

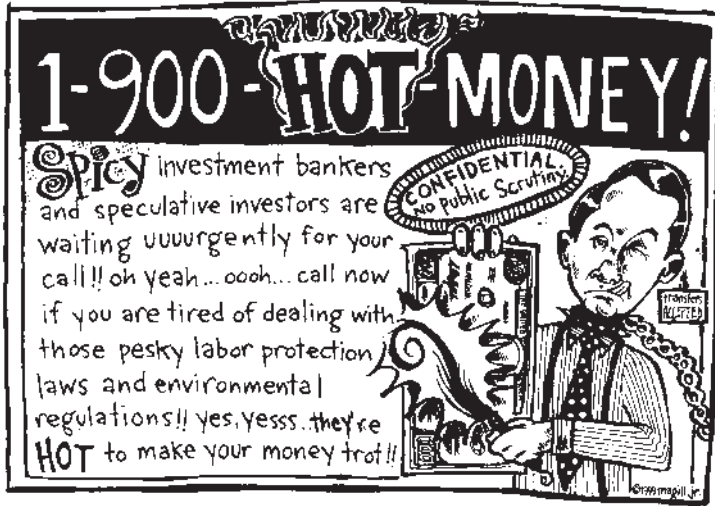
10.15 Hot Money

“HERE TODAY, GONE TOMORROW” WOULD MAKE a good slogan for today’s financial investors. Since the 1990s, the amount of short-term money flowing into and out of developing countries has grown enormously. When financiers take flight, they often leave behind a mess: failed banks, currency crises, and depressed economies.

Such short-term investments in stocks and bonds are called portfolio investments, or “hot money.” A buildup of portfolio

investments spells trouble. A sudden reversal can throw an entire country or region into chaos.

Not surprisingly, over the past 10 to 15 years financial crises have plagued many countries, including Mexico, East Asia, Russia, Brazil, Turkey, and Argentina. These crises pushed millions of people into poverty. Without more attention directed at monitoring and managing short-term flows, the risk of future crises remains high.



R. JAY MAGILL

Net portfolio investment, low- and middle-income countries, 1970–2002 (in \$ billions)

