

Fiscal Policy Determinants Impact on the Economic Growth With the Moderating Role of the Exchange Rate and Inflation Rate: Evidence From an Emerging Economy.

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Abstract

Fiscal policy determinants are crucial for economic development because they directly influence government revenue, expenditure, and overall economic stability. Effective management of these determinants, such as tax rates, public spending, and inflation control, can promote sustainable growth, reduce poverty, and enhance the resilience of an economy against external shocks. The study aims to explore the relationship between fiscal policy determinants and economic development with the moderating role of the exchange rate and as well as inflation rate. The annual data of Pakistan from 2000 to 2023 are used for analysis. The regression analysis is used for methods of estimation. Our results show that tax revenue increases economic development due to significant positive relationships. The trade surplus also has a significant positive relationship. Moreover, government expenditure has a significant negative relationship. Foreign aid also has a significant positive impact on economic development. Moreover, the exchange rate and inflation rate play a moderating role in enhancing the relationship between fiscal policy determinants and economic development with significant intention. Our study advocated the significant policy implications for investors, government, and legislators.

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1 Introduction

The core purpose of the current study is to examine the economic growth of countries depending on fiscal policy that is enforced by the Government another objective of this study is to better understand the key features of the Asian country's fiscal system and their impact on Asian economic growth (Ikotun et al., [2023](#)). In South Asian countries, government expenditure constitutes the foremost section of total expenditure. In economic growth, tax, foreign Aid, trade surplus, interest rate, and exchange rate stability are the most important for macroeconomic growth (Khan et al., [2023](#)). It's a common rule that fiscal policy can influence economic growth through both macroeconomic and microeconomic channels (Kim et al., [2021](#)). This has a direct impact on inflation because it may result in demand pull inflation, and indirectly affects the fiscal deficit.

Through an expansionary fiscal policy, the government's increase in its spending would crowd out the private sector and can outweigh short-term benefits. Fiscal policy can affect the gross domestic product which increases the total output produced and imperative tool for managing the whole economy (Hasan & Islam, [2023](#)). Furthermore, John Maynard Keynes, who released the idea of fiscal policy as large, fiscal policy can reduce unemployment by stimulating aggregate demand and reducing the unemployment rate to control inflation.

Macroeconomic imbalances have contributed to a deceleration in economic growth and investment which in turn translated into a rise in poverty levels (Waris & Din, [2021](#)). The objective of this study is emerging growth of macroeconomics to establish the impact of special fiscal indicators on economic growth in Pakistan India, Bangladesh, Indonesia, and Malaysia for the period of 2001-2021. The fiscal policy plays a vital role in the detection of macroeconomic stability of the countries through implementing the government budget (Aisyah et al., [2024](#)).

Usually, fiscal policy plays an important role in the detection of the macroeconomic stability of the countries through implementing the government's budget (Makohon & Adamenko, [2023](#)). By accompanying the taxes and public outlays fiscal policy can influence the level of economic activity (Olawunmi and Ayinla [2007](#)). Fiscal policy involves cautious actions by the government in spending money and charging taxes to influence macroeconomic variables to create sustainable economic growth, high job creation, and low inflation (Girdzijauskas et al., [2022](#)). The fiscal policy stabilizes economic growth through a rise in the government outlay or a decrease in taxation (Aisyah et al., [2024](#)). At the same time, reducing spending or increasing taxes slows down the economic boom. The fiscal policy contains the state's expenditure, borrowing to influence economic activity, and taxation, as well as both growth and the level of employment, output, and aggregate demand (Joel & Empire, [2022](#)).

And, the fiscal policy requires the government to manage the economy by deploying its income and consumption power to achieve is usually linked with public expected macroeconomic goals including economic growth (Siregar et al., [2023](#)). The state the goal of fiscal policy is to encourage corporate growth and attempt to confirm reliable economic stability (Ezejiofor et al., [2015](#)).

The same source indicates that the console out the business cycle and shepherd to stability and growth of the economy if fiscal policy is used vigilantly and return, inspiring tax, policies cause to increase the growth of the economy and utility levels (Zhou et al., [2023](#)).

Fiscal policy crushed the growth of the economy by changing taxes and wasteful state outlay. The same study indicates that fiscal policy includes deploying state finances through fluctuating taxation or changing expenditure levels to conduct the stability of the economy and increase the growth of the economy by articulating and employing economic policies as a whole. Also, it aims to attain the goals of, the balance of payments, investment, growth, resource mobilization, full

employment, full employment, and price stability (Abida & Salman, [2023](#)). Ensuring the long-term growth of the economy in the country is a major event of the fiscal policy (Waris & Din, [2024](#)).

The influence of public spending on Nigeria economic growth from 1960 to 1992 found fiscal policy-led growth the massive private investment caused as a result of government investment in infrastructure (Afolabi, [2022](#)). At the same time, Nurudeen and Usman ([2010](#)) evaluated the effect of state spending on Nigeria's economic growth from 1970 to 2008 and concluded that total current expenditure, education expenditure, and total government capital expenditure harm the growth of the economy and other hand, spending on transportation and communication and health development of the economy of the sector of defense in Nigeria and found that defense expenditure has a significant positive relationship with the growth of the economy (Duramany-Lakkoh, [2020](#)).

In Pakistan, the public finance fiscal policy is the management implemented by the government of any country to police the economy in the desired direction. It depends on the government expenditure and revenue decisions that are made to achieve economic growth and stability in the economy. Sustainable economic development has been an important objective of every developing country including Pakistan (Syahrini et al., [2021](#)). Pakistan has been dealing with macroeconomic problems like poverty and unemployment continuously.

62 percent of the population of Pakistan belonged to the agriculture sector. The agriculture income plays a central role in economic growth. Pakistan is an agricultural-based country, for a few decades agricultural growth has not been satisfactory to facilitate economic growth due to being deficient in proper agricultural policy (Akamobi & Unachukwu, [2021](#)).

In the previous history of Pakistan, the government faced a deficit in budget, to fulfill their expenditure from other sources like foreign and domestic borrowing. Pakistan is the country that ours mostly revenue spending on foreign purchases. Around six percent of the total population is fully unemployed and a much higher fraction underemployed, especially in agriculture (Pascaris et al., [2021](#)). Policymakers need to design fiscal policy to address growth and employment issues on a concerted basis.

The government of Pakistan has been collaborating with the IMF and the World Bank on making reforms to tackle price instability and balance of payments deficit (Naz, [2022](#)) through the use of fiscal and monetary policy. However, to reduce the fiscal deficit, development and investment expenditures have been cut which has led to sluggish output growth and continued increases in unemployment over time (Pascaris et al., [2021](#)).

China's fiscal policy framework has been substantially reformed. China fiscal policy study purpose the empirical analysis to significant the relationship between fiscal policy variables and economic growth. China has local expenditure growth has an extensive impact on output growth than central expenditure growth. An effective taxation system is needed to China secure the fiscal resources for fiscal spending that promotes sustainable growth (Boughton et al., [2021](#)). Therefore, the step of microcosmic, both taxes and spending can manipulate the behavior of firms in ways that can support growth.

India's fiscal policy must pick the size and pattern of public expenditure from the government to the economy and from the economy back to the government. Economic policy refers to the policy of the government concerning public taxation, public expenditure, and public borrowings. The importance of economic policy is high in underdeveloped countries. The importance of economic policy is high in underdeveloped countries. The state must play an active and necessary role. In a very democratic society, direct strategies don't seem to be approved. So, the government must rely upon indirect methods of laws. Aggregate demand and also the level of economic activity, savings and investment within the economy, and income distribution. Fiscal policy deals with the taxation

and expenditure selections of the government. Monetary policy, deals with the supply of cash within the economy and also the rate of interest.

Bangladesh's fiscal policy deals with public expenditures and revenues. A pragmatic and sustainable fiscal stance promotes economic growth without inflation pressure, low levels of fiscal deficit and public debt, narrowing down budget imbalances in situations of high fiscal deficit and public debt, etc. Forward-looking governments participate in almost every part of social and economic life through fiscal policy. The fiscal policy measures are taken by influencing aggregate demand and supply, attempting to create better employment conditions and acceptable inflation levels, leading the policy of steady trade balance, and supporting sustainable economic growth. This research has been conducted to test the comparative efficiency of monetary and fiscal policy in Bangladesh through the stationary test by using the Augmented Dickey-Fuller Method. Firstly, we will clarify the monetary and fiscal policy interactions,

Secondly, their influence on economic growth, and thirdly, we will focus on the review of prior empirical studies (Usman & Makhdum, [2021](#)). Special consideration will be given to data used for empirical investigation. The rest of the paper is dedicated to the model specification, discussion of the obtained result, and conclusion.

The Malaysian government used revenues from newly discovered petroleum reserves to support high levels of public expenditure without a dramatic rise in debt. Much of this funding was directed at expanding state-owned enterprises, which were at the forefront of Malaysia's ethnic restructuring efforts as envisaged in the New Economic Policy (NEP). Explanations have also been put forward in terms of imperfections in credit markets that prevent developing countries from borrowing in bad times (Kaminsky et al., [2004](#))

The fiscal policy of any country plays an important role in economic development. The tax and the interest rate are the main concerns for the economy and also remain a problem that to be investigated for the research. Tax is the problem concerning how the economy is dependent on tax, as a vital instrument of fiscal policy, the importance of taxation in an economy cannot be overlooked. Therefore, the main source of income in the world is the tax. It is a financial charge imposed upon the taxpayers and is regarded as the profound source of government revenue for financing public expenditures. Taxation and economic growth relationship have been a topical issue discussed by various researchers in their studies. However, consensus on their relationship has never been reached as various studies reached conflicting results. The relationship between taxation and economic growth is positive and taxation is a strong economic tool for economic prosperity. The present study aims to test whether tax policies adopted by selected Asian countries have a transitory or permanent impact on their growth. The rest of the paper deals with the theoretical and empirical background, estimation, and discussion of results.

Currently study is going to investigate the impact of tax, foreign Aid, exchange rate, Interest rate, and trade surplus on emerging economic growth in different countries. The primary objectives of the study are to identify the significance of tax on economic growth. Second, to investigate the impact of trade surplus on the economy. Third, to analyze the effect of interest rates on economic growth. Fourth, to determine the impact of the exchange rate on economic growth. Fifth, to investigate the significance of foreign Aid on economic growth.

2 Literature Review

Economic theory defines investment as "spending expenses to buy capital goods and production equipment to replace and especially adding to capital goods in the economy that will be used to produce goods and services in the future" (Corrado et al., [2022](#)). According to Keynesian macroeconomic thought, public spending can contribute positively to economic growth. Hence, an increase in government consumption is likely to lead to an increase in employment,

profitability, and investment through multiplier effects on aggregate demand. As a result, government spending augments the aggregate demand, which provokes an increased output depending on expenditure multipliers (Cook & Davíðsdóttir, [2021](#)). The opponents of this approach stipulate that government consumption crowds out private investment hamper economic growth in the short run, and diminishes capital accumulation in the long run (Hur et al., [2014](#)). They classify expenditures as productive and unproductive and assume that productive expenditures have a direct impact on the rate of economic growth and that unproductive expenditures have an indirect or no effect.

Classical Growth Theory According to the view of classical economists, four factors influence economic growth, namely: population, stock of capital goods, land area, and natural resources, and the level of technology used. Although realizing that economic growth depends on many factors, classical economists mainly focused their attention on the effect of population growth on economic growth (Khan et al., [2020](#)). In their theory of growth, suppose that land area and natural resources are constant, and the level of technology does not change. Based on this example, it is then analyzed how population growth affects the level of national production and income.

Keynes Theory Keynes's view criticized Classical thinking which states that full employment is always achieved. According to Keynes, in the labor market, unemployment is a manifestation of the economy. Wage levels are not volatile and tend to be difficult to fall. If the supply of labor exceeds the demand for labor, the wage level will not fall so the demand and supply of labor will return to equilibrium.

Rostow Theory This Development Model concerning the Development of Government Expenditure, was developed by Rostow and Musgrave and connects the development of government spending with the stages of economic development, namely the initial stage, the intermediate stage, and the advanced stage. In the early stages of economic development, according to them the ratio of government expenditure to national income was relatively large. This is because at this stage the percentage of government investment to total investment is large, so the government must provide various facilities and infrastructure such as education, health, transportation infrastructure, and so on.

Economic development is the main indicator of the progress of any country. Economic growth is fundamental for sustainable development. It is not possible, for a developing country, to ameliorate the quality of life of its growing population without economic growth. This latter is mainly enhanced by the expansion of infrastructure repair, the improvement of education and health services, the encouragement of foreign and local investments, low-cost housing, environmental restoration, and the strengthening of the agricultural sector. This approach consists of stimulating the economy by addressing the nation's foremost needs. Dealing with these issues will result in a great amount of money spent by the government and certainly lead to sustainable budget deficits. However, this would generate a large number of socially useful jobs and business opportunities.

2.1 Tax and Economic Development.

Tax resources of government income perform their basic role in economic development.

Local governments attempt to influence business location decisions and economic development through the use of the sale tax, income tax, property tax, and act (Ristić et al., [2024](#)). Tax increment financing sequesters property tax revenues that result from growth in assessed valuation. On the other hand, economic development also plays an important regulatory role. But there are many problems, which also need it. Continuously discover problems, analyze problems, and solve the problem of fiscal tax, thereby promoting better economic and faster (Singh et al., [2024](#)).

Economists have always believed that there is a connection between fiscal policies and economic growth. This connection has been thought to originate from various channels such as the negative

effect of distortive tax on the performance of the economy (Anwar et al., [2020](#)). The relationship between tax revenue and economic growth shows a positive association between these two. Any significant increase in tax income will have a positive impact on economic growth. A possible explanation is that an increase in tax revenue will boost the economy and prospective development. The tests on the relationship between the tax rate and economic growth have been extensively performed. The results show that economic development is the strongest determinant of tax growth. In this discussion, the impact of policy changes on economic growth is examined (Adom, [2024](#), Koch & Müller, [2024](#)). On the ground of previous literature, we developed the following hypothesis.

H1: *Tax revenue has a significant positive relationship with Economic development.*

2.2 Trade surplus and economic development.

Trade Balance has a significant impact on the growth of industry and commerce of the country and that has a direct effect on the economy of the country to an incredible extent. The trade balance is the net sum of a country's exports and imports of goods without considering all financial transfers, investments, and other financial components (Cong et al., [2024](#)). The impact of the trade balance and import and export on the five countries namely Pakistan, China, India, Bangladesh, and Malaysia are outlined. We determine the trade period from 2001 to 2021 of trade balance in exchanging economies and explore the factors that cause fluctuations in the trade balance of the five selected Emerging Countries.

The relevant data will be obtained from World Development Indicators (WDI). This study will help to understand the trade of balance, exports, and imports. Exporting and importing help grow national economies and expand the global market. Every country is endowed with certain advantages in resources and skills.

The relationship between trade surpluses and economic development has been widely studied, revealing a complex and multifaceted dynamic (Ngoc & Xuan, [2024](#)). A trade surplus, where a country exports more than it imports, can signify economic strength and contribute to growth by generating foreign exchange reserves, reducing debt, and fostering domestic industries. Historically, countries like Germany, China, and Japan have leveraged trade surpluses to fuel industrial expansion and technological advancement, underpinning robust economic development. However, the benefits of a trade surplus are not universally guaranteed; the underlying economic structure, diversification of exports, and effective use of surplus funds are crucial (Tian et al., [2024](#)). Moreover, persistent trade surpluses can lead to trade tensions and imbalances in the global economy, potentially provoking protectionist measures from trade partners. Therefore, while a trade surplus can be a positive indicator of economic health, its role in sustainable development is contingent on broader economic policies and international relations (Kumar et al., [2024](#)). On the ground of previous literature, we developed the following hypothesis.

H2: *Trade surplus has a significant positive relationship with Economic development.*

2.3 Government expenditure and economic development.

Government spending affects growth through several different channels, making it a vital component of economic development. Public spending on infrastructure, healthcare, education, and technology can be increased to improve the overall quality of life, encourage investment, and boost productivity—all of which can foster sustainable development (Javed & Husain, [2024](#)). According to Keynesian economic theory, government expenditure can increase economic activity and employment during recessions by offsetting decreased private sector demand. Empirical research suggests that efficient and well-targeted public spending, especially on infrastructure and human capital, is a major factor in long-term economic growth.

Nonetheless, a nation's economic health, the effectiveness of spending allocation, and the quality of its governance all have an impact on the impact of government spending. Mismanagement or excessive expenditure can result in debt accumulation and deficits, which may discourage private investment and raise inflationary pressures (Mose, [2024](#)). Therefore, even while government spending is an essential instrument for economic growth, its effectiveness depends on careful budgetary planning and smart allocation. On the ground of previous literature, we developed the following hypothesis.

H3: *Government Expenditure has a significant negative relationship with Economic development.*

2.4 Interest rate and economic development.

Interest rates have a significant impact on investment, consumption, and overall economic activity, making them a crucial component of economic development. Lower interest rates lower borrowing costs, which incentivize companies to invest in growth and innovation. They also lower the cost of credit for consumers, which might encourage spending. Generally speaking, this increase in investment and consumption speeds up economic growth. On the other hand, high interest rates can hinder economic growth by making borrowing more expensive, which discourages investment from businesses and consumers. To regulate economic cycles, keep inflation under control, and stabilize the currency, central banks frequently adjust interest rates as part of their monetary policies. The best interest rates must be maintained, according to empirical studies, to promote a stable and growth-friendly economic environment.

Interest rates and economic development, however, have a complicated and context-dependent relationship; important roles are also played by the state of the economy, fiscal policy, and international economic trends (Hunjra et al., [2024](#)). Thus, even while interest rates are an essential instrument for managing the economy, their ability to spur development depends on more general economic policies and circumstances. On the ground of previous literature, we developed the following hypothesis.

H4: *Interest rate has a significant negative relationship with Economic development.*

2.5 Foreign Aids and economic development.

There has been much discussion on the complex relationship between foreign aid and economic progress, with varying empirical findings showing this relationship. The primary goals of foreign aid, which is usually given by wealthier countries to less developed ones to encourage their economic, social, and political development, are to lower poverty, enhance health and education, and promote economic growth. According to studies, assistance can be successful if it is well-targeted, promotes sensible policies, and fits in with the development plans of the recipient nation (Zaighum et al., [2024](#)). Aid aimed at health, education, and infrastructure, for example, has been demonstrated to have a favorable developmental impact.

Other studies, however, suggest that if aid is not handled appropriately, it can lead to dependency, weaken local institutions, and encourage corruption. The political and economic climate in the receiving nation, the intentions of the donors, and the arrangement of the help all have an impact on how effective it is. Therefore, even while foreign aid has the potential to greatly advance economic growth, its effectiveness mostly rests on responsible execution, accountability, and complementary domestic policies. On the ground of previous literature, we developed the following hypothesis.

H5: *Foreign aids have a significant positive relationship with Economic development.*

2.6 Inflation rate, Exchange rate, and economic development.

According to empirical research, managing exchange rates appropriately can promote a trade-friendly atmosphere, rein in inflation, and draw in foreign direct investment—all of which can help advance economic development (Bakari, 2024). However, the whole economic framework—which includes monetary policy, structural changes, and fiscal restraint—determines how effective exchange rate policies are. Exchange rates are therefore essential to economic growth, but their effects are intricately entwined with the larger economic environment and policy. On the ground of previous literature, we developed the following hypothesis.

H7: Exchange rate has a significant positive relationship with Economic development.

H9: *The exchange rate has significantly moderated the relationship between fiscal policy determinants and Economic development.*

Figure 1 shows the conceptual framework of the study.

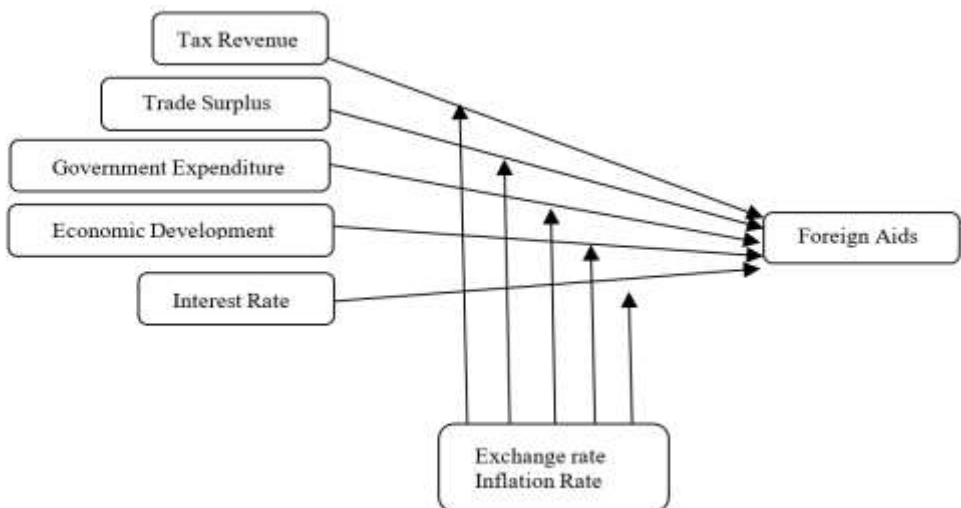


Figure 1: Conceptual framework

3 Material and Methods

To meet the objectives of the study we used the data of Pakistan from 2000 to 2023 for the fiscal

policy determinants. The quantitative study approach includes the time series data for the analysis. Pakistan presents an interesting subject for research on fiscal policy because of its distinct economic prospects and problems. Pakistan is a developing nation with a varied economy that deals with problems including large public debt, ongoing budget deficits, and inflationary pressures. For this reason, it is a perfect case study for evaluating the efficacy of different fiscal policy initiatives. Furthermore, Pakistan's substantial informal sector, dependence on foreign aid, and regular changes to its tax and spending policies offer a rich backdrop for analyzing the effects of these variables on stability and economic progress. Gaining insight into how fiscal policies impact Pakistan's economic development can help shape larger policy debates and development frameworks by providing other developing countries with comparable economic circumstances with useful lessons and approaches.

Because regression analysis allows researchers to quantify the correlations between several independent factors and a dependent variable, giving insights into the degree and direction of these associations, it is employed as an estimating approach in fiscal policy studies. This statistical method is especially useful for determining how different fiscal policies—such as taxation, spending by the government, foreign aid, inflation, and exchange rates—affect economic results. Regression analysis helps separate the impact of each element by adjusting for other factors, providing a clear picture of how particular policies affect economic performance. Regression models are also vital tools for policymakers trying to create successful and fact-based economic plans because they can test hypotheses, find important predictors, and generate forecasts.

4 Findings and Discussions

Table 1: Descriptive statistics

	TAX	TS	GEXP	FAID	INFO	EXCH	EG
Mean	0.871	-0.152	0.333	0.491	0.651	20.17	51.197
Median	0.1562	0.943	0	0.488	0.488	13.87	43.871
Maximum	0.1281	0.949	1	0.568	0.709	33.106	61.071
Minimum	0	-0.0012	0	0.44	0.232	1.074	29.132
Std. Dev.	0.821	0.252	0.5	0.044	0.252	0.46	0.322

The descriptive statistics of the given data set reveal various insights into the variables under consideration. The mean values indicate that the average tax rate (TAX) is 0.871, trade surplus (TS) is -0.152, government expenditure (GEXP) is 0.333, foreign aid (FAID) is 0.491, inflation rate (INFR) is 0.651, exchange rate (EXCH) is 20.17, and economic growth (EG) is 51.197. Median values show that half of the observations have TAX at 0.1562, TS at 0.943, GEXP at 0, FAID at 0.488, INFR at 0.488, EXCH at 13.87, and EG at 43.871. The maximum and minimum values highlight the range within which these variables vary, with TAX ranging from 0 to 0.1281, TS from -0.0012 to 0.949, GEXP from 0 to 1, FAID from 0.44 to 0.568, INFR from 0.232 to 0.709, EXCH from 1.074 to 33.106, and EG from 29.132 to 61.071. Standard deviations reflect the variability, showing that TAX has a deviation of 0.821, TS of 0.252, GEXP of 0.5, FAID of 0.044, INFR of 0.252, EXCH of 0.46, and EG of 0.322, indicating varying degrees of dispersion around the mean for each variable.

Table 2: Analysis results

Variables	Coefficient	P-value
TAX	1.981	0.0000***
TS	3.981	0.0000***
GEXP	-0.761	0.0000***
FAID	4.981	0.0000***
INFR	-0.871	0.0000***
EXCH	-0.976	0.0000***
TAX*INFR	-3.981	0.0000***

TS*INFR	-0.876	0.0000***
GEXP*INFR	-0.615	0.0000***
FAID*INFR	0.871	0.0000***
TAX*EXCH	7.091	0.0000***
TS*EXCH	-3.911	0.0000***
GEXP*EXCH	0.981	0.0000***
FAID*EXCH	3.918	0.0000***

*Results are significant at 1% and denoted by ***.*

With all coefficients being statistically significant at the 1% level, the findings of the regression analysis show that several variables have a substantial impact on economic development. In particular, the coefficient for TAX is 1.981, indicating that, while all other variables remain constant, an increase of one unit in the tax rate is correlated with an increase of 1.981 units in the economic development. With a value of 3.981, the trade surplus (TS) is showing a considerable positive impact. With a negative relationship of -0.761, government expenditure (GEXP) indicates that increased government spending is linked to a decline in economic development. The impact of foreign aid (FAID) is very positive, with a value of 4.981. Economic development is negatively impacted by both the exchange rate (EXCH) and inflation (INFR), with coefficients of -0.976 and -0.871, respectively.

Further intricacy in the relationships is disclosed by the interaction terms. With a negative coefficient of -3.981 for the interaction between TAX and INFR, it is clear that economic development suffers from the combined effects of rising taxes and inflation. Similarly, the negative coefficients for TS*INFR and GEXP*INFR are -0.876 and -0.615, respectively. On the other hand, the FAID*INFR interaction shows a positive correlation of 0.871, indicating that some of the detrimental consequences of inflation may be lessened by foreign assistance. Positive interactions between TAX and EXCH (7.091) and FAID and EXCH (3.918) suggest that greater taxes and foreign aid are more advantageous when exchange rates are favorable. However, GEXP*EXCH is positive (0.981) and TSEXCH is negative (-3.911), indicating the varied implications of these variables in various economic settings.

The results of the regression analysis offer important new perspectives on the intricate relationships that exist between fiscal variables and economic performance. Higher tax rates and trade surpluses are linked to better economic outcomes, according to the positive coefficients for TAX and TS, indicating that efficient taxation and robust export performance can propel economic growth. The potential of foreign aid (FAID) to support development is highlighted by its large positive impact, particularly in economies that effectively use such funding. On the other hand, possible areas of worry are indicated by the negative coefficients for government expenditure (GEXP), inflation (INFR), and exchange rate (EXCH). Inflation and unfavorable exchange rates can impede growth by raising uncertainty and lowering competitiveness, while high government spending if mismanaged, can result in inefficiency and poor economic performance.

The complex correlations between these variables are further elucidated by the interaction terms. The negative relationships shown among taxes, trade surplus, government spending, and inflation imply that inflation both lessens the advantages of a trade surplus and amplifies the negative consequences of greater taxes and government spending. It's interesting to note that there is a positive correlation between foreign aid and inflation, suggesting that foreign aid may have a stabilizing effect by reducing the negative effects of inflation. Higher taxes and foreign help can have a greater impact if the exchange rate is advantageous, as indicated by the positive relationships between tax, foreign aid, and exchange rates. The gains of a trade surplus could be undermined, though, by an appreciating currency making exports less competitive, according to the negative interaction between the trade surplus and exchange rate.

5 Conclusions and Recommendations

The important roles that different fiscal and economic variables play in influencing economic results are shown by the regression analysis. Key findings show that while excessive government spending, high inflation, and unfavorable exchange rates might impede growth, higher tax rates, trade surpluses, and foreign aid all have a positive impact on economic performance. Furthermore, these factors' interactions show that the benefits of fiscal policies vary depending on the environment, with favorable exchange rates amplifying positive results and inflation typically aggravating negative ones. This sophisticated view emphasizes that to maximize development outcomes, economic policies must be smart and well-coordinated.

The analysis's policy implications imply that promoting sustainable economic development requires a comprehensive and well-rounded strategy. To improve economic performance, policymakers should place a high priority on preserving competitive tax rates and encouraging trade surpluses. Effective distribution and oversight of public spending are essential to prevent inefficiencies and growth-defeating effects. Additionally, the negative consequences of inflation on the economy can be lessened by managing it through sensible monetary policy. Effective use of foreign aid can support economic development and stability, particularly in inflationary conditions. Furthermore, to secure export competitiveness and optimize the advantages of tax laws and foreign aid, advantageous exchange rates must be maintained. In general, attaining long-term goals will depend on an integrated policy framework that considers the interactions between various fiscal and economic variables.

A balanced approach to taxes should be the main goal of future policy frameworks, with tax rates set to maximize revenue without inhibiting economic growth. Maintaining a trade surplus should be aided by measures that improve export competitiveness and efficiently control currency values. Planning and monitoring government spending should be done with great care to make sure that it promotes growth without creating inefficiencies or budgetary imbalances. It is imperative to control inflation through prudent monetary policy to lessen its negative consequences on the economy. In addition, it is imperative to strategically target and properly employ foreign aid to optimize its developmental impact, particularly in contexts where inflation is a concern. In conclusion, it is imperative for policymakers to consistently observe and adjust to the ever-changing interplay among these factors, cultivating an adaptable and sensitive economic policy landscape that can help to make effective policies in this regard.

This research offers a significant understanding of the moderating effects of inflation and exchange rates on the fiscal policy determinants of economic growth in a rising economy. Nonetheless, it is constrained by the extent of accessible data, which might not adequately encompass all pertinent economic factors or the enduring consequences of fiscal measures. Furthermore, the study's exclusive focus on one developing nation may have limited the findings' applicability in other situations with various regulatory frameworks and economic structures. The dataset should be expanded in future studies to encompass more emerging economies to facilitate comparative analysis and yield stronger findings. Furthermore, including other factors like political stability, the state of the world economy, and technological developments could offer a more thorough picture of the complex linkages between fiscal policy, Exchange rate, and inflations.

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