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International cooperation and central banks

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Summary

The global nature of the recent financial crisis required a coordinated response from central banks. After the fall of Lehman Brothers, several of them simultaneously reduced their policy rates, and the Fed extended dollar swap lines to its overseas counterparts. However, the second phase of the crisis has put increasing strain on international cooperation. This column presents two explanations. First, the Eurozone crisis threatens the solvency of governments, thus creating conflict over who will pay the costs of maintaining financial stability. Second, unconventional monetary policy has had spillover effects in developing countries.

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