Introduction

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Biographical notes: Bruno S. Sergi teaches International Economics and Political Economy at the University of Messina and is with the University of Greenwich Business School, UK. His fields of research interest include international macroeconomics and transition economics. He has taught several courses internationally, and has been Guest Lecturer and Adjunct Professor with central banks and their research departments, as well as universities in several countries worldwide, including the International Monetary Fund, New York University, the National Banks of Belgium, the Czech Republic, Poland and Slovakia. He has published several books and numerous papers in scientific journals. For Inderscience Publishers, he is the founder and editor-in-chief of this journal, as well as the *International Journal of Trade and Global Markets*, and the *International Journal of Economic Policy in Emerging Economies*.

I take this opportunity to introduce the opening issue of the *International Journal of Monetary Economics and Finance,* and give you a warm welcome. The first issue of this new, peer-reviewed international quarterly academic journal has been a thrilling experience, not least in this context, because of the several challenges and opportunities that baptising a new journal brings about. First, there is the challenge: I have to recognise that there are not many prestigious journals publishing this subject matter, which are available to the academic readership. With this journal, we wish to move to new heights and achieve a very high impact factor, which is one of the key goals that have come from regular discussions with prospective authors who have shown interest to publish in this journal. This new scientific venture will build a very strong reputation as a high-quality scholarly journal devoted to empirical research in the fields of monetary economics and finance.

There is a second opportunity here, however. Creating and shaping a new journal offers the editor and the entire crew of the editorial board a justification to mould it in harmony with the so-called market and market development. As monetary economics and finance are two areas of research rapidly overlapping at domestic and international levels, our contributors and readers will achieve an extraordinary diversity in writing for and reading this journal. What is more, there are several challenges and opportunities arising from the world economy these days: our readers will receive a global perspective on international monetary economy, capital markets and financial questions at the same time. In fact, issues such as international capital markets, exchange rate policy, international monetary and fiscal policy cannot be understood unless viewed through an ethical, thoughtful and deliberate very real-world approach. This will be our primary goal and interest and all papers submitted and published here should address the international implications of our areas of interest. Thereupon, this journal endeavours to offer a very pragmatic and tangible evidence to our readers and to affirm new and continuing evidence for scholars interested in a variety of topics concerning money and finance in advanced, emerging and less-developed economies.

A brief look at experiences is worthwhile. National finances interplayed in the broader international context and it is definitely authentic that previous decades have witnessed increasing interaction between continents and dynamic, productive areas of a global economy. Part of the world has benefited very much from the occurrence of actions and interactions internationally. For example, the USA, Japan and Europe accounted for the majority of those on the receiving end of global finance benefits. However, the larger and poorer masses of sub-Saharan Africa have not benefited substantially from the growth of international investment and capital markets, and African economies have been almost completely sidestepped.

In truth, domestic savings and investments are more closely correlated than in the past, and this implies that finance capital flows have not been very mobile. This is explained partly by the fact that government action, whether positive or not in terms of savings, plays a greater role today than in the past. Even if gross capital flows are very large, net flows are not. Nevertheless, while the bulk of foreign investment flew into the USA from Japan, China's impressive economic growth and huge foreign currency reserve holdings and other emerging economies are reshaping this aspect of world capital markets currently. I will not go into detail regarding the increasing tax competition among countries, which add complexity and charm to this portrait of dynamic, interdependent and competitive world productive regions and systems.

In addition, the collapse of the former Soviet Union, transition problems and extremely high levels of business risk caused a sharp decline in economic activity in East-Central Europe at the start of the 1990s. Economic policy was confronting consequences of real-time realities at that time, especially high inflation. With the acceleration and long duration of high inflation, this process was intensified and had less connection with inflationary redistribution of current incomes for various destinations of final consumption. Combined with consequent inflationary expectations, it was pushing inflation away from its beginning causality in the more influential sectors of the economy; thus inflation became an automatic reproductive observable fact.

That is why several governments in newly emerging economies finally decided to undertake radical measures for anti-inflation policy. This policy brought about its primary effects by focusing on the breakdown of self-reproducing mechanisms concerning inflationary expectations. The opening of the foreign exchange market, introducing internal convertibility of the national currency, and fixing the upper limit for exchange rate fluctuations exercised the greatest influence in achieving this. These actions allowed the real money balance to induce a substantial increase of supply on the foreign exchange market, and to stop exchange rate indexation as the main indicator of inflationary expectations.

Moreover, exchange rates have been subject to deep fluctuations since the end of the Bretton Woods system in the early 1970s. This latter experience has inspired economists to re-evaluate exchange rate theory and international monetary economics. New theoretical approaches were modelled to explain the behaviour of exchange rates. Floating exchange rates could have increased uncertainties, and have been a barrier to long-term domestic commitments.

Given the realities, monetary and fiscal policies' main goals have been to secure countries' stability, to cut inflation expectations, and to enhance the ability to withstand global market pressures. It is beyond dispute that opportunities, which this global world offers to all countries, are numerous. Let us think about the market for capital and technology. However, together with several potential benefits, global markets may result in risks. Foreign portfolio investment, for example, is exclusively motivated by its intention to destroy competition that exists in individual market segments. This generates extra profit by monopolising the local markets without developing their production capacities. Squeezing out the local competition by implementing dumping policy, exhausting the national wealth, and transferring high-polluting and labour-intensive industries, thereby building the local and national production structures, makes the country unable to benefit from general economic progress.

Still the maximisation of benefits and minimisation of risks associated with monetary and financial globalisation of national economic areas must become the determinants of national economic policies and their co-ordination internationally. If the need to adhere to fixed exchange rates constrained domestic policies as well as set limits on discretionary monetary and fiscal policies – including the reality of complex sets of rules as is the case in the European Union – then multinational companies, banks and financial agglomerates may have become just as responsible as the more traditional and principal forms of constraint on national policies today. This current outcome is occurring in the context of the high degree of international interdependence on real and financial spheres.

We must also state that besides enhancing Central Banks independence to preserve overall stability of the entire financial system, the main objective of fiscal policy is to restore transparency and order in our public finances. To achieve this major adjustment, national governments rely on a combination of expenditure and revenue measures. Both monetary economics and finance could help push reform to include enhanced transparency and efficiency in public expenditure and debt management. As far as a medium-term fiscal policy framework is concerned, ensuring the long-term sustainability of the pension system and improving the business environment and financial sector supervision are equally important factors. The attainment of such a complex goal requires more intensive activities concerning reform of individual segments within the monetary and financial economic framework as well as radical changes in the sphere of economic policy objectives overall.

The immediate objective of macroeconomic policies should steer towards reducing external vulnerability, with the external imbalance being seriously addressed by a lasting reduction in the domestic savings–investment gap. Given its focus on exchange rate stability, monetary policy can play a supporting role for narrowing the savings–investment gap, which falls primarily on fiscal policy. The fiscal effort would not only encompass the central government but also include extra-budgetary funds, agencies, and the broader public sector.

In fact, capital inflow can be attributed to foreign capital in the form of bank loans from commercial banks and international financial institutions and to investments in equity and bonds. The benefits for the debtor come through new capital, new technology and additional managerial skills. A forward-looking approach should have considered the following when determining how much money may be lent to a country: the quality of policies and institutions in a country, potential upsets that could make repayment difficult and the level of debt. The past has witnessed basic international financing development programmes aiming at mobilising domestic and international financial resources for development, increasing international financial and technical cooperation for development and also financial and trading systems in support of development. Within this high praiseworthy context, the International Monetary Fund and other world financial institutions have accomplished a great deal in the past decades; however, these institutions must keep with the evolving world economy.

Maintaining international financial stability is an ongoing process and the global economy is changing at a more rapid pace than ever before. Although the International Monetary Fund can help strengthen the multilateral framework that has brought economic growth in the past, the International Monetary Fund as a lender of the last resort and national central banks should offer resemblance to greater autonomy and wisdom when they lead with liquidity crunching, domestic banking crisis and troubled economy. National and international economic and financial problems are often interconnected. However, it is also indisputable that the benefits, that global mobility of capital brings to its creditors concentrates in the hands of large banks where funds accumulate, and with large international companies, rather than small and medium local firms.

The aforementioned pattern shows an element of risk, which is in actual fact asymmetric for creditors and debtors, and this powerful truth may generate financial crises. Most of the economies are vulnerable to changes in the global environment, which may require sudden changes in the balance of payments and the exchange rate. Exchange rate changes, however, may turn a sustainable fiscal position into an unsustainable position and put any country's solvency at risk. The reasons for growing debt cannot be sought solely in the field of domestic demand, as debt accumulation could not have taken place without the demand for funds meeting the supply and vice versa. Over borrowing and over lending are twin faces of the same coin, but the actual driving force behind the process of debt accumulation is to be established case by case, as the reasons vary from case to case.

As always, I have great confidence that the papers that the *International Journal of Monetary Economics and Finance* publishes will be of great interest to you. Because our prospective readers' opinions matter greatly to us, your comments, feedback and evaluation to the editor and/or authors would be very much appreciated.