions (IMF, 2020)

Another very important recommendation is for the government to improve the attractiveness of various business and living environments surrounding Jordan's financial and capital markets also needs to be enhanced. Such fundamental business-life reforms are also essential in sustaining and improving the international competitiveness of Jordan's financial and capital markets. Meanwhile, manufacturing is the strength of Jordan as it seeks to sustain and improve the international competitiveness of the country and its economic activity.

Another recommendation for financial institutions and industries to establish a relationship when considering the growth strategy for financial and capital markets, in which the two grow in tandem, just like two cart wheels (FSA, 2013). This partnership, developed through a process where financial institutions not only provide industry financing but also provide high-value - added consulting to industries and use discerning growth potential capabilities, which in turn leads to value creation in real economic activities, is important. It should be noted that the vitalization of financial enterprises does not contribute to sustainable growth, not in conjunction with the creation of real economic activities (FSA, 2013).

It is important to take advantage of this opportunity to vitalize the financial and capital markets by, for example , setting the target of establishing a leading position as an international financial center by 2020 (aspiring to become the number one international financial center of the Middle East in 2020). Thus, it is recommended to take a picture of each problem in 2020, and taking strategic and courageous action to achieve and overcome such issues.

In terms of the recommendations regarding stock markets, it is important to note that It 's important for all countries to understand stock market return behaviour. The degree of stock market volatility leads investors to demand a higher risk premium, creating higher capital costs that impede investment and slow economic development.

Moreover, a lot of literature suggests there are many factors that influence stock market returns. Some of the more common ones include goods prices, money supply, real activities, exchange rates, political risks, climate risks, oil prices, changes / realignment in the trading sector and movements in the foreign stock market. In the Jordanian context, it could be said that money supply, real activities, oil prices and movements in foreign stock markets could have a significant influence on the returns on the stock market. These factors may have some consequences for investors in Jordanian Bursa because volatility in stock returns stems from the fact that stock returns can no longer be seen as bearing their true intrinsic value and would lead investors to lose confidence in the stock mark which would then negatively impact economic activity.

Last but not least, as discussed in the section above the COVID-19 pandemic is affecting emerging markets through an unprecedented combination of domestic and external shocks, the combined effects of which are very difficult to forecast. Emerging markets face a sharp tightening of global financial conditions, including others. They key question for policy makers is how to make their economies more resilient to downturns. Good interventions by these policy makers are crucial to avoid the risk of worse results, and the steps required to minimize contagion and protect lives are an significant investment in human and economic health in the long term (IMF, 2020).

Hence, it is recommended for policy makers because the economic effect is severe in particular industries, policymakers would need to enact substantial targeted political , monetary, and financial-market interventions to help domestically impacted households and businesses. And globally, effective multilateral cooperation is important for overcoming the pandemic 's impacts, including supporting financially distressed countries facing twin health and funding shocks, and channeling assistance to countries with poor healthcare systems. This all leads to positive economic activity.

3.6 Conclusion

The current economy is ongoing a huge shift as pandemics arise and economic situation fluctuate. The purpose of this study was to research the impact of Financial Markets on Economic Activity. Thus, the course of this study being mainly to identify and analyze the three identified factors; Foreign Exchange Markets, Stock Markets, and Derivative markets affecting the Economic Activity in Jordan. To do so, the researcher has followed the steps of an academic research beginning from chapter one till chapter three. Generally, the research objectives set in first chapter were achieved as this study has identified the relationship between the identified factors and Economic Activity in Jordan. The findings of this study indicated that all the stated variables do have a significant impact on Economic Activity,

The first research objective was aimed at assessing the relation between Foreign Exchange Market with Economic Activity. The findings have determined that Foreign Exchange Market does have an impact on economic activity. This is because a strong exchange rate translates into a country's economic strength. A good exchange rate shows that the country has low inflation which then enhances competition in market and providing better performance economically. Therefore, the hypothesis developed was supported and this variable was found to be positively correlated and significant to economic activity.

The second objective was also achieved as the relationship between Stock Markets and Economic Activity was found to be positively correlated and significant. Various findings have supported the notion where Stock Markets was found to be the major factor influencing economic growth which shows activity. As the stock markets consist of Money Market and Capital Markets, these two variables influence economic activity differently. To sum it up, money market acts as intermediation to channel funds from the surplus side to the deficit side that facilitate trade and commerce which contributes to economic activity. Additionally, capital markets influence the GDP growth rate. . Thus, the development of the stock market smoothens the progress of financial intermediation and boosts lending to economy.

Lastly, the relationship between Derivatives Markets and Economic Activity was determined as correlated but not can vary in terms of the impact being significant. Based on the findings and previous studies, if the derivatives markets were sustained and investors were able to trade, it can contribute to improving the economic activity. Thus, this can be dependent on the overall situation and the fluctuation of the market. Hence, it is realized that there can be a significant relationship however Derivatives Market is a notion yet to be further explored.

Concluding, financial markets have become national and global economies' referees and judges in recent decades. In addition, little escapes the attention of these markets: domestic macroeconomic output reflects on the capital market; governmental economic policies (fiscal, political, monetary, and social) are measured on stock and bond exchange markets, and the output of state and private companies is also assessed by trading stocks and bonds on the financial markets.

For emerging economies such as Jordan, the establishment and growth of the financial markets involved or involves a process of reforming the financial system, adjusting to investor demands, implementing new norms on the extent of internal forces and in line with integration requirements in a regional or broader international context, insuring and sustaining economic and financial settings To conclude, financial markets really promote countries' growth by bringing together investors, individuals, and governments who have capital or need it. The financial markets are therefore actively engaged in building and growing a sustainable economy.

Financial markets like foreign exchange markets, equity markets, and derivative markets help to efficiently channel savings and investment flows in the economy in ways that promote capital accumulation and goods and services production. The combination of well-developed capital markets and banks, as well as a range of financial products and instruments, is geared to the needs of borrowers and lenders, and thus the economy as a whole. This can either boost or destroy Jordan's economic activity, depending on the global situation worldwide.

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