Klaas Knot: Dealing with geo-economic fragmentation

Speech by Mr Klaas Knot, President of De Nederlandsche Bank, at the opening of the High Level IMF Constituency Meeting, Amsterdam, 14 February 2025.

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Good morning, welcome back. And for those of you who were not present at dinner last night, welcome to our newly renovated building. We are glad to be back in our headquarters after nearly five years of renovation work. We are immensely proud of it.

Today's topic is 'Dealing with geo-economic fragmentation'. Not really a topic for a Valentine's day. Rather than being in love, it sometimes seems the world is in the middle of a nasty multilateral divorce. We see accusations, threats, and fighting over the children.

And as in a real divorce, geopolitical tensions have real consequences for real people. The impact on our constituency differs widely per country. For more than three years already, Ukraine has been literally fighting for its life. Incredibly, and despite all hardship, it has more than successfully concluded the 6th review of its IMF programme. Other countries in our constituency are facing a threatening security situation. They are rearming, protecting their strategic economic infrastructures. And we all suffer when free trade declines and international economic and financial cooperation stalls.

Strengthening national security and curbing strategic economic risks are logical policies in a world that has become a more dangerous place. But, if not properly managed, the economic costs of these policies could be very high.

Economic costs can be felt directly as a result of trade restrictions, for example through higher import prices, market segmentation and reduced access to technology and knowledge.

Fragmentation impacts not only the real economy and inflation. It also has implications for financial stability. Weaker growth and higher inflation make it more likely that banks and other financial institutions will incur credit and market losses. Restrictions on the flow of capital and investments limit the ability of financial institutions to diversify their portfolios. And state-sponsored cyber-attacks pose a threat to our financial systems.

But perhaps the most important way in which fragmentation impacts financial stability is when we can no longer find each other when faced with crucial cross-border challenges. And there are many such challenges. During the Global Financial Crisis, policymakers around the world were able to respond swiftly and effectively. This was possible thanks to good relations among public-sector financial decision makers and solid institutional structures that had been forged over the years. After the crisis, countries around the world, assembled in the G20, took the lead in hammering out a firm package of financial reforms. In a fragmented world, such a swift response is becoming more complicated. This could prove costly. That's because the most important challenges to financial stability that we currently face are precisely the cross-border issues that we can only solve if we work together.

For us central banks, and for institutions like the IMF and the World Bank, geo-economic fragmentation is to a large extent a given. We have to deal with it, and of course the central question is: how? I am glad that we have been able bring four distinguished speakers to the table to share their expert knowledge and fuel our discussion.

To give you my two cents, I think our task as central bankers is to try to limit the economic cost of the current global political climate. By continuing to speak up for the international financial rules-based order that has brought us stability and prosperity over the decades. By pointing to the economic and social costs of protectionist policies. And by staying committed to constructive international working relationships as much as possible, so that the international financial policy framework can continue to function.

And we need to speak up for further European integration. In the economic and financial domain, that means deepening the internal market, completing the banking union, and working towards a capital markets union. But beyond that, it has become clear that we have to work closer together in many other fields as well: in defence, energy, healthcare, etcetera. And, as I said yesterday, we have to work to bring the non-EU countries that share our values closer to the European Union. To this end, the IMF constituency can be a useful instrument. We really need to work together.