

## Summary

In emerging economies, capital flows can be particularly volatile as the economy may experience periods of rapid growth and subsequent contraction. Increased capital inflows can lead to credit booms and the inflation of asset prices, which may be offset by losses due to depreciation of the currency based on exchange rates and declines in equity pricing. International capital transfers also affect the balance of payments of the investing country and host country. They increase the national income of both developing and developed economies.