the central bank and other agencies that contribute to ensuring the stability of financial conditions is essential. This is particularly important when policy makers have to evaluate the trade-offs between the use of monetary tools and prudential measures, and make decisions on the appropriate mix.

5. Central banks already require substantial operational independence in order to pursue their mandates. They will require even greater independence when a financial stability objective is added to those mandates. They will, in turn, have to establish the legitimacy of their actions in circumstances where the nature of threats to financial stability is poorly understood. The public and its elected representatives may not be happy, for example, if the central bank curbs credit growth in the interest of financial stability, causing asset prices to fall. This makes it important for the central bank to clearly communicate its assessment of the risks and the rationale for its policy actions. It needs to explain how it seeks to balance the objectives of price stability, output stability, and financial stability. Better communication and greater clarity on how the central bank will be held accountable for its broader mandate are necessary to defend central bank independence. Independence is politically viable only with accountability, and the best way to enhance accountability is for central banks to become more transparent and forthright about their objectives and tactics.

6. The spillover effects of a central bank's policies in other countries are a legitimate concern. At present, central banks do little to internalize these effects. Admittedly, they may have difficulty in justifying actions taken in the effort to do so to domestic political authorities. This tension points to the need for further changes in prevailing policy framework. Specifically:

   (i) Domestic political authorities should be persuaded to allow such considerations to play an explicit role in the central bank's monetary policy framework in large economies.

   (ii) Large-country central banks should pay more attention to their collective policy stance and its global implications. Where appropriate, they should consider coordinated action to help stabilize the global economy in times of stress.

   (iii) These recommendations are unlikely to be implemented in isolation. We therefore propose that a small group of systemically significant central banks, perhaps called the International Monetary Policy Committee, should meet regularly under the auspices of the Committee on the Global Financial System of the BIS. This group would discuss and assess the implications of their policies for global liquidity, leverage, and exposures, and the appropriateness of their joint money and credit policies from the point of view of global price, output, and financial stability.

Although central bank governors already meet regularly at the BIS, we recommend a substantial upgrade for our proposed committee from the current informal and closed-door format. Communication of central bank actions is important at the global level, just as it is for a domestic audience. In some ways, it is more important, since the global spillovers and coordination can be discussed explicitly. For this reason, the committee should periodically issue a report assessing and justifying their policies from this global perspective, pointing out areas of dissent or inconsistency.