

Evaluating the Effectiveness of Monetary and Fiscal Policies in Managing Macroeconomic Stability

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Abstract. The purpose of this study was to evaluate the effectiveness of monetary and fiscal policies, including interest rates, open market operations, discount rate, and forward guidance, on macroeconomic stability from the perspective of employees of commercial banks listed on the Kuwait Stock Exchange. A quantitative methodology was adopted, and a questionnaire was used to collect primary data from 337 employees working in 9 commercial banks listed on the Kuwait Stock Exchange.

The results of the study supported the main hypothesis, suggesting that monetary and fiscal policies have the ability to positively influence macroeconomic stability, with an R-value of .594. The study found that these policies could affect macroeconomic stability by affecting the availability and cost of credit in the economy. Specifically, monetary policy can influence the level of investment, consumption, and aggregate demand, which can have a significant impact on macroeconomic stability.

However, the effectiveness of monetary and fiscal policies in managing macroeconomic stability depends on various factors. Both policies have their strengths and weaknesses, and their effectiveness depends on the state of the economy and the government's ability to implement policy quickly and effectively. Ultimately, a combination of both monetary and fiscal policies may be necessary to achieve macroeconomic stability.

The study recommends identifying policy gaps, developing effective policy responses, and choosing the right policy instruments to better coordinate policies and strengthen economic growth. Overall, this study provides valuable insights into the effectiveness of monetary and fiscal policies on macroeconomic stability and highlights the importance of policymakers in promoting economic stability.

Keywords: Monetary Policy, Fiscal Policy, Interest rates, Open market operations, Discount rate, Macroeconomic, Stability, Forward guidance

1. Introduction

Monetary and fiscal policies are two important tools that governments use to manage macroeconomic stability. The monetary policy is the process by which a central bank controls the supply of money and the interest rates in an economy (Dafermos et al, 2018), while fiscal policy refers to the use of government spending and taxation to regulate the economy (Krogstrup and Oman, 2019). In general, an expansionary monetary policy, which involves increasing the money supply and lowering interest rates, can stimulate economic growth, while a contractionary monetary policy, which involves decreasing the money supply and raising interest rates, can slow down inflation (Smets, 2018).

According to Melnyk et al (2018), an expansionary fiscal policy, which involves increased government spending or decreased taxation, can increase economic growth, while a contractionary fiscal policy, which involves decreased government spending or increased taxes, can slow down inflation. Hirose et al (2020) argued that the proper coordination of monetary and fiscal policies can lead to macroeconomic stability by promoting sustainable economic growth, maintaining price stability, and minimizing economic volatility. When both monetary and fiscal policies are enacted with consistency and coordination, they can work together to ensure a stable and productive economic environment that benefits both individuals and businesses (Chugunov et al, 2021).

Launching from the argument above, current study aimed at examining the effectiveness of monetary and fiscal policies (Interest rates, Open market operations, Discount rate and Forward guidance) on macroeconomic stability within Kuwait from perspective of employees in commercial banks listed on the Kuwait Stock Exchange.

2. Literature Review

2.1. Monetary and Fiscal Policies

Corsetti et al (2019) defined monetary policy as the use of interest rates, money supply, and other monetary tools by a central bank to manage a country's economy, control inflation, and stabilize the currency. Coenen et al (2019) also defined monetary policies as government's management of the money supply and interest rates to achieve economic goals such as price stability, full employment, and economic growth.

On the other hand, Afonso et al (2019) defined fiscal policies as the use of government spending and taxation policies to regulate the economy, stabilizing it in times of recession or influencing it towards a desired growth trajectory. Fiscal policies can be also defined as the deliberate use of government revenue and expenditure to influence economic activity and achieve macroeconomic objectives such as full employment, price stability, and economic growth.

According to Mishchenko et al (2019), monetary policy and fiscal policy are two tools used by governments to achieve economic goals. Bianchi et al (2020) noted that monetary policy is to actions taken by a central bank, such as the (Federal Reserve in the United States), to manage the money supply and interest rates in order to stabilize and regulate the economy, this can include setting interest rates, buying or selling government securities, and setting reserve requirements for banks. On the other hand, fiscal policy are actions taken by the government to influence the economy through spending and taxation, which play a role in increasing or decreasing government spending, changing tax rates or tax policies, and implementing stimulus packages to boost economic activity (Mussa, 2019).

According to Bianchi and Melosi (2019) both monetary policy and fiscal policy are used to promote economic growth, manage inflation, increase employment levels, and encourage investment. They can be used in combination to achieve a desired outcome or in a targeted manner to address specific economic challenges (Corsetti et al, 2019).

2.2. Examples of Monetary and Fiscal Policies

Given the fact that monetary policies are decisions that central banks take to manage the money supply

and interest rates in an economy, and fiscal policies are decisions made by governments regarding how they collect and spend money, both policies are based on multiple aspects that include Evans et al (2018), Bhandari et al (2021), Chugunov et al (2021), Jarociński and Maćkowiak (2018), Karwowski and Centurion-Vicencio (2018) and Hansen (2018):

Interest rates

Central banks can use their power of setting interest rates to either stimulate or reduce economic activity, this takes place by increasing interest rates, the central bank can reduce inflationary pressures and cool an overheated economy. Alternatively, by lowering interest rates, the central bank can stimulate economic activity and boost inflation.

Open market operations

This aspect is based on the fact that central banks can buy or sell assets such as government bonds or securities to influence the supply of money in the economy. In expansionary policies, central banks can purchase assets, increasing the money in circulation, and vice versa.

Discount rate

This aspect indicates that central banks can influence discount rates by buying or selling currency which influences the exchange rate of the domestic currency to others, depending on the goals of an economy.

Forward guidance

Forward guidance is a monetary policy tool used by central banks to communicate their intended future policy decisions to the public; it is a form of communication that aims to influence expectations about the future path of interest rates, inflation, and other economic variables. Forward guidance can be used to signal the future course of monetary policy, if policy makers plan to continue their current policies, or if they plan to make changes in response to changing economic conditions.

Reserve requirements

Central banks can set reserve requirements, which specify the minimum amount of money that banks must keep with them as reserves. By lowering these requirements, central banks can increase the amount of money that banks can lend and vice versa.

Tax policies

Governments can use tax policies to increase or decrease the amount of money circulating in the economy. For example, lowering taxes can encourage businesses and individuals to spend more money, while increasing taxes can reduce spending.

Government spending

Governments can directly control spending by investing in public services such as healthcare, education, and infrastructure. Increased spending can create jobs and stimulate the economy, while reduced spending can reduce deficits.

Stimulus packages

In times of economic downturn or recession, governments can implement stimulus packages to inject money into the economy. These packages can take many forms including tax incentives, direct payments, and government spending.

Deficit spending

Governments can also choose to run a deficit by spending more money than they collect in taxes. This can be a controversial policy as it can lead to increased debt and interest payments over time.

Austerity measures

In contrast to deficit spending, austerity measures involve reducing government spending to balance the budget. This can involve cutting programs and services, reducing salaries and benefits, and increasing taxes.

2.2.1. Effectiveness of Monetary and Fiscal Policies

According to Galí (2018), monetary and fiscal policies are two important tools that governments use to manage their economies. Monetary policy involves the control of money supply and interest rates, while fiscal policy involves the management of government spending and taxation (Mason and Jayadev, 2018). Both policies are aimed at promoting economic stability, growth, and development. Benmelech and Tzur-Ilan (2020) argued that monetary policy is often used by central banks to influence the economy. The main tool used in this policy is the manipulation of interest rates. By adjusting the interest rates, central banks can either stimulate or restrict economic activity. For instance, during times of economic recession, central banks can lower interest rates to encourage borrowing and investment, leading to increased economic activity. Similarly, during times of high inflation, central banks can raise interest rates to discourage borrowing and spending, leading to decreased economic activity (Schnabl, 2018).

Lawal et al (2018) stated that one major advantage of monetary policy is its speed and flexibility. Central banks can quickly respond to changes in the economy by adjusting interest rates, moreover, monetary policy can be easily implemented without the need for approval from other entities such as the legislative branch of government. However, one major disadvantage of this policy is that it is largely dependent on the willingness of banks to lend money. If banks are unwilling to lend, the impact of the policy may be limited (Hachula et al, 2020).

Siregar et al (2021) added that fiscal policy involves government spending and taxation, the objective of fiscal policy is to influence demand and economic activity through these two mechanisms. By increasing government spending, the government can stimulate demand and economic activity. Similarly, by decreasing taxes, the government can increase disposable income leading to increased spending and economic activity (Diessner and Lisi, 2020). Al-Hadi and Al-Abri (2020) noted that one major advantage of fiscal policy is its direct impact on the economy. Government spending can create jobs and stimulate economic activity, especially in times of economic recession (Chishti et al, 2021). Moreover, fiscal policy can be used to address income inequality by providing social welfare programs that support low-income earners. However, a major disadvantage of fiscal policy is the time lag between when policies are initiated and when they take effect. Moreover, government spending can lead to increased borrowing, leading to higher levels of debt (Chan, 2020).

2.3. Macroeconomic Stability

According to Ibragimov et al (2019), macroeconomic stability refers to the ability of an economy to maintain stable and healthy economic growth while minimizing market fluctuations and economic instability. The aim of macroeconomic stability is to promote sustainable economic growth and create favorable conditions for businesses, individuals, and households to thrive (Campbell et al, 2021). Melnyk et al (2018) argued that macroeconomic stability is a critical component of any stable economy. Bilan et al (2019a) added that stability in macroeconomic variables such as inflation, unemployment, and GDP growth are necessary to ensure that individuals and businesses can forecast economic prospects accurately, enabling them to make business decisions.

From another perspective, Palienko and Lyulyov (2018) noted that macroeconomic stability promotes macroeconomic growth by increasing long-term investment potential and improving resource allocations, it creates a dynamic and predictable investment environment that creates a conducive environment for savings, investment, and long-term funding.

However, Hirose et al (2020) saw that in addition to enhancing investment and growth, macroeconomic stability has several other important benefits. One key benefit is promoting financial stability, Brychko et al (2021) agreed on this arguing that healthy and stable economic growth contributes to a stable financial sector that reduces financial instability and crises.

In addition to that, Sobirovna et al (2021) stated that macroeconomic stability also helps to reduce the level of uncertainty and ambiguity that individuals, businesses, and governments experience in their daily economic activities. Given the current macroeconomic uncertainties, such as the impact of

COVID-19, macroeconomic stability provides businesses with the much-needed certainty and stability required to flourish (Lieonov et al, 2018).

2.3.1. Drivers of Macroeconomic Stability

Bilan et al (2019b) noted that there are several drivers of macroeconomic stability, one of the primary drivers is a stable money supply and low levels of inflation as inflation can lead to uncertainty and reduce confidence in the economy, inhibiting investment and growth. Additionally, a stable labor market with low levels of unemployment can help promote macroeconomic stability by maintaining consumer confidence and buoying economic output (Roszko-Wójtowicz and Grzelak, 2020). Liulov et al (2020) added that sound fiscal policy, such as responsible taxation and government spending, also plays a key role in achieving macroeconomic stability by promoting high levels of confidence in the economy and discouraging risky financial behaviors. Finally, well-designed monetary policies with effective regulation and supervision of financial markets and institutions can help maintain overall macroeconomic stability (Bilan et al, 2019c; Vasylieva et al, 2018).

2.4. Related Studies

Dafermos et al (2018) explored the links between climate change, financial stability, and monetary policy. The authors used a multidisciplinary approach to examine the potential impact of climate change on financial stability and the role that monetary policy can play in mitigating these risks. The article draws on existing literature and policy documents to build a comprehensive overview of the topic. Authors reached conclusion that climate change poses significant risks to financial stability, as extreme weather events and changes in climate patterns could lead to financial shocks. Furthermore, the article highlights that while monetary policy cannot directly address climate change, it can play a crucial role in mitigating the financial stability risks associated with climate change. Finally, the article argues that policymakers need to incorporate climate risks into their policy decisions and work towards a coordinated approach that addresses the challenges posed by climate change.

Smets (2018) explored the relationship between financial stability and monetary policy. To achieve the objective of this article, authors have conducted an extensive literature review of various research studies, reports, and publications. They analyzed the key concepts and frameworks related to financial stability and monetary policy, as well as the empirical evidence on the interlinkages between the two. They also examined the challenges and opportunities for the effective coordination between monetary policy and financial stability policy. Based on authors' analysis, it can be concluded that financial stability and monetary policy are closely interlinked. While monetary policy aims to maintain price stability and promote economic growth, financial stability policy focuses on maintaining the stability of the financial system and safeguarding against systemic risks. The two policies share common objectives, but their approaches and tools differ. Therefore, effective coordination between the two is essential to ensure overall macroeconomic stability. However, achieving this coordination can be challenging due to the complexity of the financial system and the uncertainty of the economic environment. Hence, policymakers need to adopt a forward-looking and flexible approach that takes into accounts the evolving risks and uncertainties in the economy and financial system.

Krogstrup and Oman (2019) reviewed the literature on macroeconomic and financial policies that can be used to mitigate climate change. The article aimed to provide an overview of the main policy tools that have been proposed and evaluate their effectiveness in achieving climate change mitigation goals. To achieve the aim of the article, the authors conducted a comprehensive review of the literature on macroeconomic and financial policies for climate change mitigation. The review included academic journals, books, reports, and other published materials related to the topic. The authors used a systematic approach to analyze each policy tool and evaluate its effectiveness in reducing greenhouse gas emissions. The article concluded that a combination of macroeconomic and financial policies can be an effective way to mitigate climate change. The review found that policies such as carbon pricing,

subsidies for renewable energy, and green bonds can be effective in reducing greenhouse gas emissions. However, the authors also note that the success of these policies depends on a number of factors, including their design, implementation, and the political and economic environment in which they are implemented. In conclusion, the article emphasizes the need for a coordinated and comprehensive approach that involves a combination of macroeconomic and financial policies to successfully mitigate climate change.

Melnyk et al (2018) aimed to analyze the relationship between fiscal decentralization and macroeconomic stability in Ukraine's economy. The authors used empirical analysis to examine the impact of fiscal decentralization on macroeconomic stability in Ukraine. They collected data from various sources, including the Ukrainian government's fiscal statistics and the International Monetary Fund's World Economic Outlook database. The authors use statistical models to estimate the effect of fiscal decentralization on key macroeconomic variables such as inflation, budget deficits, and public debt. The article concluded that fiscal decentralization can have a positive impact on macroeconomic stability in Ukraine. The authors found that greater fiscal decentralization is associated with lower budget deficits and public debt, as well as reduced inflation. However, the authors also note that fiscal decentralization can also have negative effects if not implemented properly, such as increasing regional disparities and reducing the efficiency of public spending. Therefore, the authors recommend that Ukraine continue its efforts to gradually introduce fiscal decentralization while also taking steps to address associated challenges. Overall, the article provides useful insights into the complex relationship between fiscal decentralization and macroeconomic stability in the context of Ukraine's economy.

Hirose et al (2020) aimed to examine the relationship between monetary policy and macroeconomic stability, particularly in light of recent economic events and changes in monetary policy frameworks. The author used a literature review approach to examine recent research on the impact of monetary policy on macroeconomic stability. The article also analyses the role of monetary policy in stabilizing the economy during the COVID-19 pandemic and the shift towards inflation targeting frameworks by central banks across the world. The article concluded that while monetary policy has traditionally been a key tool for achieving macroeconomic stability, the recent economic events have challenged the effectiveness of traditional monetary policy frameworks. The article suggests that the central banks should adopt a more flexible approach that integrates both fiscal and monetary policy tools to achieve long-term macroeconomic stability. Moreover, the study highlights the need for central banks to maintain their independence and credibility in implementing monetary policy in order to effectively achieve macroeconomic stability.

Chugunov et al (2021) aimed to analyze the role of both fiscal and monetary policies in promoting economic development. In this article, authors reviewed and analyzed the existing literature on fiscal and monetary policies and their impact on economic development. They examined the various tools and instruments within these policies that can be used to stimulate economic growth, reduce unemployment, and promote economic stability. They also explored the trade-offs and limitations that policymakers face when implementing these policies, such as inflationary pressures and increase in public debt. Study results indicated that both fiscal and monetary policies can be effective in promoting economic development, as long as they are implemented with appropriate considerations of the current economic conditions and long-term objectives. Fiscal policies, such as taxation and public spending, can be used to influence the aggregate demand and supply of goods and services, while monetary policies, such as setting interest rates and controlling money supply, can affect the availability and cost of credit. However, policymakers must be mindful of the potential trade-offs and limitations of these policies, as they can have unintended consequences in the long run, such as inflation and higher public debt. By balancing the benefits and limitations of these policies, policymakers can promote economic growth and development while ensuring economic stability and sustainability.

Corsetti et al (2019) explored the interplay between macroeconomic stabilization, monetary and fiscal policies, and their impact on Europe's monetary union. The article employed a theoretical framework to analyze the role of monetary and fiscal policies in addressing macroeconomic challenges faced by the Eurozone. The analysis is based on existing literature, empirical evidence, and policy experience. It was concluded that effective macroeconomic stabilization requires a coordinated approach to monetary and fiscal policies. The Eurozone faces unique challenges that require policy interventions beyond conventional tools. The European Central Bank's monetary policy should be accommodative to support economic growth, while fiscal policy should address structural issues. Fiscal discipline and coordination among member states are essential for long-term stability. The paper argues that the Eurozone's monetary union can be strengthened by greater integration of fiscal policies and a common approach to macroeconomic stabilization.

Coenen et al (2019) investigated the effectiveness of different policy tools, such as state-dependent forward guidance, large-scale asset purchases, and fiscal stimulus in a low-interest-rate environment. The authors used a macroeconomic model to simulate the effects of these policy tools in a low-interest-rate environment. They studied the impact of these policies on inflation, output, and other relevant macroeconomic variables. The authors concluded that state-dependent forward guidance, implemented by the central bank, could be a potent tool to stimulate the economy in a low-interest-rate environment. They found that this policy could increase inflation and output, while avoiding the risks of a sharp increase in interest rates. Furthermore, the authors found that the effectiveness of large-scale asset purchases and fiscal stimulus policies in a low-interest-rate environment could be limited. However, the authors argue that the effectiveness of these policies could be enhanced if they were used in conjunction with state-dependent forward guidance.

Launching from related studies above, and linking to the literature review presented earlier, researcher was able to build a model that highlighted the relationship between variables and from which hypotheses of study were extracted:

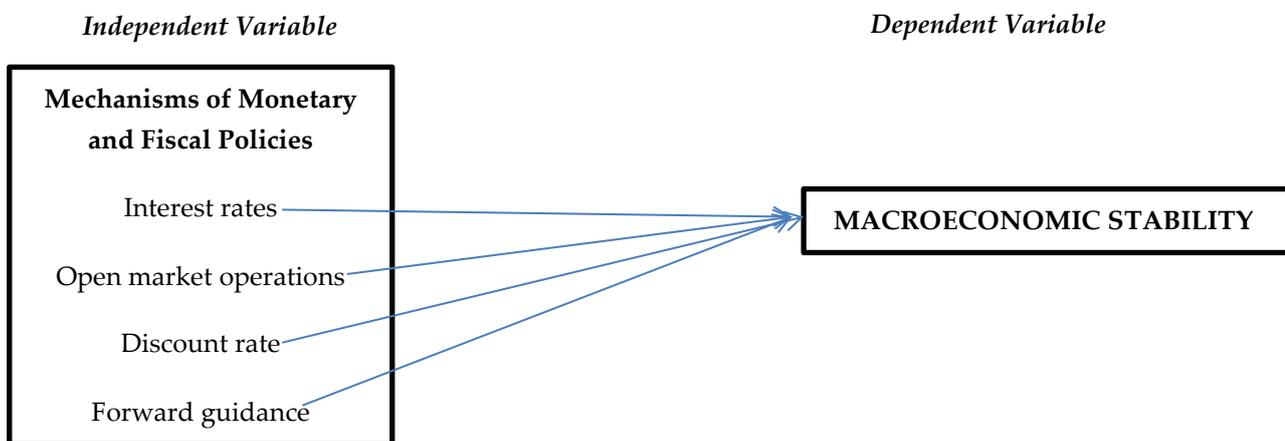


Fig. 1: Study Model (Corsetti et al, 2019; Coenen et al, 2019)

From the above model, researcher was able to extract the following set of hypotheses:

Main Hypothesis:

H: Mechanisms of Monetary and Fiscal Policies have a statistical positive influence on managing macroeconomic stability in central bank of Kuwait

Sub-Hypotheses:

H1: Interests rates have a statistical positive influence on managing macroeconomic stability in central bank of Kuwait

H2: Open market operations have a statistical positive influence on managing macroeconomic stability in central bank of Kuwait

H3: Discount rates have a statistical positive influence on managing macroeconomic stability in central bank of Kuwait

H4: Forwards guidance has a statistical positive influence on managing macroeconomic stability in central bank of Kuwait

3. Materials and Methods

3.1. Methodological Approach

As an approach to realize main aim of study, author adopted the quantitative methodology due to its suitability in depending in numerical results for explaining the phenomenon of study.

3.2. Tool of Study

A questionnaire was developed by researcher with the aid of previous studies. The questionnaire contained two main sections; the first was demographics of sample while the other section contained statements related to variables of study. the questionnaire was built on Likert 5-point scale (1) Strongly disagree; (2) Disagree; (3) Neither agree nor disagree; (4) Agree; (5) Strongly agree and it was presented before a group of specialized academics in the field for the sake of arbitration. After arbitration process the questionnaire was modified and fixed and resulted in [28] paragraphs.

3.3. Population and Sampling

Population of study consisted of employees working in the [9] commercial banks listed on the Kuwait Stock Exchange. A random sample of (368) employees and administrators commensurate with the objectives of the study was drawn to represent the study population that reached. After application process, researcher was able to retrieve (337) properly filled questionnaire which indicated a response rate of (91.5%) as statistically accepted.

3.4. Data Analysis Techniques

Statistical package for social sciences SPSS was utilized in order to examine and process the collected primary data. Cronbach's alpha is used to determine how well a questionnaire has been designed to measure its intended outcomes. If alpha is more than or equal to 0.70, the outcome is considered good; in this case, alpha = 0.902. Other statistical tests included frequency and percentage, mean and standard deviation, multiple regression, and multicollinearity test.

4. Analysis and Discussion

4.1. Demographics Results

Descriptive analysis of sample demographics was calculated in table below. It was seen that majority of sample were females forming (51.3%) who were within age range of more than 37 years and formed (59.1%) of the total sample. Also, analyzing demographics of study indicated that majority of the sample held PhD degree forming (85.8%) and with experience in the field that ranged between 6–9 years forming (58.2%) of total sample.

Table 1. Demographics

	f	%
Gender		
Male	164	48.7
Female	173	51.3
Age		

	25-30	5	1.5
	31-36	133	39.5
	+37	199	59.1
Education			
	BA	45	13.4
	MA	3	.9
	PhD	289	85.8
Experience			
	2-5	131	38.9
	6-9	196	58.2
	1-13	9	2.7
	+14	1	.3
	Total	337	100.0

4.2. Questionnaire Analysis

Mean and standard deviation of questionnaire statements were tested and it appeared that sample individuals had positive attitudes towards statement of questionnaire given that they all scored higher than mean of scale 3.0. The highest mean was scored by the variable (Interest rates) with a mean of 4.21/5.00 compared to the lowest (Discount rate) and scored 4.08/5.00. In terms of statements, it appeared that the highest mean 4.32/5.00 was scored by the statement articulated "Interest rates are a tool used by central banks as a mechanism of monetary policy to influence economic activity" compared to the least statement scoring a mean of 3.99/5.00 and was articulated "Central banks play a crucial role in managing macroeconomic stability by using tools such as open market operations, the discount rate, and forward guidance".

Table 2. Descriptive Statistics

Statement	Mean	Std. Deviation
Interest rates are a tool used by central banks as a mechanism of monetary policy to influence economic activity	4.329	.803
Lowering interest rates can lead to increased borrowing and investment, stimulating economic growth and increasing employment	4.166	.594
Raising interest rates can slow down borrowing and investment, reducing inflation and preventing the economy from overheating	4.151	.667
Interest rates affect the exchange rate of a currency, as higher interest rates can attract foreign investment and increase demand for the currency.	4.196	.692
Fiscal policy can influence interest rates through government borrowing, which can increase interest rates and affect the availability of credit in the economy	4.220	.663
Interest rates	4.212	.507

Open market operations are buying and selling of government securities in order to influence the money supply and interest rates in the economy.	4.211	.664
Open market operations are used to control inflation	4.261	.648
Open market operations can promote economic growth by adjusting the supply of money and credit in the economy	4.226	.700
Open market operations can inject new money into the economy, leading to an increase in the money supply and a decrease in interest rates	4.190	.831
Open market operations can be used to adjust money supply and interest rates in response to changing economic conditions.	4.154	.645
Open market operations can be used as a mechanism of fiscal policy to finance government spending by selling government securities.	4.104	.667
Open market operations	4.191	.460
The discount rate is a key mechanism of monetary policy to influence the money supply and credit conditions in the economy.	4.134	.734
The discount rate is the interest rate at which commercial banks can borrow funds from the central bank.	4.101	.683
By lowering the discount rate, the central bank encourages commercial banks to borrow more money, increasing the money supply and stimulating economic growth.	4.015	.688
Raising discount rate, the central bank discourages borrowing and reduces the money supply, helping to control inflation	4.077	.690
The discount rate affects the interest rates that commercial banks charge their customers for loans and credit, as they use the discount rate as a benchmark.	4.092	.668
Discount rate	4.084	.507
Forward guidance is a mechanism of monetary policy used to influence market expectations about future interest rates and economic conditions.	4.134	.726
Forward guidance involves communicating to the public and financial markets the future path of interest rates and other monetary policy actions.	4.113	.681
Providing clear and transparent guidance about future policy actions can influence market expectations and encourage more sustainable economic growth.	4.214	.687
Forward guidance can help to stabilize financial markets and reduce uncertainty by providing a predictable policy framework.	4.270	.646
Effectiveness of forward guidance depends on the credibility of the central bank and its ability to deliver on its promises.	4.184	.810

Forward guidance	4.183	.477
Managing macroeconomic stability is a key goal of economic policy, aimed at maintaining a stable and sustainable level of economic growth and stability.	4.139	.604
Macroeconomic stability is typically measured by indicators such as GDP growth, unemployment rate, inflation rate, and balance of payments.	4.151	.658
To manage macroeconomic stability, policy makers use a combination of monetary and fiscal policies, including interest rate adjustments.	4.202	.720
Central banks play a crucial role in managing macroeconomic stability by using tools such as open market operations, the discount rate, and forward guidance	3.991	.675
Fiscal policy involves government spending and taxation policies that can affect the level of aggregate demand and the overall level of economic activity in the economy.	4.175	.678
Macroeconomic Stability	4.132	.484

4.3. Multicollinearity test

VIF and Tolerance calculations were performed on the independent variables to test for multicollinearity. The following results were found as a direct result of these computations

Table 3. Multicollinearity

variable	Tolerance	VIF
Interest rates	.611	1.638
Open market operations	.475	2.105
Discount rate	.562	1.780
Forward guidance	.625	1.599

All of the VIF values in the aforementioned table are under 10, and all of the Tolerance values are over 0.10, hence multicollinearity is not present in the data in a study (Gujarati & Porter, 2009).

4.4. Hypotheses Testing

H: Mechanisms of Monetary and Fiscal Policies have a statistical positive influence on managing macroeconomic stability in central bank of Kuwait

Table 4. Hypothesis Testing

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	R	R Square
		B	Std. Error	Beta				
1	(Constant)	1.021	.234		4.358	.000	.594	.352
	Interest rates	.138	.054	.145	2.568	.011		
	Open market operations	.176	.067	.168	2.616	.009		
	Discount rate	.182	.056	.191	3.246	.001		

Forward guidance	.250	.057	.246	4.409	.000		
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Using multiple regression, we test the aforementioned hypothesis, and the resulting F value of 45.1777 is statistically significant at the 0.05 level. This suggests Mechanisms of Monetary and Fiscal Policies have a statistical positive influence on managing macroeconomic stability in central bank of Kuwait. In addition, it was found that the independent variables account for 35.2% of the variance in the variable under study ($r=0.594$ indicates a medium degree of correlation). The table of coefficients shows that all t-values are significantly different from zero at the 0.05 level, indicating:

1- Interests rates have a statistical positive influence on managing macroeconomic stability in commercial banks of Kuwait, since t- value = 2.568 was significant at 0.05 level

2- Open market operations have a statistical positive influence on managing macroeconomic stability in commercial banks of Kuwait, since t- value = 2.616 was significant at 0.05 level

3- Discount rates have a statistical positive influence on managing macroeconomic stability in commercial banks of Kuwait, since t- value = 3.246 was significant at 0.05 level

4- Forwards guidance has a statistical positive influence on managing macroeconomic stability in commercial banks of Kuwait, since t- value = 4.409 was significant at 0.05 level

4.5. Discussion

Current research study aimed at evaluating the effectiveness of monetary and fiscal policies (Interest rates, Open market operations, Discount rate and Forward guidance) on macroeconomic stability from the perspective of employees working in commercial banks listed on the Kuwait Stock Exchange. A convenient sample of (337) employees working in [9] commercial banks listed on the Kuwait Stock Exchange was chosen to respond to a questionnaire, and SPSS was adopted in order to process primary data. Results of study were able to present the following findings:

- Respondents appeared to have full awareness of monetary and fiscal policies related to macroeconomic stability as they were able to navigate and respond to the questionnaire with minimum help required

- It was seen through analysis that the financial sector in Kuwait apply and have full awareness of all monetary and fiscal policies on the domestic level of Kuwait and on the international level which revealed a high and powerful infrastructure of banking sector in the state of Kuwait

- Main hypothesis of study was accepted with $R = .594$ indicating that it can be generalized

Current study hypothesized that "*Mechanisms of Monetary and Fiscal Policies have a statistical positive influence on managing macroeconomic stability*".

Results of analysis accepted the above hypothesis with $R = .594$ from which author argued that monetary and fiscal policies can play a significant role in maintaining macroeconomic stability by influencing the aggregate demand and supply in the economy, which can in turn address fluctuations in economic growth, employment, inflation, and interest rates. In addition to that, it was seen through results that monetary policies can influence macroeconomic stability by affecting the availability and cost of credit in the economy, monetary policy can affect the level of investment, consumption, and aggregate demand, which can have a significant impact on macroeconomic stability. Such results agreed with Dafermos et al (2018); Smets (2018) ; Krogstrup and Oman (2019); Hirose et al (2020) and Corsetti et al (2019) who argued that when the central bank lowers its interest rates, it can stimulate investment and consumption, leading to an increase in aggregate demand, output, and employment. Similarly, when the government increases its expenditures, it can stimulate the demand for goods and services, leading to an increase in output and employment.

However, the effectiveness of monetary and fiscal policies in managing macroeconomic stability depends on a variety of factors, including the structure of the economy, the level of inflation

expectations, and the degree of institutional and political constraints. Moreover, there may be trade-offs between macroeconomic stability and other policy objectives, such as equity and efficiency. As a result, policymakers need to carefully consider these factors when designing and implementing monetary and fiscal policies.

In terms of presented sub-variables of monetary and fiscal policies including (*Interest rates, Open market operations, Discount rate and Forward guidance*), study found that all sub-variables were influential in preserving a stable macroeconomic status of economy. It was seen through results that interest rates, open market operations, discount rates, and forward guidance are all tools that policymakers use to influence the economy and stabilize it.

The highest in influence among all sub-variables appeared to be forwards guidance with $B = .250$ indicating that forward guidance is the most influential factor of monetary policies which have the ability to support better macroeconomic stability. Forward guidance is a policy tool used to influence expectations about future monetary policy decisions. By communicating information about future interest rate decisions and policy intentions, the central bank can affect the behavior of financial markets, businesses, and consumers. This tool can help guide economic decision-making, potentially supporting macroeconomic stability agreeing with Coenen et al (2019).

Discount rate came in the 2nd rank of influence with $B = .182$. Discount rate is the interest rate that the central bank charges commercial banks for borrowing money. It can affect macroeconomic stability by influencing the amount of money that banks have available to lend, which in turn affects the level of economic activity.

In the 3rd rank of influence there appeared open market operations with $B = .176$, refer to the buying and selling of government securities by the central bank. This tool can affect macroeconomic stability by influencing the money supply in the economy. The central bank can buy securities to increase the money supply, or sell securities to decrease it. Increasing the money supply can stimulate economic activity, while decreasing it can reduce inflation which agreed with Melnyk et al (2018).

In the final stage there appeared interest rate with $B = .138$ and the fact that interest rate affects macroeconomic stability by influencing the cost of borrowing money for consumers and businesses. Lower interest rates encourage borrowing and spending, which can stimulate economic growth but can also lead to inflation. This result agreed with Coenen et al (2019) and Chugunov et al (2021) who argued that higher interest rates can slow down borrowing and spending, slowing down economic growth and reducing inflation.

5. Conclusion and Recommendations

5.1. Conclusion

Macroeconomic stability is a vital aspect of any stable economy; it promotes sustainable economic growth, reduces financial instability, and creates a conducive and predictable environment for investment and savings. Governments and individuals should prioritize policies that promote macroeconomic stability to ensure long-term prosperity and economic growth. However, the study suggested that monetary and fiscal policies can play a significant role in maintaining macroeconomic stability, but their effectiveness depends on a variety of factors that policymakers need to carefully consider.

5.2. Theoretical and Practical Implications

Considering previous literature, discussion of results and conclusion, it can be said that current research is based on theoretical and practical implications. In terms of theoretical implications, evaluating the effectiveness of monetary and fiscal policies on macroeconomic stability can help presenting better understanding of macroeconomic processes by gaining better insights of how these policies can help refine existing economic theories and models, leading to better policymaking in the future.

As for practical implications, it can be said based on previous arguments that evaluating the effectiveness of monetary and fiscal policies on macroeconomic stability will help policymakers develop effective responses to macroeconomic disturbances. If it is found that monetary policy is proving more effective, policymakers might adjust interest rates or adjust the money supply to maintain stable economic conditions. In addition to that, evaluating monetary and fiscal policies will also help policymakers choose the right instruments to achieve macroeconomic stability. For instance, if an evaluation suggests that monetary policy is more effective than fiscal policy, policymakers can choose to rely more on central banks for stabilization rather than using fiscal measures.

5.3. Recommendations

Study recommended identifying policy gaps, developing effective policy responses, and choosing the right policy instruments, policymakers can better coordinate policies and strengthen economic growth.

5.4. Future Studies

Launching from results and conclusion, researcher found that the following might be a good approach for future studies:

- Investigate the impact of different types of fiscal policies on macroeconomic stability, such as tax policies, government expenditure policies, and transfer payment policies.
- Analyze the effectiveness of monetary policy in the context of different economic conditions, such as during periods of inflation, deflation, pandemics or recession.
- Evaluate the impact of international trade and capital flows on the effectiveness of fiscal and monetary policies in managing macroeconomic stability.

5.5. Limitations of Study

There are several limitations that appeared through the study, some of these limitations include difficulty in measuring variables as the concept may bear more sub-variables like GDP, inflation, and employment. In addition to that, some of the limitations were the fact that the economy is a complex system with many interrelated parts. It can be tricky to pinpoint the exact cause and effect relationships between macroeconomic policies and outcomes, not to mention there were some external factors that can affect the economy, such as natural disasters, changes in commodity prices, and global political events. These factors can make it difficult to evaluate the effectiveness of macroeconomic policies, as their impact is hard to isolate from other factors.

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