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Capital Account Liberalization and Capital Flows to Sub-Saharan Africa: A Panel Threshold Approach

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Capital inflows to Sub-Saharan Africa have been increasing over the past couple of decades largely due to ever increasing globalization and an increase in world capital flows. Furthermore, SSA have been pursuing rapidly increasing capital account liberalization over the past couple of years. Despite this capital flows remain lower relative to other parts of the world and it remains unclear whether or not opening up to capital account liberalization promotes capital flows or not.

In order to attract capital flows there are several measures SSA countries have to take. Firstly, it is vital that countries in SSA promote development in their financial sectors. Well-developed financial sectors help to allocate capital flows more efficiently to the appropriate sectors. Hence, countries in SSA could benefit from fostering financial depth, financial access and financial efficiency. Secondly, a major hindrance to capital inflows to SSA is the poor quality of institutions. Most SSA are characterised by rampant corruption, poor regulation and political stability. Improving institutions would not only attract foreign potential investors, it would also foster regulation and supervision which could protect SSA countries from volatile capital flows. In essence, for SSA to improve its capital flows, it would need to work on enhancing its economic characteristics in order to attract the much needed capital flows into the region.