FOREWORD

Dynamic economic growth and investors optimism faded away with the outburst of the Global Financial Crisis (GFC) in 2008. The world financial crunch revealed numerous weaknesses of developing and emerging markets such as massive accumulation of debts and a widening of current account deficits in a growing number of big emerging economies such as Turkey, Brazil, India, South Africa as well as in a great number of South-East European economies. Unfortunately, as usual, the era of aberrant optimism was accompanied with increasing financial fragility since current account deficits were financed in ever riskier ways: more debt than equity and an increase in the share of short-term debt in total debt, hard currency-denominated debts and hot and whimsy cross-border interbank flows.

With the eruption of the GFC investors fears increased and sudden capital outflows took place. Resultantly, commodity, oil and asset prices tumbled, economic growth slowed down and unemployment spiked. According to the UN report *World Economic Situation and Prospects 2016*, economic growth of developing and emerging markets amounted to 3,8% in 2015 which is the lowest rate since the outbreak of the GFC and in line with the growth rate that prevailed in the recessionary year of 2001. Behind these movements there was a huge reverse in global capital flows. Thus, already in 2008 net capital inflows to developing and emerging markets significantly slowed down from 1.169 trillion in 2007 to 727 billion USD. Still, during the next several years net capital inflows to developing and emerging world remained positive. In the period between 2009 and 2014 net capital inflow to developing and emerging markets equaled 2.2 trillion USD. This was dramatically reversed in 2015 when developing and emerging markets faced a capital drain – negative net capital inflow of 600 billion USD with international banks reducing their gross credit exposure by 800 billion USD. Resultantly, developing and emerging markets high growth rates disappeared, economic production shrunk, current account deficits widened, foreign-exchange reserves dwindled, local currencies massively depreciated and inflation, indebtedness and public deficits soared. Naturally, primary goals of developing and emerging markets policymakers became stabilization of an unstable economy and finding ways to provide sustainable economic growth and mitigate the negative consequences of internal and external financial shocks. 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 *Finance and Financial (In)stability in Developing and Emerging Markets*.

In the first part of the issue entitled *Finance, Financialization and Financial Instability* Noemi Levy-Orlik argues that there are two structural features that constrain economic growth in Latin America economies and particularly in Mexico – the economic dissociation between dynamic and indigenous productive sectors that limited the accumulation process of these economies and increased exports without reaching external equilibria. The main constraint to the economic growth of these economies lies in their inability to transform external liquidity into finance for production and investment which is why they are not able to reach the process of stable economic growth or external equilibria. In the next paper, Christine Sinapi and Yannick Gagne embrace Minsky's hedge, speculative and Ponzi finance criteria and provide an in-depth analysis of the financialization of the auto industry and recommendations for the automotive sector in terms of economic policy. Mathieu-Claude Chaboud and Guillaume Biot-Paquerot in their paper discuss the implementation of crowdfunding projects organized by charitable organizations for the funding of developing country based entrepreneurial projects.

The last part of the issue is entitled *The Determinants of Banking Sector Stability and Companies Value*. Khurshid Djalilov and Jens Hölscher explore the channels through which the regulations impact on stability in the banking sector of the transition countries. They find that the channels through which the different regulations affecting stability vary between EU-member and non-EU transition countries. Results show that higher economic growth and less competitive conditions would lead to a more stable banking sector in early (EU-member) transition countries. For non-EU transition countries they find that higher inflation rates significantly impact on higher levels of risk taking and that capital requirements have a stabilization effect and thus its higher level leads to more stable banking sectors in both groups of countries. In general their results are consistent with the theory that the outcome of the regulations-reforms varies across countries according to their institutional development. Liubov Laskina and Liubov Silakova evaluate operating leverage in the Russian telecommunication industry. They find that increase in investments in real capital goods leads to increase in operating leverage and a positive correlation between operating leverage and company's value.

In the end, we express our hopes that policymakers and academicians will find papers in this volume appealing and applicable to economic challenges arising in the near future.

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