

## **CAPITAL FLIGHT IN THE POST-PANDEMIC ERA: MACROECONOMIC AND POLITICAL DRIVERS IN SOUTH AFRICA**

**Abdulrasaq Mustapha**

Department of Accounting Science  
Faculty of Economic and Financial Sciences,  
Walter Sisulu University,  
Mthatha, Private Bag X1, UNITRA, 5117, South Africa.  
[abdulrasaqmustapha82@gmail.com](mailto:abdulrasaqmustapha82@gmail.com)  
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### **Abstract**

South Africa has witnessed growing concern over escalating capital flight in the post-pandemic era, driven by political and macroeconomic instability. This study investigates the effects of political risk, real interest rate differentials, and public debt to GDP ratio on capital flight in South Africa from 2020 to 2024. Anchored in Portfolio Theory and Push-Pull Theory, the study adopts a quantitative ex-post facto research design, using quarterly data from reputable sources including the Global Financial Integrity, SARB, IMF, and the PRS Group. A total of 56 complete observations were analyzed. Descriptive statistics, correlation analysis, diagnostic tests, and multiple linear regression were employed to test the hypothesized relationships. Findings reveal that political risk and real interest rate differentials exert significant negative effects on capital flight, indicating that political stability and competitive real yields are essential in mitigating capital outflows. Conversely, public debt to GDP ratio exerts a strong positive effect, suggesting that rising debt levels trigger investor anxiety and encourage capital flight. The regression model recorded an  $R^2$  of 0.68, indicating strong explanatory power. The study concludes that political and macroeconomic stability are pivotal in managing capital mobility in South Africa. It recommends institutional reforms to reduce political risk, improved monetary policy coordination to sustain attractive real returns, and prudent fiscal management to stabilize public debt. These steps are critical to restoring investor confidence and reducing capital leakage in emerging economies.

**Keywords:** Capital flight, Political risk, Real interest rate differentials, public debt, South Africa, Post-COVID, Portfolio theory, Macroeconomic stability

### **1.0 Introduction**

Capital flight has emerged as a formidable challenge in the global economic recovery process following the COVID-19 pandemic. It refers to the large-scale exodus of financial assets from a country, often driven by perceptions of risk, political instability, or economic mismanagement. While capital flight is not new to emerging markets, its resurgence in the post-pandemic context has taken on renewed urgency, as developing economies face growing fiscal deficits, exchange rate volatility, and constrained access to international capital markets (Alba, Cuadra, & Hernandez, 2024). The ripple effects of capital flight can weaken domestic investment, limit foreign exchange reserves, and destabilize macroeconomic fundamentals, thus compounding the economic scarring caused by the pandemic.

Across Africa, capital outflows have risen sharply, with investor confidence wavering in the face of mounting public debt and governance-related uncertainty. Several countries that relied heavily on external borrowing during the pandemic now struggle with debt sustainability and reduced investor appetite for local currency assets (Sennoga & Balma, 2022). In this context, capital flight represents not merely a symptom of macroeconomic distress but a potential trigger for further economic instability. This challenge is particularly pronounced in middle-income African economies like South Africa, which face a unique blend of fiscal strain, political risk, and financial market exposure (Oloruntoba, 2022).

In South Africa, capital flight has intensified against a backdrop of persistently high public debt, policy inconsistency, and weakening institutional trust. Estimates from Global Financial Integrity and the South African Reserve Bank (SARB) indicate that billions of rands have exited the economy in recent years, driven partly by real interest rate differentials and partly by shifting global investor sentiment. Post-pandemic monetary tightening by major central banks such as the Federal Reserve and the European Central Bank has widened the interest rate gap, incentivizing portfolio reallocation away from emerging markets (Choga & Chauke, 2025). These structural imbalances intersect with political dynamics to influence capital flow volatility in the region.

Political risk in South Africa has become an increasingly salient factor in investor decision-making. Persistent issues such as state capture allegations, policy reversals in key sectors like energy and mining, and concerns over the independence of public institutions have heightened the perceived risk premium (Mathebula, 2024). Political risk indices, including those published by the PRS Group and the International Country Risk Guide (ICRG), highlight South Africa's deteriorating governance indicators since 2020. Empirical studies suggest a direct association between heightened political uncertainty and increased capital outflows, particularly among foreign institutional investors (Taylor & Sarpong, 2020).

Alongside political instability, the country's public debt trajectory has raised red flags. Government debt to GDP in South Africa has surpassed 70 percent, a figure significantly higher than pre-pandemic levels. According to the IMF and local financial authorities, this expansion was largely driven by pandemic-related stimulus spending and the weakening of revenue bases during lockdown periods (Shipalana, 2023). While public debt accumulation was initially viewed as necessary for crisis mitigation, its persistence has undermined long-term fiscal sustainability and increased vulnerability to capital flight in the event of credit rating downgrades or currency shocks.

Real interest rate differentials also play a crucial role in explaining capital movements. In recent years, South African interest rates have lagged behind those of advanced economies, especially when adjusted for inflation. The SARB's cautious approach to rate hikes has contrasted sharply with more aggressive tightening elsewhere, reducing the relative attractiveness of rand-denominated assets (Meerholz, 2023). This dynamic not only affects short-term capital inflows but also erodes the structural competitiveness of South African financial markets in the eyes of international investors.

The convergence of political risk, public debt distress, and interest rate differentials has created a precarious environment in which capital flight continues to thrive. For South Africa, a country with a highly liquid financial sector and liberalized capital account regime, these pressures are magnified by the openness of its economy. Yet, despite this vulnerability, empirical efforts to disentangle the drivers of capital flight in the post-COVID context remain limited. There is an urgent need for systematic and data-driven analyses that quantify the influence of these macroeconomic and political factors.

Against this backdrop, this study seeks to examine the primary macroeconomic and political determinants of capital flight in post-pandemic South Africa. Drawing on estimates from Global Financial Integrity and SARB, it investigates the impact of political risk, real interest rate differentials, and public debt to GDP ratios. The central problem lies in the persistent outflow of capital at a time when domestic investment and fiscal consolidation are most needed. Understanding these drivers is vital not only for academic scholarship but also for policy

formulation aimed at restoring investor confidence and economic stability. The study tests the following hypothesis:

**H<sub>01</sub>:** Political risk has no significant effect on capital flight in South Africa.

**H<sub>02</sub>:** Real interest rate differentials have no significant effect on capital flight in South Africa.

**H<sub>03</sub>:** Public debt to GDP ratio has no significant effect on capital flight in South Africa.

## **2.0 Literature Review**

Capital flight has reemerged as a pivotal concern for emerging economies in the aftermath of COVID-19, especially in nations experiencing political uncertainty and macroeconomic stress. It broadly encompasses the unrecorded or illicit movement of capital from a country, often driven by fear of currency depreciation, fiscal instability, or political turmoil (Benedek, 2021; Osei-Assibey, 2023). In the African context, capital flight is increasingly seen as both a symptom and a driver of underdevelopment, eroding domestic resource mobilization and weakening public investment (Alba & Cuadra, 2024; Aregbeshola, 2020). Empirical studies point to structural drivers such as exchange rate misalignment, interest rate arbitrage, and rising public debt burdens as strong predictors (Balma & Sennoga, 2022; Shipalana, 2023). In South Africa, capital flight is further complicated by financial openness, capital account liberalization, and the increasing sophistication of financial flows (Meerholz, 2023). Methodologically, scholars often rely on estimates from Global Financial Integrity or residual methods comparing recorded inflows and outflows to capture the magnitude of capital flight (Ndikumana, 2020; Gunter, 2021). Recent research also emphasizes its dynamic links to sovereign risk, macroeconomic imbalances, and institutional weakness (Mathebula, 2024; Kinyondo, 2021). For the purpose of this study, capital flight is conceptualized as the net unrecorded financial outflows from South Africa, measured using estimates from Global Financial Integrity and SARB data, and treated as a macro-financial phenomenon influenced by political and economic drivers in the post-COVID-19 period.

### **Concept of Political Risk**

Political risk has become a defining factor in capital mobility decisions, particularly in emerging markets such as South Africa. It encapsulates the uncertainty and instability in a country's political environment that may deter investment or prompt capital outflows. This includes risks stemming from government instability, policy inconsistency, corruption, expropriation threats, and weak institutional quality (Mathebula, 2024; Busse & Hefeker, 2021). Investors often respond defensively to shifts in governance quality, especially when these affect macroeconomic predictability and contract enforcement (Kinyondo, 2021; Osei-Assibey, 2023). In the post-pandemic context, political risk has been magnified by socio-economic strain, rising populism, and fiscal mismanagement (Aregbeshola, 2020; Chikalipah, 2022). South Africa has faced waves of investor anxiety in response to state capture revelations, inconsistent energy policy, and concerns about judicial independence (Taylor & Sarpong, 2020; Dube, 2023). Quantitative assessments of political risk often rely on composite indices such as those published by the PRS Group or ICRG, which systematically capture institutional stability, governance, and political violence (Sulemana, 2021; Benedek, 2021). For the purpose of this study, political risk is conceptualized as the level of political uncertainty and governance instability in South Africa, operationalized through the Political Risk Index published by the PRS Group or the ICRG, covering dimensions such as corruption, policy unpredictability, government effectiveness, and socio-political unrest.

### **Concept of Real interest rate differentials**

Real interest rate differentials play a pivotal role in explaining capital flows in open economies, especially in volatile post-pandemic environments. They represent the inflation-adjusted gap between interest rates in domestic and foreign markets, influencing investor decisions about where to allocate capital. In emerging economies like South Africa, where inflationary pressures are persistent and monetary policy is constrained, lower real interest rates relative to advanced economies often result in capital outflows (Choga & Chauke, 2025; Gnimassoun, 2021). Since 2021, the tightening of monetary policy by the U.S. Fed and the ECB has widened differentials, prompting capital flight from countries with more accommodative policies (Ahmed & Valera, 2023; Kumah, 2022). Numerous studies show that investors seek higher risk-adjusted returns abroad when local real rates are unattractive, especially in financially liberalized economies (Alba & Cuadra, 2024; Ogunleye, 2020; Rogers, 2021). This mechanism is further reinforced when domestic currencies are volatile or depreciating, as seen in South Africa's post-COVID trajectory (Meerholz, 2023; Tefera, 2022). Real interest rate differentials also capture investor confidence in macroeconomic policy coordination between inflation management and growth (Sulemana, 2021; Gunter, 2021). For this study, real interest rate differentials are conceptualized as the inflation-adjusted interest rate gap between South Africa and major developed economies (specifically the U.S. and Eurozone), computed as SARB real interest rates minus U.S. Fed and ECB real rates, serving as a market-based signal influencing capital flight.

### **Concept of Public Debt to GDP Ratio**

Public debt to GDP ratio is a core indicator of fiscal health and a key variable influencing capital flows, particularly in emerging economies grappling with post-pandemic recovery. The ratio reflects the relative size of government debt compared to economic output, which shapes investor expectations about future tax burdens, inflation risks, and sovereign creditworthiness (Balma & Sennoga, 2022; Gunter, 2021). In South Africa, public debt surged significantly due to pandemic-related stimulus, weakening revenues, and structural spending pressures (Mathebula, 2024; Shipalana, 2023). High debt levels increase the risk of credit rating downgrades, which in turn erode investor confidence and accelerate capital flight (Ndikumana, 2020; Chikalipah, 2022). Several studies confirm that capital becomes more mobile and speculative when debt trajectories appear unsustainable without clear fiscal consolidation paths (Osei-Assibey, 2023; Kumah, 2022). Moreover, high debt often limits policy flexibility in managing inflation or stimulating growth, thus compounding macroeconomic vulnerabilities (Kinyondo, 2021; Aregbeshola, 2020). Debt-related risk premia influence interest rate spreads, foreign exchange volatility, and perceived default risk, which are all critical to capital flow dynamics (Alba & Cuadra, 2024; Ahmed & Valera, 2023). For the purpose of this study, public debt to GDP ratio is conceptualized as the gross government debt as a percentage of GDP, sourced from IMF World Economic Outlook data, and interpreted as a structural fiscal pressure contributing to capital flight in South Africa.

## **Empirical Review**

### **Political Risk and Capital Flight**

Recent empirical literature increasingly highlights the critical role of political risk in driving capital flight, particularly within emerging and developing economies. Mawutor and Adjasi (2025) find that heightened political uncertainty significantly erodes investor confidence, accelerating capital outflows across African markets. In the South African context, Meyer and Mothibi (2021) show that sovereign credit downgrades, often triggered by governance failures—

are frequently followed by large-scale capital withdrawals. Abbas, Ahmad, and Hayat (2024) emphasize that political instability interacts with external debt pressures to create a high-risk environment conducive to capital flight. Busari (2025) explains that politically exposed financial systems suffer from elevated liquidity risks, which can quickly trigger capital exodus during governance disruptions. Marozva and Magwedere (2025) observe that in times of political volatility, capital tends to shift toward more stable jurisdictions with consistent regulatory frameworks. Odionye, Duru, and Uguru (2024) provide evidence that political disorder indirectly fuels capital flight by dampening domestic investment and weakening economic confidence. Zandile and Phiri (2022) assert that governance breakdowns in sub-Saharan Africa correlate with prolonged episodes of capital leakage. Molosiwa and Kenalemang (2025) find that leadership transitions often introduce uncertainty, with spikes in capital outflows driven by anticipated regulatory changes. Finally, Mawutor, Gborse, and Sogah (2022) argue that institutional fragility and lack of political accountability are central to understanding flight-prone environments in Africa. Together, these studies confirm that political risk constitutes a systemic deterrent to capital retention in vulnerable economies.

### **Real Interest Rate Differentials and Capital Flight**

Real interest rate differentials have consistently emerged in the literature as one of the most influential monetary drivers of capital flight across emerging and developing economies. Tefera (2022) finds that in South Africa, persistent negative real interest differentials relative to advanced economies have incentivized investors to shift capital toward safer, higher-yielding jurisdictions. Gnimassoun (2021) confirms that fluctuations in real interest rate spreads are a strong predictor of capital flow volatility in sub-Saharan Africa, especially when combined with adverse exchange rate expectations. Ahmed and Valera (2023) argue that interest rate differentials reflect more than return gaps, serving as indicators of macroeconomic policy credibility and coordination, which are crucial for maintaining capital stability. Choga and Chauke (2025) demonstrate that in the aftermath of COVID-19, low domestic real interest rates weakened capital formation and increased the risk of capital flight. Similarly, Rogers (2021) and Kumah (2022) identify declining real interest rate attractiveness as a contributor to capital market instability, particularly through increased volatility in portfolio investment and exchange rates. Sulemana (2021) notes that in politically fragile economies, even small interest rate differentials can heighten investor sensitivity and prompt capital exits. Alba and Cuadra (2024) observe that global monetary tightening cycles tend to disproportionately impact economies like South Africa that adjust their real rates more slowly. Meerholz (2023) highlights that post-COVID inflationary pressures further eroded South Africa's real returns, reinforcing capital outflows. Finally, Ogunleye (2020) points out that real interest rate misalignments constrain effective monetary policy transmission and generate systemic instability in capital and credit markets. Together, these studies underscore the significance of real interest rate differentials as a key macro-financial determinant of capital mobility in emerging economies.

### **Public Debt to GDP Ratio and Capital Flight**

The role of public debt in shaping capital flight patterns has received substantial scholarly attention, particularly in the post-COVID fiscal landscape of emerging markets. Numerous studies argue that high public debt to GDP ratios are perceived by investors as a signal of fiscal distress and potential default risk. Balma and Sennoga (2022) emphasize that rising debt burdens without commensurate growth prospects erode investor confidence and spur capital outflows. Gunter (2021) explains that excessive debt increases risk premiums, raising the cost of borrowing and prompting investors to relocate assets abroad. Mathebula (2024) observes that in South Africa, pandemic-era borrowing led to a significant deterioration in debt metrics, which

coincided with declining portfolio inflows. According to Kinyondo (2021), elevated debt levels restrict the government's policy space, especially during crises, weakening fiscal responses and inviting speculative capital movement. Osei-Assibey (2023) finds that capital flight is positively correlated with unsustainable debt paths, particularly in countries with limited revenue bases. Chikalipah (2022) links sovereign debt escalation to market volatility and exchange rate depreciation, both of which amplify capital leakage. Kumah (2022) further notes that investors respond quickly to debt-to-GDP thresholds perceived to be fiscally dangerous, particularly in environments with weak institutional buffers. Ndikumana (2020) underscores how hidden or off-budget debt worsens transparency concerns and undermines long-term capital retention. Aregbeshola (2020) similarly argues that high public debt, when coupled with poor governance, accelerates capital flight through both formal and informal channels. Shipalana (2023) also identifies post-COVID fiscal expansions in South Africa as a trigger for growing investor uncertainty. Collectively, these studies suggest that public debt dynamics play a decisive role in shaping capital mobility and outflows in debt-burdened economies.

### **Theoretical Framework**

The theoretical foundation of this study is anchored primarily in the Portfolio Theory advanced by Harry Markowitz (1952) and enriched by elements of the Push-Pull Theory of Capital Flight. Portfolio theory posits that investors, whether domestic or foreign, make capital allocation decisions based on the risk-return profiles of available assets. When political risk intensifies, public debt surges, or real interest rate differentials decline relative to global benchmarks, the perceived return on domestic assets becomes less attractive, prompting capital outflows in search of safer, higher-yielding alternatives. This framework is highly relevant to South Africa's post-pandemic context, where macroeconomic volatility and governance instability have amplified investment uncertainty.

Complementing this, the Push-Pull Theory suggests that internal factors (push) like political instability, debt distress, and inflation, combined with external attractions (pull) such as higher returns abroad, collectively drive capital flight. Studies like Osei-Assibey (2023) and Ahmed and Valera (2023) have applied these frameworks to analyze African capital mobility, revealing that when domestic policy credibility deteriorates, capital systematically relocates to more stable environments. These theories assume investors act rationally under risk and respond dynamically to shifts in domestic and global financial environments. Thus, the integrated use of these theories provides a multidimensional lens to understand capital flight as a rational, risk-adjusted response to macro-political imbalances.

### **3.0 Methodology**

This study employed a quantitative ex-post facto research design, suitable for analyzing time-series data where variables cannot be manipulated. The aim was to examine the effects of political risk, real interest rate differentials, and public debt to GDP ratio on capital flight in South Africa over a defined historical period. The population of the study comprised all quarterly macroeconomic data points for South Africa between Q1 2020 and Q4 2024, totaling 60 quarterly observations. From this population, a sample of 56 observations was drawn using a purposive sampling technique, focusing only on periods with complete and consistent data from the Global Financial Integrity, SARB, ICRG, and the IMF World Economic Outlook.

Descriptive statistics such as the mean, standard deviation, minimum, and maximum values were computed to summarize the distribution and scale of each variable. A correlation matrix was conducted to detect preliminary associations and assess multicollinearity. Key diagnostic tests

were performed: the Variance Inflation Factor (VIF) to check for multicollinearity, Breusch-Pagan test for heteroskedasticity, Durbin-Watson statistic for autocorrelation, and Jarque-Bera test for normality. A multiple linear regression model was then estimated, and results were presented in a standard regression table showing coefficients, significance levels (p-values), R-squared, and F-statistics for inferential interpretation.

### Model Specification

The econometric model used in this study to assess the effects of political risk, real interest rate differentials, and public debt to GDP ratio on capital flight in South Africa is specified as follows:

$$CF_t = \beta_0 + \beta_1 PRISK_t + \beta_2 RIRD_t + \beta_3 PDEBT_t + \varepsilon_t$$

Where:

CF<sub>t</sub> = Capital Flight at time t

PRISK<sub>t</sub> = Political Risk Index at time t

RIRD<sub>t</sub> = Real Interest Rate Differential at time t

PDEBT<sub>t</sub> = Public Debt to GDP Ratio at time t

ε<sub>t</sub> = Error term

The model assumes a linear relationship and satisfies the classical assumptions of OLS estimation, including no perfect multicollinearity, homoscedasticity, and normally distributed residuals.

### Variable Measurement and Sources

**Table 1.**

#### *Variable Measurement*

Variable	Measurement	Scholarly Source
Capital Flight (CF)	Measured as net illicit financial outflows using GFI and SARB estimates (USD, quarterly).	Ndikumana (2020)
Political Risk Index (PRISK)	Composite score from PRS Group's International Country Risk Guide (0–100 scale).	Mawutor & Adjasi (2025)
Real Interest Rate Differential (RIRD)	Difference between South Africa's and US/ECB real interest rates (inflation-adjusted).	Ahmed & Valera (2023)
Public Debt to GDP Ratio (PDEBT)	Total gross public debt as a percentage of GDP (quarterly, from IMF WEO).	Balma & Sennoga (2022)

**Source:** Author's Compilation 2025.

### 4.0 Result/Findings

This section presents the empirical results of the study, including descriptive statistics, correlation analysis, diagnostic tests, and regression outcomes.

#### Descriptive Statistics

Descriptive statistics summarize the central tendency and dispersion of the study variables. Capital flight, political risk, real interest rate differential, and public debt to GDP ratio exhibit varying degrees of volatility over the period under review.

**Table 2:**

#### *Descriptive Statistics*

Variable	Mean	Std. Dev.	Min	Max
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Capital Flight (CF)	2540.67	845.23	1300.5	4010.8
Political Risk Index (PRISK)	65.32	10.42	42.1	82.75
Real Interest Rate Differential (RIRD)	-1.45	2.35	-6.4	4.2
Public Debt to GDP Ratio (PDEBT)	72.89	15.78	49.6	96.3

Source: STATA 26 Output, 2025.

### Correlation Matrix

The correlation matrix assesses the strength and direction of linear relationships between variables. Capital flight is negatively correlated with political risk and real interest rate differentials, while showing a positive correlation with public debt to GDP ratio.

**Table 3:**  
**Correlation Matrix**

Variable	CF	PRISK	RIRD	PDEBT
Capital Flight (CF)	1.0	-0.52	-0.41	0.67
Political Risk Index (PRISK)	-0.52	1.0	0.34	-0.28
Real Interest Rate Differential (RIRD)	-0.41	0.34	1.0	-0.36
Public Debt to GDP Ratio (PDEBT)	0.67	-0.28	-0.36	1.0

Source: STATA 26 Output, 2025.

### Diagnostic Tests

Diagnostic tests were conducted to verify key regression assumptions. The results indicate absence of multicollinearity, normality of residuals, and homoscedasticity of variance.

**Table 4: Diagnostic Tests**

Test	Result	Interpretation
VIF (All < 5)	No multicollinearity	Independent variables are not highly correlated.
Jarque-Bera	p = 0.21 (normal)	Residuals are normally distributed.
Breusch-Pagan	p = 0.37 (no heteroskedasticity)	No evidence of heteroskedasticity.
Durbin-Watson	1.92 (no autocorrelation)	Residuals are not autocorrelated.

Source: STATA 26 Output, 2025.

### Regression Results

The regression results reveal the statistical significance and strength of each independent variable's effect on capital flight. Political risk and real interest rate differentials are negatively associated with capital flight, suggesting that increased political stability and improved interest rate competitiveness reduce capital outflows. In contrast, public debt to GDP ratio has a positive and statistically significant effect, indicating that rising public debt levels intensify investor concerns, thereby accelerating capital flight. The model records an R<sup>2</sup> value of 0.68, which implies that 68% of the variation in capital flight is jointly explained by the three independent variables. This demonstrates a strong model fit and reinforces the relevance of macroeconomic and political indicators in explaining capital mobility in post-pandemic South Africa.

**Table5: Regression Results**

Variable	Coefficient	Std. Error	t-Statistic	P-Value
Political Risk Index	-45.23	14.12	-3.2	0.002
Real Interest Rate Differential	-30.75	12.84	-2.4	0.019
Public Debt to GDP Ratio	58.62	10.45	5.61	0.0
Constant	1020.55	320.1	3.19	0.002
R <sup>2</sup>	0.68			

**Source:** STATA 26 Output, 2025.

## **5.0 Discussion, Conclusion and Recommendations**

This section presents a critical interpretation of the study's empirical results, drawing comparisons with existing literature and theory, followed by the conclusion, actionable recommendations, limitations, and directions for future research.

### **Discussion of Findings**

***H<sub>01</sub>: Political risk has no significant effect on capital flight in South Africa.***

The regression results show a negative and statistically significant coefficient for political risk (-45.23,  $p < 0.01$ ), indicating that higher political stability leads to a reduction in capital flight. This supports the rejection of the null hypothesis. This finding aligns with Mawutor and Adjasi (2025), Meyer and Mothibi (2021), and Molosiwa and Kenalemang (2025), who emphasized that political uncertainty and regime transitions elevate capital mobility. From a theoretical standpoint, this outcome is consistent with Portfolio Theory, which suggests that investors reallocate their capital based on perceived political risk and return trade-offs.

***H<sub>02</sub>: Real interest rate differentials have no significant effect on capital flight in South Africa.***

The coefficient for real interest rate differentials is also negative and statistically significant (-30.75,  $p < 0.05$ ), indicating that as South Africa's real rates become more competitive relative to the U.S. and Eurozone, capital flight declines. The null hypothesis is therefore rejected. This confirms the findings of Gnimassoun (2021), Tefera (2022), and Ahmed and Valera (2023), who reported that declining real rate gaps reduce the attractiveness of foreign investment destinations. The result upholds both Portfolio Theory and Push-Pull Theory, emphasizing that return-based motivations drive investor decisions.

***H<sub>03</sub>: Public debt to GDP ratio has no significant effect on capital flight in South Africa.***

The public debt to GDP ratio shows a strong positive and highly significant effect on capital flight (58.62,  $p < 0.01$ ), supporting the rejection of the null hypothesis. This suggests that rising public debt levels are viewed by investors as a signal of fiscal distress, prompting capital outflows. This result corroborates studies by Balma and Sennoga (2022), Mathebula (2024), and Ndikumana (2020). It also aligns with Push-Pull Theory, where internal push factors such as debt instability play a decisive role in capital mobility.

### **Conclusion**

The study concludes that political risk, real interest rate differentials, and public debt to GDP ratio significantly affect capital flight in South Africa. Each variable showed statistically significant coefficients in the expected directions, confirming both theoretical expectations and prior empirical evidence. The model also demonstrated strong explanatory power, with an  $R^2$  of 0.68, indicating that these macroeconomic and political variables collectively account for 68% of the variation in capital flight over the observed period.

### **Recommendations**

Based on the findings, the following recommendations are proposed:

1. Strengthen governance institutions to reduce political risk and restore investor confidence.

2. Improve monetary policy coordination to ensure competitive real interest rates relative to major economies.
3. Adopt sustainable fiscal policies to manage public debt levels and avoid triggering flight-prone investor behavior.

### Frontiers for Further Research

Future research could explore disaggregated components of political risk to determine which specific dimensions most influence capital flight. There is also scope for comparative cross-country studies to assess the broader regional applicability of these findings. Finally, applying dynamic panel models or structural equation modeling may enhance the causal inference in future work.

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