What are the implications might be for central banks.
Fragmentation has implications for all of us gathered here In economic terms, further geo-economic fragmentation could be seen as a negative supply shock. According to the IMF, the number of policy measures that restrict trade increased from a mere 300 in 2009 to over 2000 last year.A negative supply shock of this nature will lead to higher import prices, more market fragmentation, and reduced access to technology. As a result, economic growth will slow down, and higher trade costs will increase inflation.

And just as geopolitical tensions can be a harbinger for geo-economic fragmentation, like trade barriers, they can be a harbinger for increased cyber threats. Indeed, also from state actors. And indeed, also targeted against financial institutions and critical financial infrastructure such as payment systems.
As such, fragmentation comes knocking on central banks' doors as the guardians of said payment system. Of course, cyberattacks on critical infrastructure outside the financial system, like the energy sector, are also increasing, and these will also have an impact on financial institutions and financial stability.

Being similar to economic shocks – potentially harmful and difficult to foresee – fragmentation also clearly affects our macroprudential tasks. Tasks that should be focused on building resilience.

Another potential effect of geoeconomic fragmentation on inflation **is an increase in the volatility of inflation.**

This is because changes in global trade patterns and shifts in supply and demand can lead to sudden and unpredictable changes in the price of goods and services.

This can make it difficult for central banks to manage inflation and may require them to adjust **interest rates more frequently or aggressively than they would otherwise.**
While it is difficult to predict the exact impact of geoeconomic fragmentation on inflation, it is clear that changes in global trade patterns and shifts in supply and demand could potentially have significant and unpredictable effects on the price of goods and services.

In the 1970s, central banks faced upheaval in the geopolitical environment as OPEC became more assertive and energy prices that had been stable for decades ballooned. They failed to provide an anchor of monetary stability and inflation expectations de-anchored – a mistake that should never be repeated for as long as central banks are independent and have clear price stability mandates.

In this sense, insofar as geopolitics leads to a **fragmentation of the global economy** into competing blocs, this calls for greater policy cohesion. Not compromising independence, but recognising interdependence between policies, and how each can best achieve their objective if aligned behind a strategic goal.
We could see the benefits of this in Europe especially, where the multiplier effect of common action in areas such as industrial policy, defence and investing in green and digital technologies is much higher than Member States acting alone.

There is another benefit, too: achieving the right policy framework will not only determine how economies fare in the national context,, but also how they are viewed globally in a context of

greater “system competition”. And while the international institutions established in the wake of Bretton Woods remain instrumental for fostering a rules-based multilateral order, the prospect of multipolarity raises the stakes for such internal policy cohesion.
So, we need to be ready for the new reality that may well lie ahead., fragmentation can happen in two ways: gradually, and then suddenly.

Looking ahead, technological change, geopolitical tensions, climate change, and shifting trade and investment flows all suggest we may experience more supply shocks than we did in the past. Central banks will need and must provide for stability in an age that is anything but stable. And I have no doubt after this conference that central banks will measure up to the challenge