The recent international financial crisis has sparked a fierce debate about its causes and about how to prevent a recurrence. As liberalization and deregulation were widely considered being among the major culprits, de-liberalization and re-regulation seemed a natural response. However, an economic approach to this issue does not support such black-and-white solutions. Although liberalizing financial services sectors may threaten a developing country’s financial stability in the short run, it also fosters long-run economic growth if sound legal and economic institutions are in place that can mitigate the adverse side-effects of liberalization. For achieving this objective, states need the policy space to implement such regulatory measures. Contrary to a wide-spread belief, states are not unduly hampered by bilateral or multilateral agreements. Instead, by providing a far-reaching exception concerning prudential regulation states can define their own regulatory approach. The challenge for developing countries thus is to install regulatory capacities.