policies such as low interest rates on one side of a border and exchange-rate targeting on the other can give rise to destabilizing cross-border capital flows. To the extent that these are problematic for financial stability, it is important for multilateral institutions to point to the incompatibility of macro-economic policies and press countries to make them more consistent instead of forcing countries to rely solely on macroprudential measures.[31]

9. More progress is needed on reducing the uncertainties surrounding the availability of liquidity facilities for dealing with systemic crises—such as bilateral swaps between central banks, regional liquidity pooling arrangements, and IMF facilities. While there may be an element of moral hazard associated with guaranteeing access to such facilities, financial stability may require them to be "on the shelf"—that is, to be ready for use if a crisis hits. At the very least, some efforts to aggregate the likely availability of such facilities and set them against potential needs should become part of the multilateral stability surveillance process.

Exchange Rates and Capital Controls

Many developing countries have found it helpful to intervene in the foreign exchange market as a way of encouraging exports and labor-intensive manufacturing. However, this practice can create problems for the global system when the country or countries concerned are large, either individually or collectively. This leads us to the following recommendations.

1. Countries need to recognize that such policies are not without significant costs for their own economies and should move away from such policies over time. Even when such policies may be in their narrow short-term national self-interest, they should be encouraged by the international community to move away from them because of their implications for the global system.

2. This is not, however, an argument for an immediate transition to a freely floating exchange rate. Short-run interventions in the foreign exchange market that afford time to adjust may be justified. Occasional interventions that smooth out temporary exchange rate fluctuations that threaten serious dislocations may also be justified when the temporary nature of the shock and the costs of sharp exchange rate changes are firmly established.

3. Controls on capital inflows whose main effect is to enhance financial stability, by preventing the build-up of currency or maturity mismatches or limiting the growth of intermediation through the domestic banking sector, have a useful role when other policy tools are not available or less than fully effective in addressing these problems. International standards should allow rare interventions in the foreign exchange market and temporary, financial stability-oriented capital controls while discouraging the use of measures that attempt permanently to distort the pattern of comparative advantage. In step with the reassessment of capital controls, blanket strictures against controls in bilateral investment treaties, European Union rules, and OECD guidelines need to be revisited.

4. Such measures will be more effective when applied uniformly to domestic and foreign institutions. Applying them differentially can give rise to opportunities for evading

[31] For instance, this could be one of the tasks of the small committee of systemically significant central bankers proposed earlier.