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CAUSES OF CAPITAL FLIGHT: EMPIRICAL EVIDENCE FROM BANGLADESH

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ABSTRACT

Capital flight from Bangladesh throws the economy a formidable challenge in realizing the objectives of its general economic policy. The study identifies the major contributors to capital flight based on an extensive literature survey, but picking up the factors mostly accountable for capital flight from Bangladesh is an empirical issue that the study attempts to address. It identifies the capital flight series resorting the residual method and applies the ARDL Bounds testing approach to examine the short-run dynamics and nature of equilibrium of flight capital from Bangladesh in the long-run for the period 1981-2019. The study finds significant evidence to support capital flight from Bangladesh both in the short-run as well as in the long-run with a tendency to get back to its long-run equilibrium value. The most appealing finding is the capital flight fostering growth, an exception from the theoretical expectation. But the factors like higher expected return on investment abroad, liquidity effect of foreign aid and most importantly, political uncertainty is significantly contributing to capital flight from Bangladesh. Results of the study have important implications for policymakers to design appropriate policies and employ pertinent tools to reduce the political risk of doing business in curbing capital flight from Bangladesh.

KEYWORDS: *Capital Flight, Residual Method, Bangladesh, Bounds Test*

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