LIBRARY E A/BIBLIOTHEQUE A E
3 5036 20014043 5

private and institutional investors who are investing tens of billions of dollars in the emerging markets of Latin America. It is likely that we will see a slowing of capital inflows to the region as privatization programs wind down and markets become overheated, although flows will remain positive. Also, as economic reforms progress and economic stability ensues in countries such as Brazil, these countries will attract a larger proportion of the pool of international capital. Higher real interest and growth rates in traditional OECD markets also mean that international capital will have a larger number of attractive destinations.

There have been problems in managing these massive capital inflows, but these pale in comparison to the negative consequences of a massive capital outflow. There is little danger that large outflows of foreign capital will occur and most countries, although still with fragile capital markets, are in a good position to weather temporary bearish attitudes of foreign investors. The diversification of risk will also ensure that the international financial system would not be threatened, as it was in the 1980s, even if a drastic reversal of capital inflows did occur. Domestic savings and investment rates, however, still low by historical standards, will have to improve, enhancing economic growth and ensuring that debt will be repayable and that shareholders will receive a competitive rate of return on their assets.

DOCS
CA1 EA534 94C05 ENG
Mueller, Richard E
Recent capital inflows to Latin America : too good to last?
43268662