

An Empirical Study of Factors Affecting Balance on Capital Account in Post-liberalized Indian Economy

Navin Kumar^{1*}, Vijay Kumar Yadav²

¹Assistant Professor, University Department of Economics, Lalit Narayan Mithila University, Darbhanga, Bihar-846004, India, Email: navinky@gmail.com

²Professor, University Department of Economics, Lalit Narayan Mithila University, Darbhanga, Bihar, India, Email: vijayyadav.eco@gmail.com

*Corresponding Author

Received: 10.07.2024

Revised: 15.08.2024

Accepted: 24.09.2024

ABSTRACT

The liberalization of Indian economy in the year 1991 brought in significant changes in its capital flows. Since then, understanding the factors affecting the balance on the capital account became important for policymakers and researchers. This study analyses the factors those affect the balance on the capital account in post-liberalized India. Variables for analysis are Balance on capital account, exchange rate, Gross fiscal deficit, interest rate, GDP growth rate and inflation. Annual data of these variables are taken from Database on Indian economy, RBI and World Development Indicator, World Bank for the period 1991-2022. Vector Autoregression (VAR) model has been used for the analysis. The empirical results indicate that Balance on capital account is influenced by exchange rate, inflation, gross fiscal deficit, interest rate and GDP growth rate. The findings of this research have important implications for policymakers, investors and researchers concerned with India's economic stability and growth prospects.

Keywords: Capital Account, VAR, Inflow, Investment

1. INTRODUCTION

The reforms initiated in the year 1991 aimed to dismantle barriers to trade and investment, liberalize financial markets and promote greater foreign participation in the Indian economy. The liberalization policies proved a turning point for the progress of Indian economy. It paved the way for openness, deregulation and integration of Indian economy with the global economy. This study analyses macroeconomic determinants of Balance on capital account in India. Balance on capital account is a component of Balance of Payment. Balance on capital account consists of foreign investment, commercial borrowings, external assistance and NRI deposits mainly. Foreign investment consists of Foreign Direct Investment (FDI) and portfolio investment.

Vector Autoregression (VAR) model has been used for the analysis. Variables taken for empirical study are balance on capital account, exchange rate, gross fiscal deficit, interest rate, GDP growth rate and inflation. Annual data of these variables are taken from Database on Indian economy, RBI and World Development Indicator, World Bank for the period 1991-2022. Only few works have been done to see the impact of macroeconomic variables on the Balance of Capital Account by applying Vector Autoregression (VAR) Model in the context of Post-liberalised Indian economy. But none of these studies have applied VAR model in the situation of structural break in time series data of Balance on capital account so far. This study finds structural break in the time series data of Balance on Capital Account and incorporates it in VAR Model.

This Paper is organised as follows. Section II provides a theoretical framework for the empirical analysis. Section III presents the Literature Review. Section IV explains Data and Econometric Methodology. Section V presents empirical results and analysis. Section VI concludes.

2. Theoretical Framework

The balance on capital account of a country is influenced by various factors. It records the flow of capital into and out of a country, including foreign investment, commercial borrowings, external assistance, NRI deposits and other financial transactions. Some of the key determinants of the capital account balance include:

Exchange Rates: Fluctuation in Exchange rate can affect capital flows by changing the relative returns on investments across various countries. A depreciating currency makes a country's assets cheaper for foreign investors causing to increase capital inflows.

Interest Rates: Difference in interest rates between countries can influence capital inflows. Higher interest rates in domestic country in comparison to other countries may attract foreign investors to invest in domestic country.

Economic Growth: Countries with robust economic growth projections attract foreign investment as investors seek to capitalize on growth opportunities. This can lead to higher capital inflows.

Expected Change in the Exchange Rate: Whenever an investor thinks about investing in foreign country, he does not only consider interest rate differential between domestic country and foreign country but he also considers speculative value of exchange rate in future. If he thinks foreign currency will depreciate at a greater rate in future then he will not invest in foreign country. If he thinks foreign currency will appreciate in future then he will invest in foreign country.

Gross Fiscal Deficit: If a country's fiscal deficit is being used to improve productive capacity and infrastructure development that can boost economic growth of domestic country, then foreign investor will invest in domestic country. Thus, there will be inflow of capital in domestic country.

Sometimes, financial markets react negatively to a high fiscal deficit because investors perceive that fiscal management is poor and inadequate. In such a situation, capital outflows may occur as investors seek for safer investment in other countries.

The way policymakers act to tackle high fiscal deficit in domestic country can also attract foreign investors. If the government takes reliable measures to reduce the fiscal deficit such as fiscal consolidation, structural reforms and revenue raising initiatives then it can attract capital inflow.

Inflation: Inflation in a country may sometimes attract capital inflow but it depends on the context and the reasons behind the inflation. In some cases, higher inflation rates in a country can lead to higher nominal interest rates. Foreign investors may be attracted to these higher interest rates if they believe that central bank will continue to keep rates of interest rate high to tackle the inflation. This will cause inflow of foreign capital in the economy.

Inflation can also indicate economic growth and investment opportunities. If investors believe that inflation is driven by strong economic fundamentals and increasing demand in the economy then they perceive the country as an attractive destination for investment. This perception can lead to increase in capital inflow in the country.

3. LITERATURE REVIEW

Rajiv Ranjan, & D. M. Nachane. (2004) applied simultaneous equation model on Indian economy data and observed that monetary measures such as change in CRR and Bank Rate have limited impact on Capital account. It also observed that Real Effective Exchange Rate(REER) has also a little impact on capital account. Kandil, M. (2009) observed on the basis of empirical study across industrial and developing countries that a fluctuation in exchange rate affects the components of current account and financial account. He further observed that a depreciation of domestic currency increases the risk of financial investments in developing countries and increases financial investment in industrial countries. Dua & Garg (2015) found that depreciating rupee attracts FDI as it increases the purchasing power of the foreign investor in terms of his own currency. They also observed that higher domestic output which indicates larger market attracts greater FDI, implying that FDI to India is market seeking. Higher domestic output also indicates higher economic activity, demand for greater investment and hence better investment opportunities in the host country, thus attracting greater FDI. Jiang, J., Chen, H., & Wang, L. (2019) observed that the capital flow is closely related to the stability of the exchange rate and interest rate. Estache, Serebrisky & Wren-Lewis (2015) speculated that if a country has lack of commitment to investors, then it is very difficult for that country to raise private finance. They further speculated that fiscal efficiency of the Government is the important factor in determining the financial choice. Salandy & Henry (2018) observed on the basis of empirical study that higher the interest rate differential higher is the amount of capital flight. They further observed that higher is the external debt higher is the capital flight. Krueger (2019) observed that Increased capital mobility has certainly complicated issues of exchange rate management and even in some cases thwarted the efforts of the authorities to maintain more realistic exchange rates. He further observed that Policies that induce large capital inflows and causes to real appreciation of the currency do not lead to sustainable growth paths. On the contrary they lead to reversals of the direction of capital flows later. Prasad, Rajan & Subramanian (2007) observed that an inflow of foreign capital in nonindustrial countries comes at a cost. Those nonindustrial countries that relied on foreign capital experienced slower growth than the countries which relied upon domestic finance. DUA & SEN (2013) observed that sections of the Indian economy having increasing integration

with the world economy have resulted in a surge in capital flows to the Indian economy. It was further observed that foreign exchange acquisition is positively related to the capital flows. Kharusi & Ada (2018) applied VAR model on time series macroeconomic variables of Oman and found that there is inverse relationship between external debt and economic growth in Oman. They further observed that there is positive relationship between gross fixed capital formation and economic growth. Schularick & Steger (2010) observed that there is no robust link between financial integration and economic growth. They further observed that there was positive relationship between financial openness to international capital market and economic growth before World War 1. But no such relationship existed post-World War II. Yalta (2010) analysed dynamic panel data for emerging market economies and observed that capital flight from emerging economies reduce private investment but does not have any significant impact on public investment. Estache and Wren-Lewis (2009) considered four limitations that put an obstacle for infrastructure financing in developing countries. These limitations are limited commitment, limited accountability, limited capacity and limited fiscal efficiency. Velić, I., & Cvečić, I. (2024) applied panel regression and Gravity model and found that there is a significant impact of exchange rate, inflation and long term interest rate on capital inflow in the new member states of Economic and Monetary Union. Rangarajan, C. (2000) observed that, foreign investment in India has expanded significantly after the economic reforms of 1991. The proportion of non-debt creating capital inflows in the total capital inflows has risen sharply in the post-reform period. Additionally, it was noted that sectors with higher growth potential attracted more capital inflows.

4. Data and Econometric Methodology

Macroeconomic variables for analysis are balance on capital account, exchange rate, gross fiscal deficit, interest rate, growth rate and inflation. GDP growth rate at constant price is taken as growth rate. Percentage GDP deflator index is taken as the measure of inflation. Weighted average of yield on central Government dated securities is taken as interest rate. Gross fiscal deficit is taken in terms of percentage of GDP. Data for balance on capital account is in US million dollar.

Annual data of variables balance on capital account, exchange rate, gross fiscal deficit, interest rate, growth rate are taken from Database on Indian economy, Reserve Bank of India (RBI). Annual data of Percentage GDP deflator index is taken from World Development Indicator, World Bank. All the data series are taken for the period 1991-2022. These all the time series data are secondary data.

Vector Autoregression (VAR) model has been used for analysis. In VAR model all the variables are treated as an endogenous variable. CUSUM of Square test has been used to detect the structural break in the data. Standard VAR model:

$$CAPB = \beta_0 + \beta_1 * CAPB(-1) + \beta_2 * EX(-1) + \beta_3 * GFD(-1) + \beta_4 * GR(-1) + \beta_5 * INT(-1) + \beta_6 * PR(-1) + \beta_7 * DUM + u_t$$

Where,

CAPB = Balance on Capital Account

EX = Exchange Rate

GFD = Gross Fiscal Deficit

GR = Growth Rate

GFD = Gross Fiscal deficit

INT = Interest Rate

PR = Inflation

DUM = Dummy Variable

DUM = 1, if 2006-2022

= 0, otherwise

u_t = Stochastic error term

Augmented Dickey-Fuller Test has been used to check the unit root in the time series data.

CAPB and exchange rate are I (1) variables. Gross fiscal deficit (GFD), interest rate (int) and inflation (pr) are I (0) variables. Inverse roots of AR characteristic polynomial has been used to check the stationarity of VAR model. Lag Length criteria is applied to select optimum length of VAR. The impulse response function is applied to trace the effect of a shock given to a variable on current and future values of all the endogenous variables. A shock given to a variable in the structural VAR model does not affect only that variable directly but is also transmitted to all of the endogenous variables through the dynamic structure of the VAR.

Variance decomposition is applied to break down the variance of the forecast error into components that can be attributed to each of the endogenous variable on the future states of a dynamical system. p-value is used to check the significance of the parameters. F- test is used for overall significance of the VAR model. For diagnostic checking VAR Residual Serial Correlation LM Tests, Normality test of VAR residuals, white's test of Heteroscedasticity and CUSUM test for the stability of VAR model have been used.

5. Empirical Results and Analysis

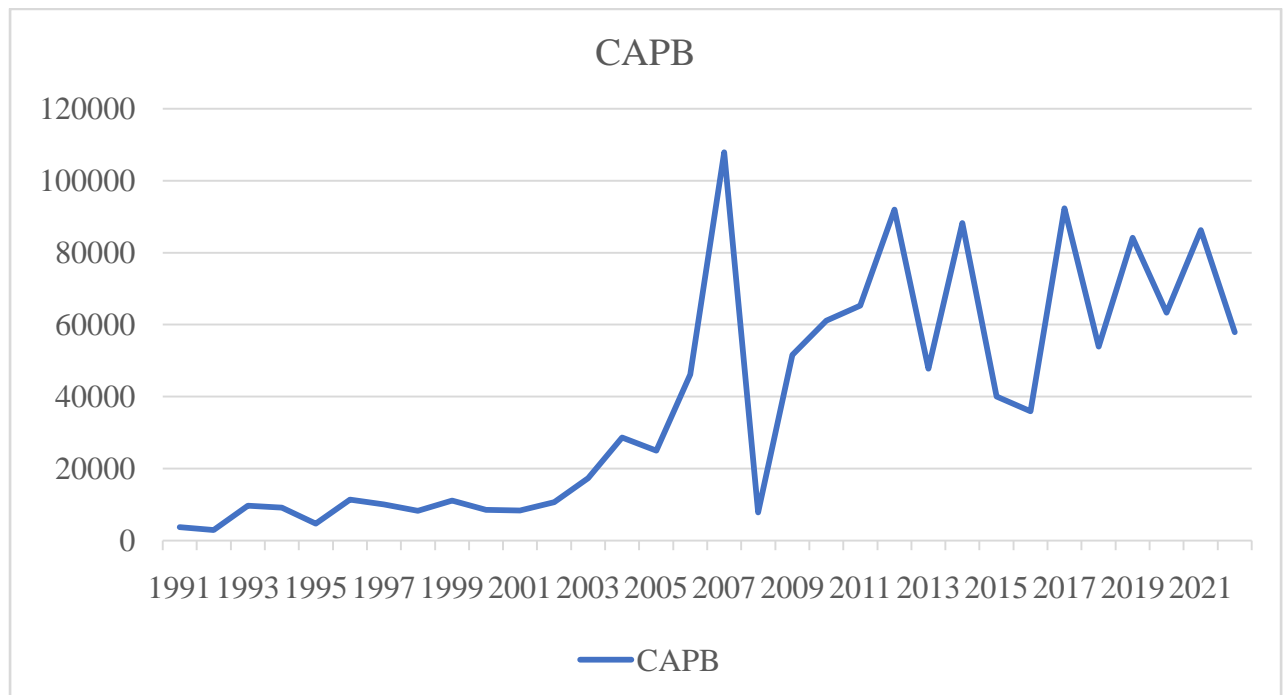


Figure 1. shows that there is a sharp change in the Balance on Capital Account(CAPB)after the year 2006. Balance on capital account has structural break in the year 2006.

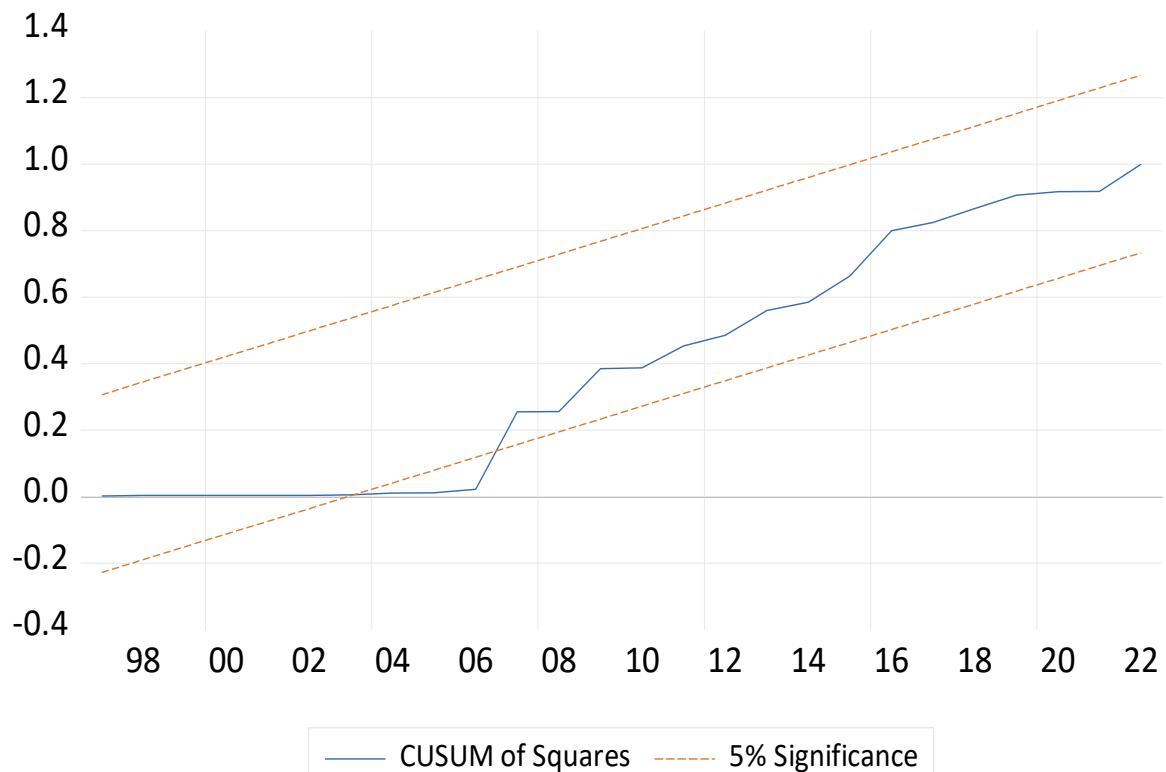


Figure 2. suggests that CUSUM of squares suggests that there is a structural break in the year 2006. Augmented Dickey-Fuller Unit Root Test suggest that Balance on capital account (CAPB), Gross Fiscal Deficit (GFD), Growth Rate (Gr) and inflation series have no unit root. These series are I(0) series. Interest rate(int) and Exchange rate(ex) are non-stationary series and are I(1) series.

Inverse Roots of AR Characteristic Polynomial

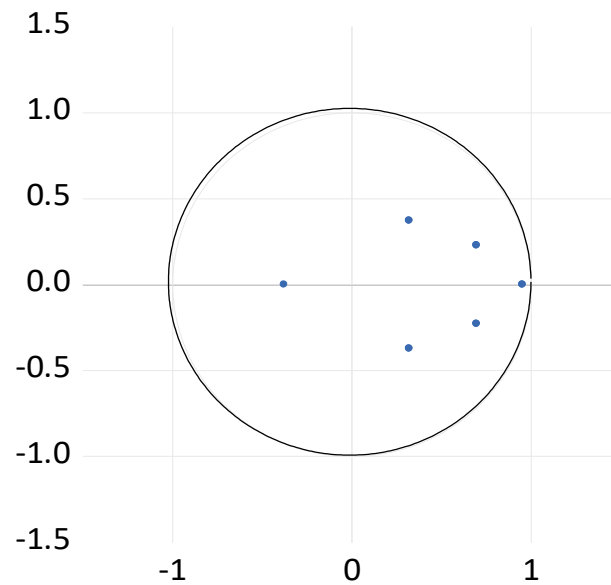


Figure 3. all the inverse roots of AR characteristic polynomial are inside unit root circle. This suggests that Vector Autoregression (VAR) model is stationary.

Vector Autoregression Estimates

Table 1

	CAPB	EX	GFD	GR	INT	PR
CAPB(-1)	-0.433057 (0.17633) [-2.45593]	3.00E-05 (2.5E-05) [1.22409]	1.87E-05 (1.2E-05) [1.56379]	-4.35E-05 (2.7E-05) [-1.63509]	1.92E-06 (7.3E-06) [0.26201]	2.27E-05 (1.6E-05) [1.45351]
EX(-1)	1266.848 (602.866) [2.10137]	1.018049 (0.08385) [12.1413]	-0.005014 (0.04090) [-0.12258]	-0.002202 (0.09103) [-0.02419]	0.014222 (0.02507) [0.56724]	-0.169052 (0.05343) [-3.16406]
GFD(-1)	-2489.340 (3893.57) [-0.63935]	0.036333 (0.54154) [0.06709]	0.386538 (0.26415) [1.46332]	0.652213 (0.58793) [1.10935]	-0.001782 (0.16193) [-0.01100]	0.918383 (0.34507) [2.66146]
GR(-1)	-454.9940 (1504.04) [-0.30252]	-0.142406 (0.20919) [-0.68075]	-0.112643 (0.10204) [-1.10393]	0.275818 (0.22711) [1.21448]	0.059247 (0.06255) [0.94718]	0.074044 (0.13329) [0.55549]
INT(-1)	-1839.737 (2122.59) [-0.86674]	0.680837 (0.29522) [2.30620]	0.166103 (0.14400) [1.15348]	-0.462602 (0.32051) [-1.44334]	0.790632 (0.08828) [8.95643]	-0.331190 (0.18811) [-1.76058]
PR(-1)	3450.575 (2022.96) [1.70571]	0.055428 (0.28136) [0.19700]	-0.043524 (0.13724) [-0.31713]	0.231169 (0.30546) [0.75678]	0.258119 (0.08413) [3.06803]	0.235447 (0.17928) [1.31326]
C	-19935.26 (42805.0) [-0.46572]	-6.590655 (5.95356) [-1.10701]	2.332858 (2.90401) [0.80332]	5.090538 (6.46351) [0.78758]	-0.731764 (1.78020) [-0.41106]	9.147212 (3.79359) [2.41123]
DUM	45638.08 (13456.1)	0.945134 (1.87155)	-0.425134 (0.91290)	1.104561 (2.03186)	-0.532925 (0.55962)	1.558429 (1.19255)

	[3.39162]	[0.50500]	[-0.46570]	[0.54362]	[-0.95230]	[1.30681]
R-squared	0.760850	0.975727	0.365100	0.260587	0.925515	0.699500
Adj. R-squared	0.688065	0.968339	0.171869	0.035548	0.902846	0.608043
Sum sq. resids	7.57E+09	146.5185	34.86070	172.6938	13.10019	59.48936
S.E. equation	18146.83	2.523959	1.231131	2.740150	0.754701	1.608258
F-statistic	10.45340	132.0774	1.889453	1.157963	40.82667	7.648425
Log likelihood	-343.3542	-68.06114	-45.80637	-70.60885	-30.63601	-54.09015
Akaike AIC	22.66802	4.907170	3.471379	5.071539	2.492646	4.005816
Schwarz SC	23.03808	5.277232	3.841440	5.441600	2.862707	4.375878
Mean dependent	40247.42	50.32032	5.075161	6.153548	8.893548	6.270645
S.D. dependent	32491.40	14.18472	1.352866	2.790192	2.421272	2.568836

Standard errors in () & t-statistics in []

Equation of Balance on Capital Account(CAPB) in VAR model is -

$$\text{CAPB} = -0.43 \cdot \text{CAPB}(-1) + 1266.84 \cdot \text{EX}(-1) - 2489.34 \cdot \text{GFD}(-1) - 454.99 \cdot \text{GR}(-1) - 1839.73 \cdot \text{INT}(-1) + 3450.57 \cdot \text{PR}(-1) - 19935.25 + 45638.08 \cdot \text{DUM}$$

Table 2

CAPB = C(1)*CAPB(-1) + C(2)*EX(-1) + C(3)*GFD(-1) + C(4)*GR(-1) + C(5)*INT(-1) + C(6)*PR(-1) + C(7) + C(8)*DUM				
	Coefficient	Std. Error	t-Statistic	Probability value
C(1)	-0.433057	0.176331	-2.455926	0.0220
C(2)	1266.848	602.8663	2.101374	0.0468
C(3)	-2489.340	3893.575	-0.639346	0.5289
C(4)	-454.9940	1504.036	-0.302515	0.7650
C(5)	-1839.737	2122.586	-0.866743	0.3950
C(6)	3450.575	2022.958	1.705708	0.1015
C(7)	-19935.26	42805.03	-0.465722	0.6458
C(8)	45638.08	13456.12	3.391622	0.0025
R-squared	0.760850	Mean dependent var	40247.42	
Adjusted R-squared	0.688065	S.D. dependent var	32491.40	
S.E. of regression	18146.83	Akaike info criterion	22.66802	
Sum squared resid	7.57E+09	Schwarz criterion	23.03808	
Log likelihood	-343.3542	Hannan-Quinn criter.	22.78865	
F-statistic	10.45340	Durbin-Watson stat	2.421983	
Prob(F-statistic)	0.000007			

In the Table-2, probability value against each coefficient of VAR model is given. we can see that coefficient of lagged value of Capital account balance is negative and significant. Coefficient of lagged value of exchange rate is positive and are highly significant. It refers that as rupee depreciates Balance on Capital Account (CAPB) improves. Coefficient of lagged value of inflation is positive and significant at 10% level of significance. It implies that there is positive impact of inflation on Balance on Capital Account(CAPB) and inflation rate. It has expected sign in the context of Indian economy because Inflation is demand driven in India. This high inflation rate also put pressure on RBI to keep nominal interest rate high. So, this high interest rate makes Indian asset more profitable to foreign investors. Coefficients of lagged value of gross fiscal deficit is negative which shows that as the gross fiscal deficit increases Balance on Capital Account (CAPB) decreases. In India, net capital formation has a declining trend since long time and measures to reduce fiscal deficit is not adequate. In such a situation foreign investor hesitate to invest in India. Thus, negative impact of gross fiscal deficit on Balance on Capital Account (CAPB) is justified. Negative coefficient of gross fiscal deficit has expected sign in the context of Indian Economy.

Coefficients of lagged value of growth rate and interest rate is negative. It means that both the variables have negative impact on to the Balance on Capital Account (CAPB) . In the context of Indian economy both the variables have expected sign because rupee has depreciating trend since long time. Depreciating Rupee makes Indian asset less profitable to foreign investors. Coefficient of dummy variable is highly significant. Value of R² is very high. Probability value of F-statistic is very less than 0.05, which shows that overall VAR model is highly significant.

Impulse Response Analysis

Response to Cholesky One S.D. (d.f. adjusted) Innovations \pm 2 S.E.

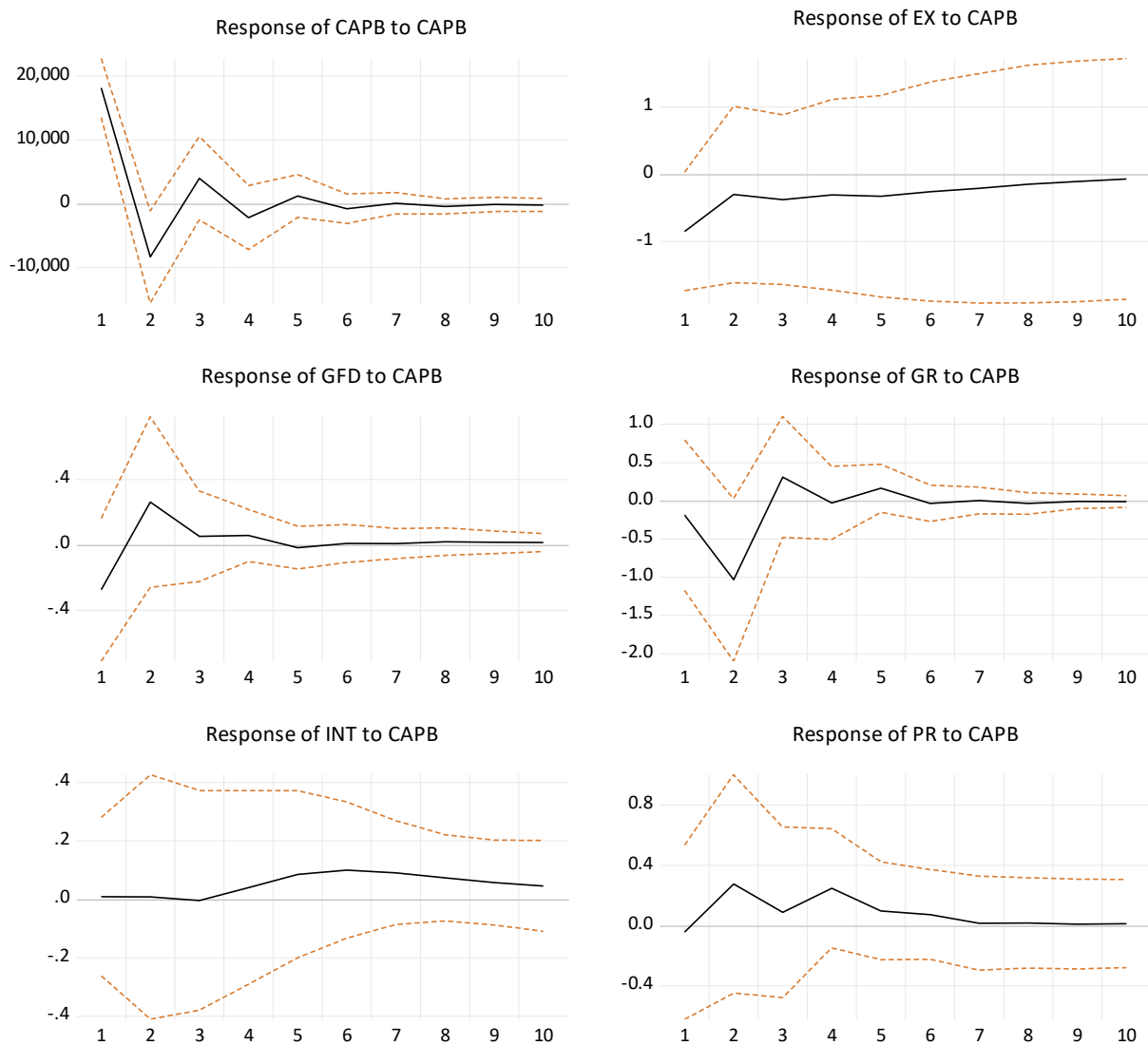


Figure 4

When Balance on Capital Account (CAPB) rises in first year then it falls in next years. Each rise is followed by a fall in subsequent years. After 7 years it becomes constant. When Gross Fiscal Deficit increases then CAPB rises and it falls for few years and then again rises. When interest rate increases then CAPB initially increases. After few years it falls for short duration then again increases. When rupee depreciates then CAPB rises. When growth rate increases then CAPB initially falls then rises in next year, again falls in next year and then again rises for rest of the year. When price increases then CAPB rises then falls next year. Rise is followed by fall and fall is followed by rise for six years. After that CAPB rises for the rest of the years.

Variance Decomposition Analysis

Table 3

Period	S.E.	CAPB	EX	GFD	GR	INT	PR
1	18146.83	100.0000	0.000000	0.000000	0.000000	0.000000	0.000000
2	20544.50	94.47831	0.386583	0.047297	0.045123	0.275784	4.766900
3	21227.47	92.02137	0.919992	1.330718	0.042339	0.780348	4.905236
4	21459.34	91.06283	1.509746	1.640119	0.173795	0.770273	4.843233
5	21553.23	90.58235	1.937695	1.636715	0.186207	0.769338	4.887695

6	21625.81	90.10801	2.335995	1.658616	0.186614	0.836952	4.873813
7	21685.94	89.61026	2.738933	1.659805	0.193906	0.941856	4.855243
8	21770.13	88.95771	3.174369	1.650154	0.203290	1.135960	4.878518
9	21861.05	88.22176	3.622380	1.682280	0.215745	1.359659	4.898175
10	21966.55	87.38420	4.060212	1.759237	0.226123	1.631181	4.939052

The Forecast Error Variance of the Balance on Capital Account (CAPB) in the beginning is due to itself. As the time period increases, contribution of exchange rate, gross fiscal deficit, GDP growth rate, interest rate and inflation shocks to the movements (Forecast-error Variance) of CAPB increase to 4%, 1.7%, 0.22%, 1.6% and 5% respectively.

Diagnostic Checking

(A) VAR Residual Serial Correlation LM Tests

Table 4

Lag	LRE* stat	df	Prob.	Rao F-stat	df	Probability value
1	34.98955	36	0.5165	0.956278	(36, 55.5)	0.5498
2	44.81547	36	0.1488	1.318895	(36, 55.5)	0.1740

H_0 = No serial correlation at lag h

Since, Probability value at lag 1 and lag 2 are 0.5498 and 0.1798 respectively. Which are much higher than 0.05. Therefore, we cannot reject the Null hypothesis. Thus, there is no evidence of serial correlation in this VAR model.

Table 5

Lag	LRE* stat	df	Prob.	Rao F-stat	df	Probability value
1	34.98955	36	0.5165	0.956278	(36, 55.5)	0.5498
2	99.45025	72	0.0178	1.534168	(72, 38.4)	0.0746

H_0 = No serial correlation at lags 1 to h

Since Probability value is 0.0746 between the two lags. This value is larger than 0.05. Therefore, we cannot reject the Null hypothesis. Thus, there is no serial correlation between the lags in this VAR model.

(B) J-B Test of Normality

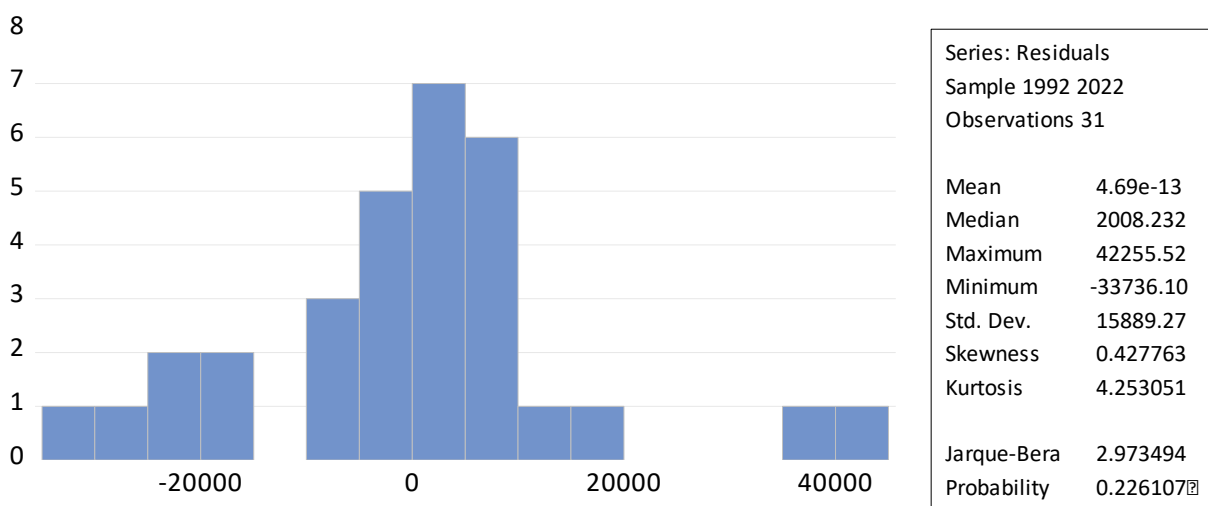


Figure 5

H_0 = Residuals are normally distributed

Since P-value of J-B statistic = 0.22

We cannot reject Null hypothesis. It shows that Residuals are normally distributed.

(C) White's Test for Heteroscedasticity**Table 6**

F-statistic	1.694174	Prob. F(7,23)	0.1601
Obs*R-squared	10.54630	Prob. Chi-Square(7)	0.1597
Scaled explained SS	9.442636	Prob. Chi-Square(7)	0.2224

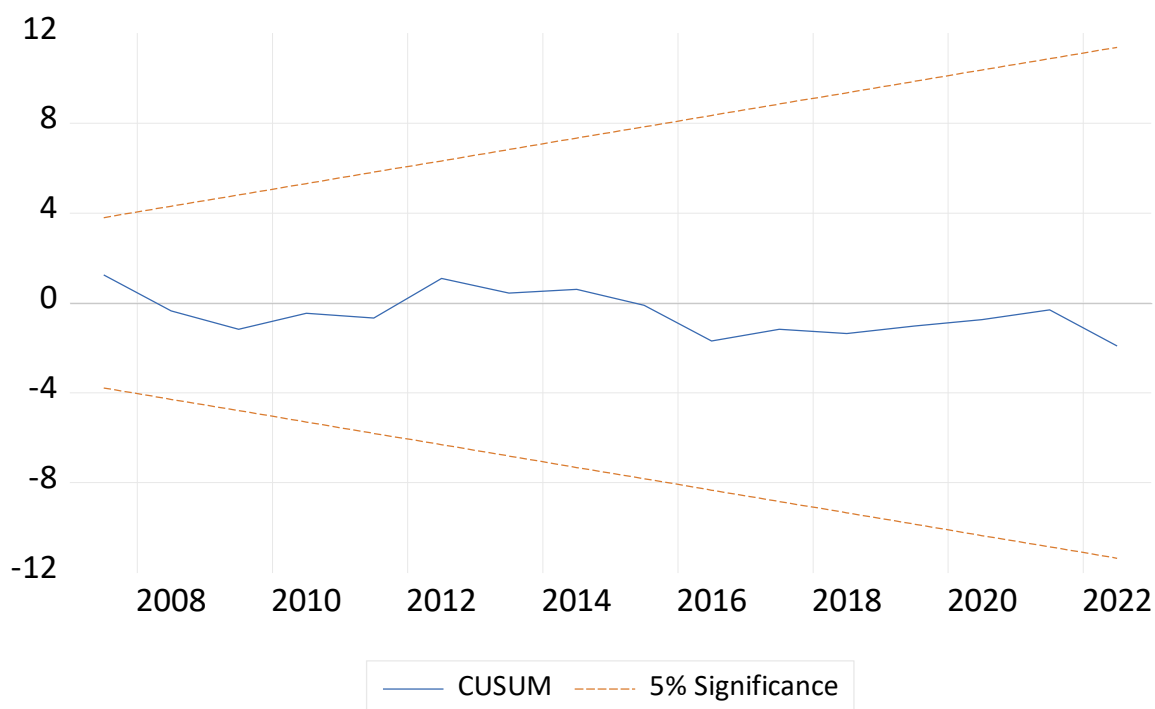
H_0 = Residuals are Homoscedastic

P-value for chi-square is = 0.1597

We cannot reject Null Hypothesis. Therefore, Residuals are Homoscedastic.

(D) Stability Diagnostics**CUSUM Test**

Since the Blue trend line lies between the red boundaries at 5% level of significance. It shows that VAR model is dynamically stable.

**Figure 6****CONCLUSION**

The Liberalisation integrated Indian financial market to the rest of the world. This study investigates the factors which affect the Balance on Capital Account (CAPB) in Indian economy post-liberalization. Macroeconomic variables for the analysis are balance on capital account, gross fiscal deficit, interest rate, exchange rate, GDP growth rate and inflation. Time series data of these variables are taken for the period 1991-2022. Vector Autoregression (VAR) model has been used for the analysis of these macroeconomic variables.

The empirical analysis shows that there is positive impact of depreciation of rupee on the Balance on Capital Account (CAPB) in Indian economy. Which also supports the macroeconomic theory. The study also finds that there is negative impact of gross fiscal deficit on Balance on Capital Account (CAPB). It is also found that there is positive impact of inflation on Balance on Capital Account (CAPB). The empirical study further finds that coefficients of growth rate and interest rate is negative which shows that both the variables have negative impact on Balance on Capital Account (CAPB). This is justified in the context of Indian economy because rupee has a depreciating trend which discourages foreign investors to invest in Indian financial market. Declining trend of net capital formation and poor fiscal management also discourages investors to invest in Indian financial market. It was found that there is a structural break in the year 2006. The Overall Vector Autoregressive (VAR) model is highly significant. The findings of this empirical study will be very useful for the policymakers, investors and researchers concerned with India's economic stability and growth prospects.

REFERENCES

- [1] Dua & Garg (2015). Macroeconomic determinants of foreign direct investment: Evidence from India. *The Journal of Developing Areas*, 49(1), 133–155.
- [2] Dua & Sen (2013). Capital Flows and Exchange Rates: The Indian Experience. *Indian Economic Review*, 48(1), 189–219.
- [3] Estache, A., Serebrisky, T., & Wren-Lewis, L. (2015). Financing infrastructure in developing countries. *Oxford Review of Economic Policy*, 31(3/4), 279–304.
- [4] Estache, A., and Wren-Lewis, L. (2009). "Toward a Theory of Regulation for Developing countries: Following Jean- Jacques Laffont's Lead", *Journal of Economic Literature*, 47, 729-70.
- [5] Jiang, J., Chen, H., & Wang, L. (2019). Factors of Cross-border Capital Flow: An Empirical Study of Coastal Regions. *Journal of Coastal Research*, 966–970.
- [6] Kandil, M. (2009). Exchange Rate Fluctuations and the Balance of Payments: Channels of Interaction in Developing and Developed Countries. *Journal of Economic Integration*, 24(1), 151–174.
- [7] Kharusi, S. A., & Ada, M. S. (2018). External Debt and Economic Growth: The Case of Emerging Economy. *Journal of Economic Integration*, 33(1), 1141–1157.
- [8] Krueger, A. O. (2019). Increased capital mobility and policy reform in developing countries. *Indian Economic Review*, 54, S113–S133.
- [9] Prasad, E. S., Rajan, R. G., & Subramanian, A. (2007). Foreign Capital and Economic Growth. *Brookings Papers on Economic Activity*, 2007(1), 153–209.
- [10] Rajiv Ranjan, & D. M. Nachane (2004). Analysis of the Capital Account in India's Balance of Payments. *Economic and Political Weekly*, 39(27), 3031–3044.
- [11] Rangarajan, C. (2000). Capital Flows: Another Look. *Economic and Political Weekly*, 35(50), 4421–4427.
- [12] Salandy, M., & Henry, L. (2018). Determinants of capital flight from beautiful places: The case of the small open economy of Trinidad and Tobago. *The Journal of Developing Areas*, 52(4), 85–97.
- [13] Schularick, M., & Steger, T. M. (2010). Financial integration, investment, and economic growth: Evidence from two eras of financial globalization. *The Review of Economics and Statistics*, 92(4), 756–768.
- [14] Velić, I., & Cvečić, I. (2024). Monetary Integration Effects on Foreign Direct Investments in New EU Member States. *Journal of Economic Integration*, 39(1), 55–85
- [15] Yalta, A. Y. (2010). Effect of Capital Flight on Investment: Evidence from Emerging Markets. *Emerging Markets Finance & Trade*, 46(6), 40–54.