Hot money

Published: January 13, 2026, 9:07 am

I was asked over the weekend if I would create a glossary entry on hot money, and given that this seemed both appropriate and not too complicated to do, I have added this explanation to the glossary:

Hot money refers to short-term, speculative financial flows that move rapidly across borders in search of the highest immediate return. These flows are not invested in building productive capacity, creating jobs, or supporting long-term development. They exist to exploit interest rate differences, currency movements, or sudden changes in asset prices. Their presence can transform a country's financial system within days; their departure can crash it just as fast.

First, hot money has nothing to do with real investment. Saving becomes productive when it is used to fund new assets, whether new factories, new infrastructure, or new technologies. Hot money does none of this. It buys existing financial instruments that can be easily sold at the click of a button. It is inherently footloose.

Second, these flows amplify instability. A small shift in market sentiment, a rumour about a central bank, or a sudden political scare can trigger huge movements of funds. For countries without strong capital controls or with fragile currencies, this can mean soaring interest rates, collapsing exchange rates, and emergency interventions by central banks. Hot money is, in effect, an economic accelerant: it magnifies whatever spark the financial markets generate.

Third, hot money is a symptom of a flawed global financial architecture. When governments deregulate capital, promise free movement of funds, and build tax havens and secrecy jurisdictions into the structure of the international system (as the UK has done since the 1980s), they create a world in which speculative flows dominate over productive ones. Money becomes a global tourist, not a long-term resident. That is a political choice, and not an inevitability.

Fourth, the supposed benefits are illusory. Advocates claim that free-moving capital keeps governments disciplined and forces efficient allocation of resources. In reality, it undermines democratic decision-making by threatening elected governments with destabilisation if they pursue policies that speculative investors dislike. Hot money, therefore, substitutes speculation for accountability and coercion for democracy.

Finally, hot money can be tackled. This requires:

* Policy choices that put the real economy first.

* Capital controls to moderate destabilising inflows and outflows.

* Strong regulation of the banking and shadow-banking sectors to reduce the leverage that fuels speculative cycles.

A state that issues its own currency and is willing to use both fiscal and monetary tools to stabilise its economy is always better placed than one that defers to global finance, if it so chooses, but those (like the UK) that are dedicated to the interests of finance rarely, if ever, make that choice.

Hot money is not a force of nature. It is the product of neoliberal assumptions about markets, mobility, and state passivity. If we want finance to serve society rather than threaten it, curbing the influence of hot money is an essential place to start.

In association with this post, I have also added glossary entries for illicit financial flows and capital flows, both of which may also be worth taking a look at.

In addition, as the definition of socialism I offered yesterday seemed to win general support, that has also been added to the glossary.

AI: How to use it as a campaigner

We have produced a guide on how to use AI as a campaigner, for which we're already getting good feedback. It's available ***as a free download here. Take a look. We think you'll find it useful.***