



The Impact of Capital Flight on Economic Growth and Financial Stability in Palestine

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Author's contribution

The sole author designed, analyzed, interpreted and prepared the manuscript.

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ABSTRACT

This study examined the impact of Capital Flight on Economic Growth and Financial Stability in Palestine from the period (2000-2020). The time series data of Capital Flight, Foreign Exchange Reserves, Foreign Debt, and Real GDP used in the study, and the use of ordinary least squares estimation technology to analyze the research data. Carried out Johansen co-integration and error correction mechanism. The evidence of the research results shows that there is a co-integration relationship between the research variables, and Capital Flight has harmed the Economic Growth of the Palestinian case. Based on these findings, the study recommends that the government should provide a favorable investment environment to encourage investment and prevent Capital Flight from Palestine. In addition, the Palestinian Government should also prevent Capital Flight because these Infrastructure Projects/Programs will reduce the country's production costs. The government should create a suitable investment environment for foreign investment and encourage entrepreneurs and equity owners to invest these funds domestically. In addition, the government should use all Foreign Aid funds in appropriate places to increase the Economic Growth Rate and create job opportunities for the unemployed, thereby increasing the National Economic Growth Rate.

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1. INTRODUCTION

Particularly massive Capital Flight from developing countries like Palestine in the face of massive Underinvestment, Unemployment and Underemployment has become a major concern for the government and policymakers. Why did Palestine continue to increase its borrowing abroad while recording an increase in Capital Flight at the same time and its constant need for Foreign Aid? In the framework of the (PMA) reforms (2018), more than (\$260 million) of bank deposits kept in the (PMA) treasury at an interest rate of one per cent, and depositing banks responded by refusing to continue. Lending. Moreover, this action reduced the deposit interest rate to about three per cent (200%), and the implication was a mass movement of funds to alternative investment destinations including Jordan, Lebanon, the United Arab Emirates, Saudi Arabia, Qatar and other East Asian Countries. The movement of money outside the country comes by people buying dollars, dinars and euros and transferring them abroad, and this called (Capital Flight).

By the year (2020), the Palestinian Economy was already facing a massive financial drain as individuals, companies and foreign investors were remitting their money on a large scale outside Palestine in addition to converting it from shekels to dollars. A total of (11 to 13 billion dollars) exited the country in 3 years, with an average of (3 billion dollars) per year [1].

While about (\$4 to \$6) billion exited in the year ended (March 31, 2019), the amount of Foreign Exchange Outflow increased to (\$3.2 billion) for the year ending May 30. However, it fell to (\$2.1 billion) on October 30. In addition, it moved astronomically to (\$4 billion) for the year ending (December 31, 2019). Foreign Exchange Inflows increased to (\$3 billion) for the year ended (December 30, 2021) [1].

This flight of capital led to the collapse of the exchange rate of the dinar against the Shekel, which was stable before the collapse of the global price of crude oil. The trend became more evident in (July 2021) wherein fact, within a few months; several million dollars were purchased through banks and exchange offices. The

movement of funds can be observed in the records of the Palestinian Monetary Authority (PMA) and the Palestinian Ministry of Finance and Planning (MoFP) for direct transfers, sale of auctions and bids in dollars. According to data obtained from the Palestinian Monetary Authority and the Palestinian Ministry of Finance and Planning during the past five years, the total volume of Foreign Exchange that was transferred through direct transfers amounted to (2.5 billion dollars) and (113 million dollars) in debt service by the government at the end of (July 2019) [1].

The bulk of the Outflow went through wholesale in domestic and international auction markets, totaling (\$6 billion) purchased from the (PMA). Curiously, Foreign Currency purchases backed by letters of credit in Q4 (2019) amounted to (\$88 million) [1].

The flight of capital depleted Palestine's Foreign Exchange Reserves, thus weakening the dinar. Palestine's Foreign Exchange Reserves, which amounted to (\$3 billion) in (2015), rose to an overwhelming level of (\$33 billion) at the end of (2017) and then to (\$30 billion) in (2018), but due to the collapse of global crude oil prices (2019). In addition, the subsequent effects and political and economic repercussions in the world. From the Global Financial Crisis, Reserves Fell to (\$17 billion) in (2011) and fell again from (\$14 billion) at the end of April (2016) to (\$14 billion) in (February 2017) [1].

Furthermore, market operators believe that due to falling crude oil and manufacturing prices, as well as uncertainty surrounding the country's choice, Foreign Counterparts have reduced their credit lines to Palestinian Banks. This caused a large amount of money to leave the country as the usual commercial lines of credit have dried up for six months. In addition, some banks are forced to meet customer needs through direct cash payments [1].

What induces individuals and firms in Developing Countries to invest their capital abroad? There are three motives for Capital Flight. These can be characterized as the exchange rate motive, yield or tax considerations and Capital Flight on the grounds of risk and security. An overvalued currency and consequent rumors of devaluation

can trigger the flight into a Foreign Currency. This Foreign Exchange need not necessarily be invested abroad. In many cases, however, domestic bank deposits may not be denominated in a foreign currency, so that investment abroad suggests itself [2].

Moreover, if the domestic currency is overvalued there are many reasons for hoarding Foreign Currency or investing abroad even if devaluation is not considered imminent. When the exchange rate is too high, the demand for Foreign Currency far exceeds supply.

The Foreign Exchange market is therefore strictly regulated. To give the Monetary Authorities complete control Over Foreign Exchange receipts, the regulations already begin to apply at the point where foreign currency can be earned [3].

Hence, Foreign Exchange received in payment for exports must often be converted immediately at the Official Exchange Rate.

Similarly, Foreign Exchange is allocated by an official body, usually only for specified import purposes. In such cases, the export of capital is also subject to authorization or completely prohibited. As no individual or firm willingly surrenders import decisions to a state agency, exchange market controls such as these are circumvented. Exporters and importers also have an incentive to engage in illegal foreign exchange transactions if different exchange rates apply to commercial and Capital Market transactions [4].

The Monetary Authorities often support imports by setting a lower rate for Foreign Currency, thereby discriminating against Capital Exports. In such cases, the importer can over invoice for imported goods, eliminating the distinction between commercial and capital transactions and obtaining the foreign exchange at a better rate [3].

The acquisition of Foreign Exchange can also be an important motive in the case of smuggling, although here Capital Flight is often only a secondary phenomenon if the smugglers' main aim is to evade high export duties or obtain a higher price for their goods abroad if prices are fixed at a low level at home and/or if a marketing board has a monopoly [5,6].

The yield motive comes to the fore if capital will earn a lower return at home than abroad. If savers are faced with negative real interest rates on their deposits whereas positive real interest rates can be earned abroad, they come down in favour of a foreign account. Tax considerations also induce investors to invest their money in tax havens such as the Netherlands Antilles rather than at home, where their income is taxed heavily [4].

Low or highly uncertain yields at home also make it easier for potential investors to opt for an account abroad; high taxes, price controls, import restrictions and political instability can reduce profit margins and increase the risk. If Inflation Rates are high, price controls on certain goods to combat the rise in prices can have a particularly detrimental effect on investment at home [7].

In such cases frequent price adjustments are necessary. If the authorities fail to make such adjustments, firms incur large losses due to price distortions. The mere expectation of possible price distortions due to high Inflation or price controls can make realistic planning difficult. In comparison, Foreign Investment is often considered less risky [8].

Finally, Capital Exports are also induced by the simple desire to safeguard assets. Here it is usually not so much yield considerations as the security motive or portfolio considerations that come into play. Residents seek to invest part of their wealth abroad mainly for political reasons, especially the fear of expropriation [9].

Capital Flight is a rapid response to economic and political instability. The structure of political institutions can be a source of distortion and instability. The impact and outcomes of these weak political institutions can contribute to increased economic and Financial Instability [10].

The financial bleeding that the Palestinian Economy suffers from due to the Israeli Occupation and due to the unfavourable underlying investment climate, high and arbitrary Tax Rates, low interest rates, inconsistent policies, and high level of unemployment in the Local Economy is worrisome due to its downsides. Its consequences for Economic Growth in Palestine [11].

2. OBJECTIVES OF THE STUDY

The main objective of this study is:

- Study the impact of Capital Flight on Palestinian Economic Growth and the Financial Stability during this period (2000-2020).
- Determine the relationship between Capital Flight and Economic Growth, Financial Stability in Palestine.
- Expose the real damages of Capital Flight to the economic, financial and political situation as a whole in Palestine.

3. LITERATURE REVIEWS

3.1 Conceptual Issues

3.1.1 The mechanisms of capital flight

Capital Flight channels are not only diverse, but also diverse and in different ways, as mentioned in previous studies [12,13]. There are also many channels for Capital Flight in Palestine, which can be briefly discussed as follows:

- Capital Flight can occur through precious metals, collectibles, and local wealth, including works of art. The local currency is exchanged for gold, silver or other precious objects. Metals, gems, jewelry and the like to assets, these assets can not only be transferred abroad, but can also be held and valued. Foreign Currency sales of these products are often high and very expensive.
- Funds transferred in cash or through Monetary Instruments. These usually take the form of Foreign or National Currencies. In the early (1970s), some studies showed that local currencies were implemented abroad and exchanged in cities such as London and New York [12,14].
- Another way to transfer funds abroad is through the black market itself. This is a booming source of overseas Remittances. By using this method, it is difficult to estimate the amount of funds transferred out of the country.
- The fourth method is to transfer the bank from the local branch of a foreign bank to a designated payee abroad. These funds can be redeemed at market Exchange Rates because there are no specific restrictions or laws.

- The fifth source of Capital Flight is falsified commercial invoices. A large amount of money can be generated from the counterfeiting of the import and export system. Due to the Capital Flight that occurs in this situation, exporters will incur less invoicing, importers will incur more invoices, and the exchange gains obtained from these two processes are beyond the control of the authorities.

3.1.2 Causes of capital flight

There are many reasons for Capital Flight, which can be divided into the following categories; Relative Risks, Currency Mismatches, Financial Sector Restrictions and/or Restrictions, Fiscal Deficits, External Incentives, and the Payment of new Loans. There are also non-economic reasons for Capital Flight. Although they are important, they are often overlooked. These non-economic reasons include corruption and abnormal access to public funds by government officials [15,16].

- Relative risk: In the Decision-Making process, the estate owner will consider the various risks it faces. Some inherent characteristics of Developing Countries make the risks associated with investment greater than those of Developed Countries. By setting reasonable expectations, higher risks will cause private capital to flow from the national economy to foreign countries with lower investment risks. Therefore, domestic investors are more willing to transfer funds and hold Foreign Assets.
- Exchange Rate Imbalance: The importance of this variable has been fully demonstrated in various empirical analyses, including (Cuddington, 1986), [17] and Pastor [18]. The real exchange rate plays an important role in the direction and scale of Capital Flight from highly indebted Developing Countries. Under normal circumstances, if the currency is expected to appreciate, the owners of national wealth will transfer from domestic assets to foreign assets. It is difficult to accurately measure the exchange rate forecasts. However, it is safe to assume that if a currency is overvalued, economic agents expect the currency to depreciate in the future. Meeting this expectation will enable people to avoid possible capital losses by choosing foreign assets [19,20].

- **Financial Sector Restrictions:** This may also lead to Capital Flight. As we all know, capital and Currency Market Restrictions are a characteristic of Developing Economies. The Financial Markets of these countries only provide a limited set of Financial Instruments that can maintain wealth. Furthermore, in many Developing Countries, domestic bank assets lack comprehensive or reliable deposit insurance. However, many Developing Countries are increasingly addressing this deficiency [21].
- **Policy and control:** Developing Countries have extensive control over interest rates and other aspects of Financial Market activity. Government Policies in the Financial Sector have resulted in much lower normal interest rates than similar Foreign Financial Instruments. In most cases, the actual rate of return on Domestic Financial Assets is negative [22].

3.1.3 Effects of capital flight

PMA [1] classifies the impact of Capital Flight in the short and Long-Term.

Short-Term Effects: The sudden increase in capital outflows will have a destabilizing effect on internal reserve positions.

Long-Term Impact: The reduction in the resources available to Finance National Investment has caused a decrease in the rate of capital formation and has a negative impact on the country's Growth Rate.

In addition, Capital Flight is diverting scarce resources from domestic investment and other production activities. In recent decades, the level of investment in the economies of the Middle East has been significantly lower than that of other Developed Countries [23, 24].

This low level of Domestic Investment is partly attributable to the apparent dearth of domestic savings, weak shallow Financial Systems and high country risks due to Macroeconomic instability and political conditions. Thus, Capital Flight explains the cause and symptoms of this poor investment performance [25, 26].

Moreover, Capital Outflow can cause a lack of liquidity in the economy and thus create a shortage of funds to import equipment for development. According to [17] Capital Flight

leads to a net loss in the total resources available to the economy for investments. Therefore, the pace of growth and development in the economy is lagging [27].

3.1.4 Capital flight: the manufacturing sector experience

The Palestinian Economy loses about (260 NIS) million (\$78 million) annually due to the failure of industrial companies to implement local content in the country, resulting in missed opportunities for healthy Palestinians. Local manufacturing experts in (February 2019) in Ramallah revealed an estimated annual expenditure of (726 million Shekels) (220 million dollars) in the Palestinian manufacturing industries and minerals annually, only about (16%) or (240 million Shekels) (72 million dollars) of this amount falls in Palestine. Moreover, about (\$33 million) of that amount is taken out of the economy in things that would normally be done locally [28].

Therefore, it is not surprising that Palestine has become the largest investment in the Middle East by virtue of its superior investment environment. However, this has little effect on the country's GDP. This is because most of the work in engineering, technology and procurement, insurance, transportation, and other skills are done overseas or by foreigners [29].

In addition to creating thousands of employment opportunities through the direct and indirect participation of the Palestinians, if Palestine gains the capacity to implement these employment opportunities, the value chain in Economic Activities will bring more prosperity. With this in mind, the Palestinian Government launched an initiative to support Palestinian content. The government's goal is in (2017) to meet (60%) of national mineral processing, production, and reach (75%) by (2020). By then, the same percentages that exclude employment, investment, and diversified economic activities will be domesticated [30,31].

In this note, the Palestinian Government led by President (Mahmoud Abbas) and Palestinian Prime Minister (Mohammed Shtayyeh) directed a new program of the Palestinian Ministry of National Economy to develop a comprehensive and viable strategy to achieve local content in the industry.

Freight insurance companies suffer a loss as almost all insurance businesses and foreign

companies with no or no Palestinian input raise import prices.

However, the passage of the Palestinian Content Bill would enable the creation of the Palestinian Content Development Agency, which would generally be managed by the Palestinian Ministry of National Economy, with the assistance of the Palestinian Content Council, which would oversee the management and affairs of Palestinian content (Policy) [32].

Domestic Policy Distortions, debt accumulation and Capital Outflows Domestic Policy Distortions have become part of the growth and stabilization policies of most Asian Countries. Policy Distortions have led to a decline in the credibility of the country's government, a decline in the assessed exchange rate, and Financial Instability, which in turn have created obvious incentives for Capital Flight. Check these factors as follows [33].

3.1.5 Loss of creditworthiness

For example, in the (1970s), the governments of major Asian Countries pursued expansionary fiscal and Monetary Policies related to relatively rapid growth, and received Substantial Financial Support from Foreign Commercial Banks. External Credit helps avoid the Short-Term inflationary consequences of huge internal deficits, but as External Debt accumulates the quality of these Governments External and internal credit declines [34].

With the deteriorating expectations of the government's ability to pay, Inflation Risks, and depreciation, even extremely high interest rates cannot prevent Capital Flight.

The reason is that the risks involved in holding domestic debt are growing faster than nominal interest rates. When risk factors (including the risk of unexpected currency depreciation) are corrected, foreign assets are still a better choice for capital to enter and exit the country, such as domestic and foreign countries. The rate of return is the difference between these risks [35].

3.1.6 Financial instability

Although Financial Instability is partly the result of fiscal deficits and exchange rate policies, it is also a by-product of financial repression in many countries, that is, fixed interest rates below the inflation rate, and high statutory reserves required by banks and other financial institutions.

Institutions and the rigidities imposed on the financial system [1,36].

Financial Repression encourages Capital Flight by reducing domestic investment returns and increasing Public Financial Instability, for example, through its potential impact on financial intermediation when Inflation rises. In countries with more liberal financial systems, for example, the market determines interest rates, huge Fiscal Deficits, and exchange rate overvaluations lead to rising Real Domestic Interest Rates, resulting in different types of Financial Instability, because companies and governments are heavily indebted [37,38].

Domestic companies benefiting from relatively cheap External Credit suffered Financial Instability after currency depreciation. Financial Instability has also triggered a secondary source of Capital Flight that can be regarded as the stock of assets of overseas residents. Financial Instability has caused foreign asset owners to reinvest the returns of their overseas assets, such as interest, dividends, and capital gains [39].

Although policy distortions often have an immediate effect on Capital Flight, reversing these distortions will only have a positive impact on Long-Run. In the Short-Term, trade and financial reforms can promote rather than reverse Capital Flight because it poses a threat to strictly protected sectors, privileged tax loopholes, and tax evasion [40,41]. However, a significant reduction in fiscal imbalances can accelerate the elimination of the beneficial effects of other policy distortions.

3.1.7 International trade faking and capital flight

The term "commercial fraud" used to describe high or low prices in international trade, namely exports and imports. Importing from one country is exporting from another country. Therefore, it is estimated that the ratio of the value of imports from one country (such as country A) from another country (such as country B) to the value of exports from country B to country A is called ratio valuation, and it must be a unit [42]. However, there are many reasons for the mismatch in trade statistics (i.e. exports and imports). One of the reasons is that the credit of invoices or commercial transaction invoices (that is, deliberately distorting commercial data) leads to Capital Flight [43].

Maintaining overvalued currencies and restricting access to Foreign Countries creates an atmosphere of distorted trade data, that is, bill adjustments. One of the main causes of trade fraud in Developing Countries is that Exchange Rate control is a common phenomenon. Therefore, Foreign Currencies can be bought and sold at a premium on the black market. Due to currency premiums, exports are lower than bills and imports cancel bills [44,45].

In addition, contrary to the common situation of high-priced imports when Foreign Exchange premiums are on the black market, higher import tariffs can encourage importers to price low-priced imported products. If import subsidies are implemented, it can lead to an increase in import costs. Export tariffs will lead to "Insufficient Invoices", and export invoices exist when export subsidies exist [46,47].

When importing, you can systematically create a ticket in the following two situations. The first situation is the situation where imported goods are subject to customs duties. The second situation is when the importation of goods is strictly controlled. In the case of tariffs, when the importer's savings in tariffs exceed the additional price he must pay to buy Foreign Exchange on the black market, the importer will pay a tariff to reduce the value of the import [48,49]. Therefore, if the following situations occur, the importer will benefit from insufficient invoices:

$$T - Bp > 0$$

Where,

T = tariff rate and
BP = black market exchange rate at a premium [50].

Under the circumstances, that there are restrictions on the number of importers, and two conditions are met Under Invoicing is profitable. One is that Under Invoicing allows a larger number of license imports, and the second is that the premium of imported goods in the domestic market is higher than the premium of the exchange.

Moreover, in the past few years, the Palestinian Foreign Exchange Black Market has flourished. In addition, tariff policies are constantly changing, allowing certain goods to be imported at a zero or positive tax rate at a certain time to a completely prohibited state at another time. In

addition, during the civil administration period (1979-1984), it was popular to issue import licenses to entrepreneurs. The existence of these conditions inevitably provides fertile ground for excessive and/or insufficient exports and imports, respectively [51].

3.1.8 Theoretical review

3.1.8.1 Investment diversion theory

This paper by [48] seems to provide the most relevant explanation for the relationship between Capital Flight and Economic Growth, Financial Stability. They believe that Capital Flight leads to a net loss of the economy's total resources available for investment and growth. Capital Flight is the deviation between domestic savings and actual Domestic Investment, which slows down the pace of Economic Growth and development [12,52] believes that sometimes the decline in GDP is a multiple of the magnitude of Capital Flight. Similarly, if the authorities implement a floating exchange rate system, lack of liquidity will cause the local currency to depreciate. If you try to defend a certain exchange rate, you will lose reserves.

Second, income and wealth generated and maintained abroad are not controlled by local authorities and cannot be taxed. As a result, potential government revenue has fallen and hampered the government's ability to pay debts [17,53] rightly pointed out the reasons for Capital Flight, because the response of individual actors is that economic theory believes it to be generally reasonable and acceptable in industrialized countries.

Thus, the unfavorable investment environment in Developing Countries encourages corrupt individuals, investors and even government officials to take advantage of high interest rates, extensive Financial Instruments, political and Economic Stability, and Tax Systems favorable and confidential accounts of the promising investment opportunities offered by foreign countries [54].

Furthermore, unscrupulous and corrupt leaders and bureaucrats often withdraw scarce capital resources from their home countries to invest abroad. Therefore, these funds cannot be used to invest in housing, which results in a decrease in total investment, a slowdown in Economic Growth and Financial Stability, an increase in unemployment and an increase in the

dependency ratio. Furthermore, the scarcity of capital necessary for Domestic Economic Development often leads to the need to borrow abroad, which is sometimes further depleted, leading to External Dependency and Debt [55].

3.1.9 Empirical literature

Badwan and Atta, [40] studied the impact of Capital Flight (2000-2019) on Palestinian Economic Growth. The study uses co-integration, ordinary least squares (OLS) and the error correction mechanism (ECM) as its main estimation techniques. The research results provide evidence that, during the study year, Capital Flight, Foreign Exchange Reserves, External Debt, Foreign Direct Investment, and Current Account Balances were combined with Palestinian GDP. I also discovered that Capital Flight has hurt the Economy and the Financial Stability.

Oboye [56] studied the negative impact of Capital Flight on the Economic Growth of African Countries during the last 40 years (1970-2009). This study uses ordinary least squares (OLS) as its main estimation technique, and uses co-integration and error.

Correction Mechanisms (ECM). The results of their research show that Capital Flight damages the economy.

[57] explored the impact of Capital Outflow on the GDP growth rate of African Countries. In order to accomplish this task, three GDP Growth Rate Models were specified, each of which contained different measures of Palestinian Capital Flight. The variables in the model are checked for possible co-integration relationships.

The research results show that Capital Flight has a negative impact on the GDP Growth Rate. Capital control is not important to stimulate the Palestinian GDP growth rate. Foreign Exchange control is weak. Industrial production is the real source of Palestinian GDP Growth Rate. Public expenditure has a significant positive impact on the Growth Rate of Pakistan's GDP, and the growth of domestic investment has little impact on Pakistan [55,58].

Lyeli and Enang, [59] investigated Capital Flight and its determinants within the framework of cointegration and estimation techniques (VAR).

The results show that political and economic factors, such as regime change, mean that good governance, fiscal discipline and responsibility are the main determinants of Palestinian Capital Flight. Therefore, Fiscal Discipline and sound national macroeconomic policies are urgently needed. This will prevent undisclosed resources from being transferred abroad.

Ifedayo and Olawale, [60] studied the impact of Capital Flight on the Economic Growth of African countries (1980-2012). The study uses co-integration, ordinary least squares (OLS) and error correction mechanism (ECM) as its main estimation techniques.

Therefore, the research results provide evidence that, during the study year, Palestinian Capital Flight, Foreign Exchange Reserves, External Debt, Foreign Direct Investment, and Current Account Balances were integrated together with Gross Domestic Product (GDP). It also found that Capital Flight was damaging the Economy.

Walter, [61] used the autoregressive distributed lag (ARDL) model to analyze data sources during the period (1981 to 2015) and studied the impact of Capital Flight and its determinants on the Palestinian economy. The variables include Current Account Balances, Capital Flight, Foreign Direct Investment, Foreign Exchange Reserves, Inflation Rate, External Debt, and Real GDP. The results show that Capital Flight has hurt Palestinian Economic Growth.

Ashman, Fine, and Newman, [62] when studying the nature, scale, and impact of Capital Flight from the Middle East, he used descriptive analysis techniques. Researchers analyzed various programs to control illegal Capital Flight from the Middle East, including various amnesty programs and voluntary disclosure programs (VDP), and analyzed Capital Flight from the Middle East as a percentage of Gross Domestic Product (GDP).

According to the results of the study, the study concluded that the impact of Capital Flight has led to an increase in investment in domestic production activities, a decrease in capital stocks in almost all production sectors, austerity and Macroeconomic weakness, and a decline in the degree of industrialization of the Middle East Economy, which further aggravated Unemployment. Rate Poverty and serious disparities in the provision of basic services.

Boyce and Ndikumana, [63] investigated the impact of Capital Flight in 11 Middle Eastern Countries from (1970 to 2010), obtained variable data from the International Monetary Fund's Balance of Payments (BoP) research, catalog trade statistics (DOTS) and International Financial Statistics (IFS); World Bank's World Development Indicators (WDI) and Global Development Finance (GDF) [53].

The study used a panel data of analysis technique and the remaining measures of Capital Flight used in the study. At the same time, they introduce important methodological differences from existing Capital Flight studies to include; invoice business invoices can significantly increase or decrease estimated capital running away, they believe that incomplete unbilled data is more accurate than the alternative hypothesis that the net invoice is zero; Estimated transfers not recorded.

Besides, Remittances from workers abroad represent a large and growing source of private Capital Flows to Middle Eastern Countries, and the study has allowed for the possibility of "Reverse" Capital Flight Flows. The results of the study provided evidence that Capital Flight is a severe drain on the resources of Middle Eastern countries, and that it is getting worse over time.

The study asserts that the Indian subcontinent is transferring more capital abroad than it has received from the public and private lending, and is ironically a "Net Lender" to the rest of the world. Capital flight frustrates Middle Eastern Countries' efforts to increase development financing to accelerate poverty reduction [49].

Due to the lack of studies that have studied the problem of Capital Flight from Palestine, we were not able to provide a broad literary review on this issue due to the lack of studies that dealt with the issue of Capital Flight outside Palestine, and we used other studies from the countries of the region neighbouring Palestine and cited the Developing Countries of Asia and some countries of North Africa.

4. METHODOLOGY

Over time studies have shown that theory does not offer a sharp appropriate connection in determining a priori which independent variables should be included when examining the factors that affect Capital Flight in Palestine, In some of the main and vital cities where Capital Flight

operations and local and Foreign Investment are active, such as Ramallah, Jerusalem, Hebron, Bethlehem, Jericho and Nablus [2]. In this light, therefore, the study has followed the literature and examined, in the context of Developing Countries, the most important variables.

4.1 Model Specification

The model of this study is an adaptation of the surplus method developed by the [64,65] for Capital Flight. The calculation is as follows:

Where is the Capital Flight?

Have the changes in the balance of outstanding Foreign Debt adjusted for Exchange Rate Fluctuations?

Net Foreign Investment

Is the current account deficit?

Is the net increase in the stock of Foreign Exchange Reserves?

However, the variables included in this study are Real Gross Domestic Product (RGDP) as the dependent variable; independent variables include Capital Flight (CF), Foreign Debt (DE) and Foreign Exchange Reserves (ER).

The model specified as:

$$RGDP = f(CF, ED, ER) \quad (1)$$

Equation (1) was estimated in the explicit, functional form as

$$RGDP = \beta_0 + \beta_1 CF + \beta_2 ED + \beta_3 ER + \epsilon_t \quad (2)$$

Where:

RGDP = Real Gross Domestic Product ED = External Debts

FEX = Foreign Exchange INF = Inflation

β_0 = Intercept parameter of the model β_1 , β_2 & β_3 are the parameter estimates ϵ_t is the stochastic term. The apriority expectations for the coefficients are as follows; $\beta_1 > 0$, $\beta_2 > 0$ & $\beta_3 < 0$.

4.2 Model Estimation Technique

The model in this study uses ordinary least squares (OLS) for estimation and performs co-integration analysis and error correction on the data.

4.3 Hypotheses of the Study

The First Hypothesis (Ho1): There is a statistical indication and impact of Capital Flight on the Economic Growth and Financial Stability in Palestine.

The Second Hypothesis (Ho2): There is a statistical indication and impact of Capital Flight on the Financial Stability in Palestine

4.4 Sources of Data

The data for this study comes from a wide range of sources, including: External Debt (ED) Palestinian Monetary Authority (PMA) Statistical Bulletins on different topics; (2000-2020), Palestine Central Bureau of Statistics (PCBS); Real Gross Domestic Product (RGDP) And Capital Flight (CF) - www.pma.ps; Foreign Exchange Reserves (ER) - www.pma.ps www.pmf.ps www.mne.gov.ps

5. RESULTS AND DISCUSSION

5.1 Stationarity Test

The time series attributes of the data used in this study were tested using the improved Dickey-Fuller statistic (ADF) and confirmed using the Phillips-Perron statistic (PP) and the Kwiatkowski Phillips-Schmidt Shin statistic (KPSS) to avoid false results and determine the variables research of the order of integration. All test statistics (ADF, PP, and KPSS) tend to be the same, because the test results provide evidence that after the first difference in significance level (5%), the series at any time is achieved stability.

Table 1 Unit Root Test Result presents the results related to the variables selected for the case of the study that were analyzed, and these quantitative results showed the extent of the

impact of these variables and their relation to the process of Capital Flight and its direct impact on Economic Growth as shown by the numbers in the table such as the LOGCF with ADF, PP and KPSS by (-0.631262), (-0.76226), (0.626864) by the (5%) level, Also the other variables analyzed which mentioned above in the table that contain a different values by (5%) level.

It was mentioned in Table 2 that Johansen Tracer Co-Integration Test statistic result provided evidence of one co-integration in the model at a significance level (5%). This result was further strengthened by the maximum eigenvalue statistic, which provided evidence for a single co-integration equation at level (5%) of significance, thus rejecting the null hypothesis of no co-integration, implying a Long-Run equilibrium relationship between the variables.

In addition, the statistical results of Johansen Co-integration Test showed definitive and strong evidence of the interdependence of the variables used in the process of analyzing the data for the study, and this joint co-integration was indicated at the (5%) level.

The maximum eigenvalue is one of the most important results that have been reached that support direct correlation and common between the variables, also shows the importance that was inferred, which confirmed the rejection of the hypothesis with zero value, which does not contain any joint co-integration, and shows the importance of the relationship between the variables and the Long-Term of this relationship.

The Short-Term dynamics of the model shown in Table 3 indicate that the current level and (Lag 3) of Capital Flight are negatively significant at the critical level (5%), indicating a negative correlation with the rate of Palestinian Economic Growth.

Table 1. Unit root test result

	Sample: 2000-2020					
	ADF		PP		KPSS	
	Level	First	Level	First	Level	First
LOGCF	-0.631262	-5.211462	-0.76226	-5.26941	0.626864	0.266482
LOGED	1.286312	-3.254612	-2.628428	-4.25614	0.556242	0.213568
LOGGER	-1.224816	-5.656234	-1.223621	-5.526412	0.626314	0.456231
RGDP	-3.985624	-4.262484	-2.589741	-7.459826	0.124982	0.361126
5% level	-1.4989677	-1.256426	-1.268942	-1.887926	0.426206	0.426206

Source: Author's Computation

Table 2. Johansen co-integration test result

H0	H1	Eigenvalue	λ Trace	5% Critical value	λ Max	5% critical value
R = 0	r \geq 1	0.282616	48.57712*	47.71669	31.02762*	30.65645
R \leq 1	r \geq 2	0.398673	28.70762	42.67622	20.69062	21.36432
R \leq 2	r \geq 3	0.287456	20.61770	22.75505	12.72615	17.15162
R \leq 3	r \geq 4	0.125262	5.670936	11.47251	5.233316	12.24660
R \leq 4	r \geq 5	0.013262	0.337426	2.681664	0.337622	2.641862
H0	H1	Eigen value	λ Trace	5% critical value	λ Max	5% critical value

Source: Author's Computation

R indicates the number of co-integrating equations

* indicates rejection of the null hypothesis at a (5%) level of significance

λ Trace indicates trace test statistic

λ Max indicates maximum eigenvalue test statistic

Table 3. Parsimonious error correction model

Variable	Coefficient	Standard Error	F-Statistic	Prob.
C	-2.626311	0.731355	-2.864275	0.1370
D (LOGCF)	-4.121626	0.713351	-4.242717	0.0621
D (LOGCF) (-1)	-2.065971	0.572462	-2.266231	0.1369
D (LOGCF) (-2)	0.325137	0.442675	0.532614	0.3215
D (LOGCF) (-3)	-4.426113	0.48975	-5.636215	0.0117
D (LOGED)	-6.516324	2.632541	-4.234652	0.0286
D (LOGED) (-1)	1.978523	2.323626	0.573398	0.2044
D (LOGED) (-2)	-5.122784	2.376042	-1.133725	0.1162
D (LOGED) (-3)	8.233611	2.446278	1.378533	0.0153
D (LOGGER)	1.244754	1.379962	0.387422	0.0267
D (LOGGER) (-1)	2.332006	2.034529	1.002607	0.2117
D (LOGGER) (-2)	0.356709	1.663206	0.142562	0.5826
D (LOGGER) (-3)	3.120689	1.256190	1.122306	0.0298
D (LOGGER) (-4)	6.126753	1.214686	2.571221	0.0013
ECT (-1)	-0.623167	0.116322	-3.513342	0.0000

Source: Author's Computation

R-squared 0.624402; Adjusted-R² 0.461426; F-statistic 3.520462; Prob (F-statistic) 0.000355; Durbin-Watson stat 1.154843; Jarque-Bera 0.451153 (0.5172); BG Serial χ^2 , 1 1.479523 (0.0489); BG Serial χ^2 , 2 4.957804 (0.1867); ARCH χ^2 , 1 1.254452 (0.1837); ARCH χ^2 , 2 1.763795 (0.1649)

Therefore, Capital Flight is not conducive to the Economic Growth of the Palestinian Economy. This means that the scarce capital available for Investment, Innovation and Expansion is far from other economies in the world. Furthermore, external debt has also had a significant negative impact on the importance of the Palestinian Economic Growth Rate in the current period (5%), indicating that the percentage change in the Palestinian External Debt Balance will make the rate Palestinian Economic Growth increases drop by (436%).

Although the external debt balance, (Lag 3) has a positive statistical significance at the critical level (5%). It should be noted that the current

balance of External Debt has contributed to the separation of the country's international balance of payments, at the same time that it has squeezed private investors who need to import raw materials and equipment for Foreign Exchange. The fact is that Government Loans, even for specific projects borrowed, will not produce immediate results. However, this result indicates that in the third year (Rank 3), these projects will begin to produce positive results, thus supporting private investment and promoting Economic Growth and Financial Stability.

The Foreign Exchange Reserve Ratio is positive and statistically significant at the critical level

(5%) and (Lag 4) of the current period. This means that Foreign Exchange Reserves support Palestine's Rate of Economic Growth, because increased Foreign Exchange Reserves mean that the Local Economy sells more things to the outside world than it buys to the outside world (in terms of Foreign Exchange).

In addition, Monetary Policy provides the percentage of unbalanced errors accumulated in the previous period and corrected in the current period. The error correction term coefficient (-1) of (-0.623167) has the correct sign (i.e., a negative number) and is significant at (1%). The magnitude of this coefficient (-0.623167) indicates that the deviation from the Long-Term equilibrium is corrected every year (73%). The square value of (0.624402) indicates that the regression in the model explains the (75%) difference in the Palestinian Economic Growth Rate (RGDP) and shows that the model is appropriate. The F-statistic of (3.520462) also shows that the model is significant, and the regression has a common meaning of (1%). The Jarque-Bera test statistic cannot reject the null hypothesis of the normal distribution, which means that the series has a normal distribution. The Durbin Watson statistic of (1.154843) shows that there is no autocorrelation in the model.

This result is confirmed by the Breusch Godfrey serial correlation test (2 Lags), in which the null hypothesis of no serial correlation cannot be rejected. Therefore, there is no autocorrelation or serial correlation in the remaining series of the model. The results of the heteroscedasticity test (ARCH) also provide evidence that the null hypothesis of homoscedasticity cannot be rejected, so the model is desirable.

6. CONCLUSIONS

This study examined the impact of Capital Flight on Economic Growth by using the secondary data of Flight Capital to explore the main effects on the Economic Growth of Palestine for the period (2000-2020). Furthermore, in this study, techniques of ordinary minimum analysis were adopted.

The results of research revealed that Capital Flights have Palestinian Economic Growth and negative and statistically important relationships. External Reserves have Palestinian Economic Growth and statistically important active relationships, and Foreign Bonds have a combination of Palestinian Economic Growth and statistically important relationships.

In the current period, the balance of the External Debt has a serious relationship with Economic Growth, but the balance of the External Debt has begun an important aggressive relationship with Palestinian Economic Growth and Financial Stability.

The findings of the study showed that Capital Flight and Foreign Debts have a significant negative impact on the Economic Growth Rate and Financial Stability in Palestine, these findings corroborated with several studies such as [2,1,65,66,67,40], also [68,69,6,70,37,71] that Capital Flight harms Palestine's Economic Growth.

7. POLICY RECOMMENDATIONS OF THE STUDY

Based on the results of the study, the following recommendations were made by author:

- The Palestinian Government needs to promote companies and encourage existing companies to promote and encourage existing companies, Capital Domestic Flight.
- The Palestinian Government must ensure that Foreign Loans are investing in a specific project/program that are borrowed in the first case. Besides, the adverse effects on Palestinian Economic Growth are not persistent, and the project/program began to affect the economy in the middle of three years, and further improves its ease of business in that national business.
- These Projects/Infrastructure Programs should also reduce capital expenditures to reduce National Production costs.
- The Palestinian Government needs to promote entrepreneurs and capital owners to establish an adequate investment environment for Foreign Investment and invest these funds in the State.
- The Palestinian Government should increase Economic Growth by using all External Aid Funds at the appropriate place to create unemployed job opportunities.

8. LIMITATIONS OF THE STUDY AND SUGGESTIONS FOR FUTURE STUDIES

The study explores the impact of Capital Flight on the Economic Growth of Palestine by estimating the growth model. This effect

considered a negative impact on Palestinian Economic Growth, and to achieve this goal, the period (2000-2020) was chosen based on the availability of data for the variables used in the study.

It is worth noting the previous studies that examined the title of the current study, and what are the most important results, conclusions and recommendations that those studies came out.

Therefore, the current study represents some important determinants, such as its reliance on previous studies and a scientific approach appropriate to the problem of the study and the process of data analysis, and data from reliable official government sources were used and analyzed, and the study reached good and satisfactory results.

However, the conclusions and recommendations are sufficient for the purpose based on the data analyzed by the authors. Another important limitation is that this study used the quantitative approach to the data a lot and the qualitative method is less.

The statistical approach was used to reach those results available to therefore future studies, our research will benefit from this study as results, conclusions, and recommendations are summarized and written in the most prominent of them.

Besides, the type of scientific method used and the methodology used to solve and examine the study problem is appropriate and useful for future studies and research.

One of the important determinants of this study is that it revealed the real impact of the flight of capital from Palestine, the effect of the flight of local investors abroad, and the volume of Remittances abroad also on the process of Economic Growth of the State.

Moreover, Short-Term, Long-Term, showed the impact of each of the variables used in the study on the process of Economic Growth in Palestine, and the study proved that with Empirical Evidence from the current Palestinian Economic Situation.

Therefore, future studies and research will benefit from the current study for its results, conclusions and recommendations, and will help the authors and researcher to conduct broader studies related to the topic and problem of the current study.

Besides, the result of the study is also very limited in terms of data quality. This limitation arises from the inconsistency of data reported by different institutions and even by different departments in the country.

In addition, there is a shortage and lack of data we have due to the lack of data from the sources that provide it, and a long period of study could not be used, as it should.

9. NOVELTY OF THE STUDY

The novelty of this study lies in the new findings, conclusions and recommendations that provide a real benefit to decision-makers in the country and the Decision-Making process in another way.

Moreover, the analysis of the data and the analysis of the quantitative content of this data in the study showed that there is a noticeable negative impact of Capital Flight abroad on Economic Growth and Financial Stability in Palestine.

It is worth noting that the flight of capital abroad has caused a decline in Palestinian Economic Growth, and a decline in Economic Development as a whole.

Finally, modernity can be drawn from those findings of the study in addition to the conclusions and recommendations provided by the study, and this modernity is a useful model for future studies in this regard.

9. DECLARATIONS

The views, conclusions, and recommendations derived here are the narratives concluded by the author, based on the data (Facts/Tables) that derived in this paper, which do not reflect the official views and perspectives of the Organizations where the author are associated now. This study conducted in early (2021), in the second year of the onset of (COVID-19).

DISCLAIMER

The products used for this research are commonly and predominantly use products in our area of research and country. There is absolutely no conflict of interest between the author and any other sides. The producers of the products because we do not intend to use these products as an avenue for any litigation but for the advancement of knowledge. In addition, the

producing company rather it was funded by personal efforts of the author did not fund the research.

DATA AVAILABILITY STATEMENT

The data and materials that support the findings of this study are available from the corresponding author upon request. Datasets derived from public resources and made available with the author. Data analyzed in this study were a reanalysis of existing data, which are openly available at locations cited in the references section.

COMPETING INTERESTS

Author has declared that no competing interests exist.

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