US as supplier of safe financial assets, and the attractiveness of emerging markets as destinations for investment. Still, the resulting financial interpenetration implies that the stock of diversifiable assets and cross-border holdings that respond to changes in monetary conditions have grown enormously.[15] This creates challenges for countries on the receiving end of capital flows. In practice, many of those recipients are emerging market economies that are struggling to prevent the surges in capital inflows from leading to exchange rate misalignment and unsustainable lending booms.

- *Unconventional monetary policies are likely to accentuate international spillovers*. Such policies are typically undertaken when traditional instruments are exhausted and traditional channels have ceased working. In such situations, unconventional policies could result in less domestic demand creation and more demand shifts between countries. Critics argue that purchases by central banks of long-dated bonds and private-sector-issued securities create liquidity that can spill abroad (because domestic channels for credit creation are blocked), causing capital flows to and undesirable relative price changes in other countries.[16] Central banks in countries conducting quantitative easing—the US Federal Reserve and the Bank of England—argue that Quantitative Easing (QE) is no different conceptually from conventional monetary policy but merely its continuation through other means in a situation where interest rates approach the zero bound. Central banks in several emerging market countries, in contrast, claim that QE is a beggar-thy-neighbor strategy.

These observations suggest that convergence towards a common policy template in the 2000s was not general. Moreover, where convergence has take place, it may not last long in view of the challenges currently confronting monetary policy. It is therefore important to assess whether a reformed consensus can and will be formed and to contemplate its implications for the conduct of monetary policy and for the 'own house in order' doctrine in particular.

Challenges to the IT-plus-floating Regime

1. Uneasy coexistence: floaters and fixers

The idealized IT-plus-floating framework has not worked out as anticipated, because countries have not converged to similar monetary and exchange rate arrangements.

In Latin America, a substantial number of countries, some of them large and economically important, resist moving in this direction. While the two largest countries –Brazil and Mexico—and an important set of middle-sized and small nations –Colombia, Peru, Chile, Uruguay—have adopted it, another sizeable group including Venezuela, Argentina, Bolivia, and Ecuador continues to pursue fixed or semi-fixed exchange regimes, sometimes with multiple exchange rates for different current and capital account transactions. Few countries in the Middle East and Africa have converted to IT plus floating, though economically important South Africa has adopted it.

In Asia, several countries have adopted the framework, albeit with different degrees of commitment. Inflation targets are explicit in Thailand, Korea, Indonesia, and the Philippines. In Thailand and Korea, low and stable inflation was achieved in the 2000s. Singapore has achieved low and stable inflation using a basket-based exchange rate

[15] Lane and Milesi-Ferretti (2001) and Kubelec and Sá (2010) provide a quantitative account of financial integration and the participation in it of major emerging economies.
[16] See Portes (2010) for a discussion.