FOREWORD

The rapid economic growth of developing countries since the start of the millennium came to a halt after the Global Financial Crisis (GFC) in 2008. In the period that preceded GFC global investors and the global international institutions such as the International Monetary Fund and the United Nations were very optimistic about developing and emerging markets growth prospects in the period to come going on to calling them the engines of the world economy. However, the financial crisis that started in developed part of the world revealed that dynamic growth of developing markets was predominantly based on a commodity and oil prices boom and the overextension of credit which was the consequence of high commodity prices and resultantly overrated expected corporate profits and cheap, near-zero interest money. This propelled a global investors race for higher yields in developing markets' assets such as equity, bonds, currencies and real estate. The flip side of the coin were accumulated debts and a widening of current account deficits in a growing number of developing countries. Unfortunately, with the evaporation of global investors' optimism, massive capital outflows took place resulting in diminished economic growth, employment, investments, depletion in foreign exchange reserves, massive depreciation of local currencies and escalation in current account deficits, inflation and public debt. Hence, before developing countries, once again, emerged the well-known economic policy challenge of regaining and sustaining economic growth and financial stability. In order to provide some useful and constructive guidance to these issues, Limes Plus, Journal of Social Sciences and Humanities is publishing a special issue titled *The Challenges of Economic Policy and Banking Stability in Developing Countries.*

The first part of the issue is entitled *The Challenges of Economic Policy*. Papers in this part point to policy challenges facing policy makers in developing and emerging markets and propose policy directions aimed at strengthening the foundations for strong, inclusive and sustainable growth and regaining financial stability. In his paper Miroljub Labus closely examines the effects of 2015 fiscal consolidation program in Serbia on monetary policy and the commercial banks. He concludes that National Bank of Serbia turned to monetary easing whereas the commercial banks switched away from lending to the corporate sector towards financing public debt. However, a reduction in corporate lending upset growth and created illusions that a further increase in public debt was sustainable. Labus further points out that reaction of the Serbian banks, in the sense of providing more opportunity to the government for financing public debt, created an example of unexpected effects on fiscal consolidation that increased default risks and uncertainties in the economy. Dejan Šoškić sheds light on several major obstacles to financial development in South East Europe and on potential policy remedies capable of supporting financial intermediation in the region. Ognjen Radonjić analyzes the relationship between the free movement of global capital and financial disturbances in developing and emerging markets and recommends strategies aiming at preventing financial crises in the short and long run. He defends the theoretical approaches advocated by Keynes and Minsky and calls for reintroduction of capital controls.

In the last part entitled *The Determinants of Bank Profitability and Non-Performing Loans in Serbia* Svetozar Tanasković, Marko Miljković and Jelica Petrović-Vujačić point out that the Serbian banking sector has not suffered major consequences of the latest global economic crisis and that profitability of most banks, as well as the sector as a whole is at a very low level, especially since 2011. Further, they identify the main factors which affect the profitability of commercial banks in the Serbian banking sector. Renata Mišljenović and Zorica Mladenović find that in the long-run aggregate non-performing loans in Serbia are affected separately by prices and the nominal exchange rate and that their short-run dynamics is mostly determined by the depreciation rate and the interest rate channels. They also find that GDP growth rates have an important contemporaneous effect on short-run variations in aggregate non-performing loans.

Finally, we express our hopes that policymakers and academicians will find papers in this volume appealing and that policy directions put forward here will be tested in real world economic life.

Ivan Vujačić
Ognjen Radonjić