

[Home](#) > [News & Media](#) > [Press Releases](#) > [Article](#) > [Financial regulation in a fragmenting world – remarks by Deputy Governor Sharon Donnery at Embassy of Ireland, London](#)

Financial regulation in a fragmenting world – remarks by Deputy Governor Sharon Donnery at Embassy of Ireland, London

09 December 2024 [Speech](#)

Good evening, I am delighted to be here – and many thanks to Ambassador Fraser for the invitation.^[1]

I can think of no better location to be discussing a topic of such international and domestic importance.

For while it is often said that we live in challenging and uncertain times, I would like to add we live in important ones.

We live in a time when the structures of our economies are changing.

A time of great progress; but also of potential regress.

A time of huge opportunities; yet with great risks.

A time when the world has never been more connected – yet seems on track to replace generations' worth of economic integration, with a volatile period of economic fragmentation.

Decisions we make now in these important times will shape our future. And how we navigate them will affect our prosperity and our stability.

And so while policymakers need to be focused on preparing and adapting to the future, they should do so remembering the lessons of the past.

The horizon is here

Challenge, change, uncertainty, have all been on the minds of central banks and regulators for a while now. And when we look back at the last 5 years, let alone the last 15 or 20, it is no surprise why!

But while productivity, competitiveness, and more recently, geopolitics and geo-economic fragmentation, have been a focus, the perspective has often been horizon scanning – anticipating challenges to come.

However, once horizon risks now feel near...

As economies struggle with structural change;

As supply chains are re-imagined for autonomy, not efficiency;

And as the rules based international system put in place to maintain peace and prosperity in our world begins to fray.

In terms of geopolitics, the risks are real and the risks are here.

The number of conflicts, and the number of countries involved in conflicts, is at its highest since World War II.^[2]

Conflict-affected areas across the world have grown 65% since 2021 – and a number of conflicts are escalating, while the number of conflicts is potentially on the rise.^[3]

While these are absolutely first and foremost human tragedies, they of course have economic and financial system consequences – from market and commodity price volatility, trade disruptions and restrictions, and inflation and energy price shocks to name just a few. All with real world implications for poverty levels, food security, consumption and growth.

In terms of geo-economic fragmentation, the siren call on this issue has been ringing for a number of years. And while the macro data doesn't show a clear reversal of globalisation yet, integration has stalled;^[4] and fragmentation and regionalisation – even if somewhat at a sectoral level – has begun.

New trade restrictions have more than tripled since 2019; and in 2023 alone, the number of industrial policy measures increased nearly six fold.^[5]

Among the G20, trade restrictions have significantly increased and broadened in recent years.^[6] And FDI flows look to be increasingly fragmenting along geo-economic fault-lines.^[7]

Technology de-coupling, more restrictive migration policy, and other curbs to global flows, also look set to rise.

All of this has costs; and if not well managed brings risks far outweighing any potential benefits.^[8]

For Globalisation has unequivocally been good for global growth and living standards, even if the benefits haven't always everywhere been evenly distributed.

And a well regulated and stable global financial system allowing the flow and efficient allocation of capital, and the diversification and sharing of risk, plays an important role in this – why the system and its stability is often referred to as a global public good.

Rising geopolitical tensions and increasing geo-economic fragmentation risks sending these benefits into reverse – introducing downside risks to long term global growth.

But part of the risks is not just the reversal of these structural forces for global good, but also that it is coinciding and interacting with the other great global challenges of our times – namely digitalisation and climate.

For while we already worry about the operational resilience of our financial sector and their reliance on certain firms, software or services – geopolitics heightens that risk and vulnerability, be it through cyber or sabotage.

And at time when we should be progressing at pace to meet the climate challenge, geopolitical factors risk slowing us down – and potentially putting us into reverse.

Foundations for growth

Before I touch on what all these mean for financial regulation, I would like to address the current narrative that there is a conflict between regulation and regulators and growth. That central banks are somehow uninterested in growth, or indeed against all risk.

Far from being anti-growth, better living standards, our economy, the public interest and well-being are key concerns of central banks. And indeed the Central Bank of Ireland was founded in part with the constant and predominant aim of the welfare of the people as a whole.

Stability is, however, a pre-condition for growth; why we are mandated to maintain monetary and financial stability – in order to deliver stable growth.

And we regulate the financial system too so that it operates in the best interest of consumers and the wider economy – which means, for me, playing its crucial role in our economy and economic lives through good times and bad.

Contrary to being against all risks, central banks recognise the central role it plays in our lives and our economy.

For risk – be it managing, taking, sharing, or hedging – is the core function of the financial system; and as I have said before, it is not our job to eliminate risks – though it is the sectors' job to appropriately manage them.

Stability is of course different, and is absolutely our responsibility to maintain – for it provides certainty and so is the foundation of a successful system and economy.

This distinction between risk and instability is important – and has implications for how we look at competitiveness and growth.

For as we have seen throughout time, misaligned incentives between the individual and the collective, unchecked, delivers instability through mismanagement of risk.

This is invariably growth destructive in the long run – and so to the detriment of the public good.

For without financial stability there is no foundation for growth.

Something we need to bear in mind as we seek to address the challenges of the future.

Financial Regulation in a fragmenting world

This brings me to financial regulation – particularly in a potentially fragmenting world.

All of the key challenges we face – geopolitics, digitalisation, climate change – are challenges which we all share.

They are inter-related and cross cutting – in the sense they are not isolated and containable risks.

They are also subject to huge uncertainty – in the sense of if, when, and indeed how they will manifest themselves.

And they are global – in the sense that aside from idiosyncrasies in individual jurisdictions, these are risks which we are all facing.

These factors suggest a number of things to me for financial regulators, but primarily it points to the continued need for global cooperation on financial regulation – remembering the lessons of the response to the financial crisis; and recognising that risks and crises rarely respect borders – and indeed none of the big challenges I mentioned will.

For me this calls for the full and faithful implementation of international standards in the first instance, as well as continued cooperation and alignment to address the risks ahead.

And suggests that while countries increasingly focus on competitiveness, we should not forget the benefits of cooperation.

Acting on our own, by ourselves, we cannot hope to address these risks. Competing by undercutting standards we almost certainly won't.

For history has shown that divergence is not the answer to discord.

But rather, to paraphrase John Hume who is honoured in this very room – the only solution to division is agreement.^[9]

This is why we have global standard setters – to ensure we engage in regulatory cooperation not regulatory competition, given the race to the bottom the latter could imply.

Minimum, globally agreed standards act as guardrails and foundations for competitiveness and growth.

They are enablers for ensuring the global financial system functions in the interests of the global economy.

That it is playing its important role to enable society to take and manage risks – to the benefit of growth, economic wellbeing and innovation – rather than introducing or amplifying its own risks, to our detriment.

In recent years we have seen the value of these standards. And how strong regulation and supervision can protect the system and the economy in times of shock.

And so while competitiveness is of course important – de-regulation, and regulatory competition is not the answer.

Rather we should recognise that a robust financial sector, through the cycle, is ultimately a more competitive one; and chasing short term growth through de-regulation rarely pays off in the long run.^[10]

None of this is to say that regulations should not be reviewed. Indeed we should be regularly ensuring our regulatory frameworks are up to date, proportionate, and meet their intended outcomes.^[11]

Or seeing if simpler more streamlined approaches can deliver the same outcomes.

And there is an onus on central banks and regulators to engage and explain – communicating the rationale for their decisions, demonstrating their accountability and more clearly delivering on their mandate.^[12]

But while some reviews might be necessary, it is equally necessary that such reviews are done without compromising the progress of the past – without jeopardising the soundness of our financial system, the stability of our economies and the safety of our citizens.

Ensuring that we can move forward, without rolling back.

Supervision amidst fragmentation

Let me say a final word on supervision – essential in times of challenge and change.

For while strong and consistent standards are necessary for the safety and soundness of our financial system – they are not sufficient.

As history has shown robust standards need to be complemented by robust supervision – why at the Central Bank of Ireland we deliver assertive risk based supervision underpinned by a credible threat of enforcement.

And in the face of an increasingly inter-connected and complex risk landscape we are integrating a hitherto fragmented supervisory approach – so that we can be more effective and efficient in protecting consumers and the system in this changing world.

This recognises the inter-related and cross cutting nature of the challenges we face – which increasingly transcend traditional concepts of regulation and supervision such as prudential, conduct or financial integrity.

Addressing this calls not just for global cooperation, but also too for different national regulators to better co-operate; or for an integrated regulator such as the Central Bank of Ireland to really harness its interrelated mandate through an integrated approach to risk and supervision.

Part of the reason why we are introducing a new supervisory approach.^[13]

ECB Banking Supervision is also rising to these challenges – with a broad focus on the risks to banking sector from geopolitics, cyber and operational resilience and climate change, which I will touch on briefly now.

The banking system is often where the macro and the micro meet – and so how these great macro challenges might crystallise in the micro risks of bank balance sheets is a crucial concern for micro-prudential supervisors.

For this reason we have been increasingly focused on what geopolitical risks means for our banking sector – in particular on transmission channels of how geopolitical tensions can crystallise in more traditional risks like Credit, Liquidity, Operational and Market risks.^[14]

Climate-related and environmental risk has also been a key focus for the last 5 years, given clear risks to the banking sector – which are not just material but increasingly materialising, not least from the growing severity of weather events.

And in terms of operational risks, we are getting regular reminders – if we needed them! – of the importance of operational resilience, and the reliance of our financial system on key infrastructures and services.

In a world increasingly characterised by conflict, this is an growing vulnerability – one of the reasons why we are putting such a focus on operational resilience not to mention our focus on strengthening the sector's cyber defences including conducting cyber resilience stress tests.

These three areas show the evolving nature of supervision, and the evolving nature of the risks facing our financial system in an increasingly fraught and fragmented world.

They also show both the changing nature of resilience, as well as emphasising the benefits in times of uncertainty of maintaining the broad resilience that has been built over the last decade to ensure the financial system is prepared for shocks that may come.

It is in all our interests – regulators and regulated entities, citizens and sovereigns – that this resilience is maintained.

Conclusion

To sum up, in a world that risks fragmenting, there is a responsibility for financial regulators and policymakers to heed their history – to cooperate not compete, and to forge forward not rollback – delivering stability and enabling sustainable growth for the global good.

Venues such as this one – which for generations has been bringing people together – in a city such as this one, famed for its open markets, remind us of this.

So too does the history of our global financial institutions, such as the IMF, the BIS, or the FSB, which have played an important part in delivering stability and prosperity.

They were forged in the aftermath of great conflict or crisis; and their establishment represented important lessons from previous times of fragmentation and upheaval.

And so in this uncertain world it important we do not forget these lessons of the past, as we go on to forge our fortunes and our future.

Thank you

[1] Many thanks to Cian O'Laoidhe for his help preparing these remarks, and to Steven Cull, Patrick Haran and Vasileios Madouros for their helpful comments.

[2] See for example Peace Research Institute Oslo (PRIO)'s [Conflict Trends: A Global Overview](#) June 2024

[3] See Maplecroft [Conflict Intensity Index \(PDF 1.49MB\)](#) November 2024

[4] See Aiyar et al [Goeconomic Fragmentation and the Future of Multilateralism](#) IMF January 2023

[5] See Gopinath [Ninth IMF-WB-WTO Trade Research Conference](#) Oct 2023

[6] See World Trade Organisation [31st WTO Trade Monitoring Report on G20 trade measures](#) November 2024

[7] See for example [ECB Economic Bulletin Issue 7 2024](#) and CEPR [A new index to measure geopolitical fragmentation in global greenfield foreign direct investment](#) November 2024

[8] See also Madouros: [Navigating the risks of geo-economic fragmentation](#) September 2023;

[9] See Hume: <https://www.nobelprize.org/prizes/peace/1998/hume/interview/>, August 2006

[10] See also Donnery: [Banking – Past, Present and Future](#) July 2024

[11] See also Makhoulouf: [Progress, not regress – Financial Regulation in challenging times](#)

[12] See also Donnelly: [High priests and politics: building public understanding through changing central bank communications](#) November 2017

[13] See [Transforming Regulation and Supervision](#)

[14] See Buch: [Global rifts and financial shifts: supervising banks in an era of geopolitical instability](#), September 2023