



# **The Relationship between Capital Account Liberalization and Economic Growth: Empirical Evidence from Egypt**

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*In the Name of Allah, the Most Beneficent, the  
Most Merciful*

*“Glory be to You, we have no knowledge  
except what you have taught us. Verily, it  
is You, the All-Knower, the All-Wise”*

*(Holy Qur'an: Surat Al-Baqara, Verse 32)*



## ***Dedication***

*I would like to dedicate this thesis to  
my beloved parents who gave me  
their whole hearts...*



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### **Abstract**

This study tries to explore whether capital account liberalization acts as a means for achieving a higher level of economic growth in Egypt. In order to examine the long-run relationship between real economic growth and the liberalization of the capital account during the period (1976-2008), time-series econometric tools (i.e., unit root tests, co-integration analysis and vector error correction model) have been employed. The results of the estimation procedure show that there exists a low degree of positive relationship between the liberalization of the capital account and economic growth in Egypt. In the short-run, the liberalization policy causes a negative –but insignificant– effect on real economic growth in the Egyptian economy. These findings suggest that if Egypt wants to reap the maximum growth benefits from the liberalization policy of its capital account, it should take some special measures and deepen the ongoing reform process. Accordingly, the study provides better understanding to the policymakers to set their priorities for future planning.

### **Key Words:**

Capital Account – Liberalization of the Capital Account – Economic Growth – Financial Liberalization – Financial Integration – Financial Crises – Foreign Direct Investment – Foreign Portfolio Investment – Co-integration Analysis – Vector Error Correction Model.

### **Signature of Supervisors**

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