

Tariffed with the same brush: confronting today's challenges to trade – speech by Swati Dhingra

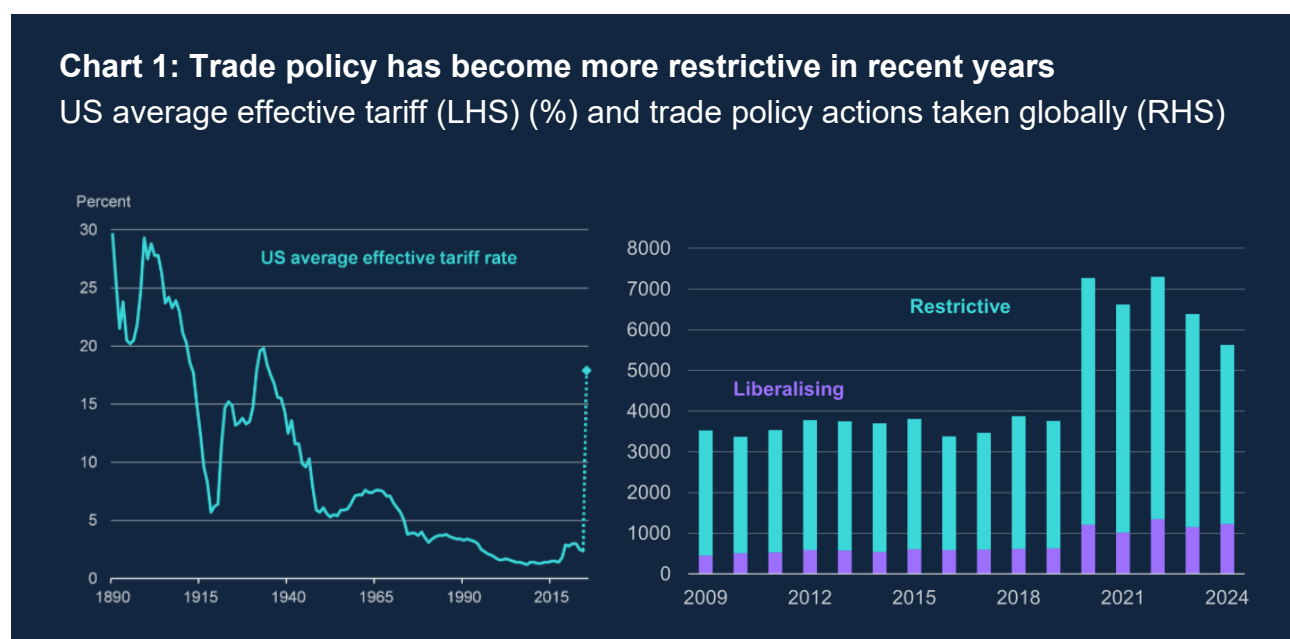
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Speech

Thank you for the invitation to speak at the Central Bank of Ireland.

It feels like a momentous time to be discussing global trade policy, taking as it has a more overtly combative turn in recent months. It will come as no great revelation to anyone at this conference that estimated effective tariff rate for the US has reached its highest level since the infamous Smoot-Hawley Tariff Act of 1930 (**Chart 1**). It's understandable that the world's policymakers feel some mixture of bemusement and alarm at their countries all being *tariffed with the same brush* by the US Administration. However, we ought to take this moment to acknowledge that this comes amid a wider fracturing of the consensus around globalisation and trade in much of the world ([Colantone et al., 2022](#)).

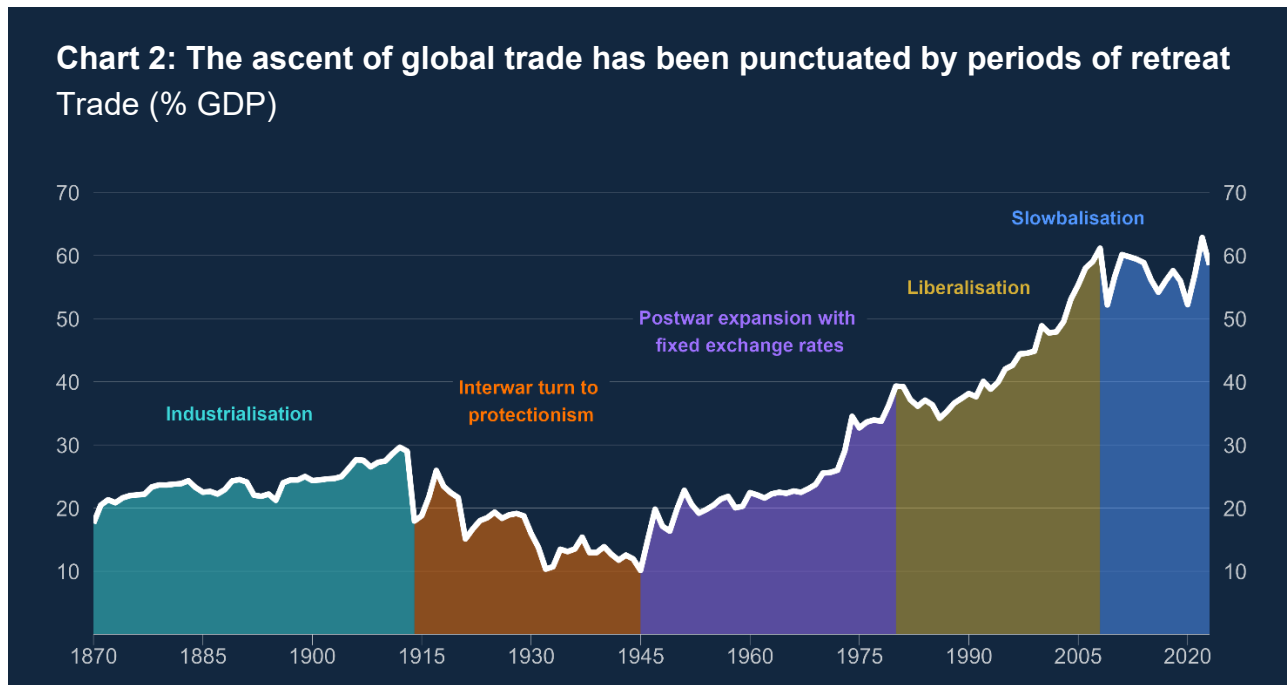


Source: [The Budget Lab at Yale](#) and [Global Trade Alert](#).

Our current moment feels unprecedented, not simply because of the level of US tariffs, but that this comes against the backdrop of hitherto unseen levels of cross-border integration. Much has been written in recent years about de-globalisation ([Antràs, 2020](#), [Baldwin, 2022](#), [Goldberg and Reed, 2023](#), [O'Rourke, 2019](#), [Colantone et al. 2022](#), [Bown and Irwin, 2025](#)). On some measures, there appears to be something to it. And beyond the data, there are some unmistakable fissures in the global economy: global value chains have been profoundly shaken by the Covid pandemic while some countries have signalled a willingness to retreat from multilateralism in international affairs.

Certainly, as is evident in **Chart 2**, the heady days of the late 20th century are behind us – trade no longer grows three times as quickly as global output ([Dhingra, 2025](#)). But this amounts so far to a cooling off after the frenetic pace of integration in the 1990s.

Volumes are stable but the composition is shifting, with intermediate goods now making up two-thirds of global trade ([Antràs and Chor, 2021](#)). This represents a very different backdrop to the 1930s. Smooth-Hawley came on the eve of the Great Depression and at a time when the international order was crumbling ([Irwin, 2011](#)).

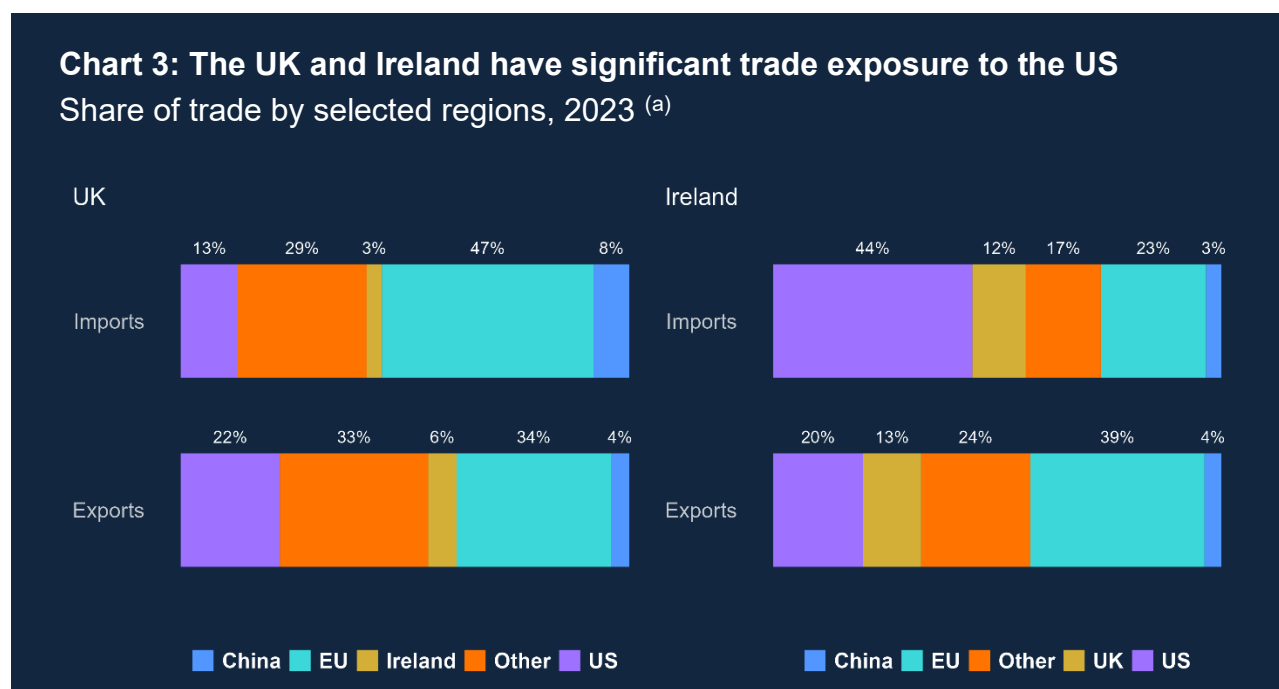


Source: [Klasing and Millionis \(2014\)](#), [Estevadeordal et al. \(2003\)](#) – processed by Our World in Data.

It's well-documented now ([Autor et al., 2016](#), [Rodríguez and Rodrik, 2001](#)) – though perhaps less clear at the time – that the movement for trade liberalisation in the late 20th century was pursued without sufficient regard for those who perceived themselves to bear the costs of globalisation. This may have been ultimately to the detriment of the free-trading aspirations of that movement, in view of the current levels of opposition. Nonetheless, the benefits of openness – cheaper prices and more choice for consumers, quality and innovative inputs for companies, and larger markets for output – mean that, on balance, countries that trade more tend to earn more per person on average ([Frankel and Romer, 1999](#)).

It feels appropriate to be discussing here in Ireland the prospects for the multilateral, rules-based system of global trade. Despite their different histories, the economies of the UK and Ireland bear a certain resemblance in 2025: both are small, open economies with deep specialisations in services and strong ties to the United States and the European Union. For policymakers, therein lies the predicament. Occupying as they do a similar position in the world economy, globalisation underpins living standards and employment, but neither have the power to shape global markets on their own. So there may be lessons of mutual benefit that the UK and Ireland can draw from the past decade of trade shocks to navigate today's increasingly fragmented macroeconomic environment.

Given the heft of the US and China in global markets, policymakers around the world will have to reckon with the turbulence and uncertainty surrounding the re-orientation of trade priorities. This will shape prospects for growth and inflation. For the UK and Ireland, these questions are especially pressing. Both economies are deeply integrated with the global economy, with trade accounting for 60% and 240% of GDP respectively in 2024. They are important trading partners for each other and significantly exposed to trade with the United States (**Chart 3**).



Source: ONS, CSO, Bank calculations.

(a) Includes only geographically-identified trade. 2023 is the last year with comprehensive data available.

Much good modelling has been done to try to untangle the various ways in which this could play out. This is useful for gauging the magnitudes of the effects coming via the various channels. Though the models differ in details, they all imply a contraction in UK output as a result of US trade policy. Impacts range from modest in the macroeconomic modelling of trade with input-output linkages of [Saussay \(2024\)](#) and [Tamberi \(2024\)](#) to substantial in the structural NiGEM simulations of [Kaya \(2024\)](#). Differences in modelling trade flows and exchange rates mean the range of price impacts is similarly wide, with NiGEM simulations pointing to a substantial pick-up in UK CPI, whereas [ECB-Global](#) results are disinflationary.

But in view of the interactions between a combination of multiple channels, complex multi-stage behavioural and strategic responses, and unprecedented magnitudes mean, we should temper our expectations of how much guidance modelling can give us, especially at such an early stage. Even the initial response of the dollar defied what

standard theory might have suggested.¹ At least in the short run, dollar appreciation acts as a mechanism for generating upward pressure on prices in models of the impact of US tariffs on the UK economy. But, contrary to expectations, the dollar has weakened against sterling in the months following the first tariff announcements.

Today I would like to supplement these modelling efforts with an assessment of some evidence on recent historical episodes that may give us some insight into how policymakers should respond to current developments. I'll survey the evidence relating to three episodes: Brexit and its impact on goods and services trade, the series of escalating US-China tariff rounds in 2018, and the energy crisis precipitated by Russia's invasion of Ukraine. Then, I'll reflect on what this might suggest about the present.

The first major deglobalisation episode: Brexit

To many, Brexit remains the defining instance of de-globalisation backlash. The Leave campaign's "take back control" slogan promised to "free" Britain to pursue its full global potential ([Hobolt 2016](#), [De Vries 2018](#)), framing membership of the European Union as a constraint to economic growth. A "Singapore-on-Thames" model envisioned regulatory autonomy, deregulatory flexibility, and a more globally oriented economic strategy.

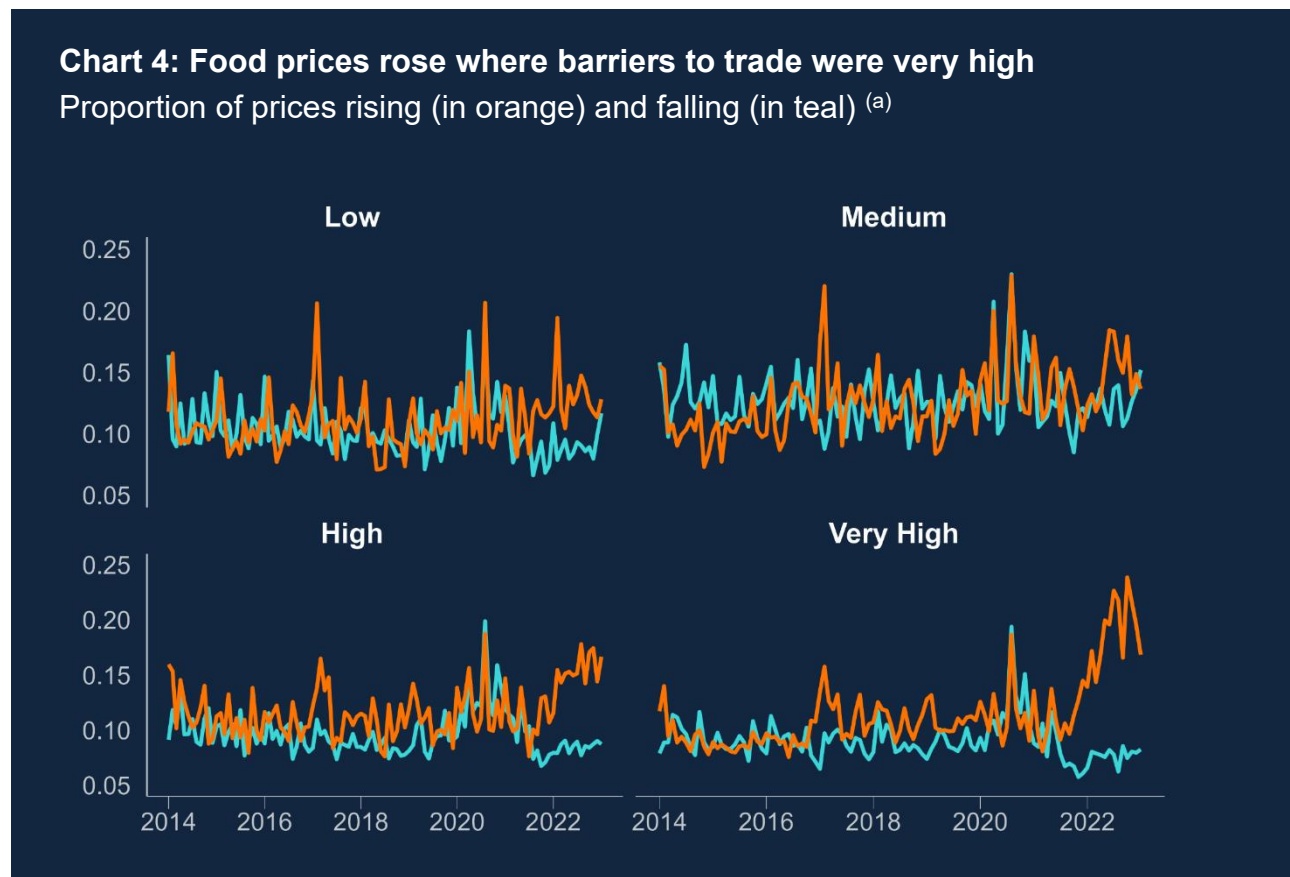
From the standpoint of 2025, it's hard to see that British households and businesses have reaped the putative economic benefits of leaving the EU. A global pandemic broke out in the intervening period, complicating efforts to identify the impact of Brexit on the development of the British economy. But, nearly a decade after the referendum vote, an emerging body of evidence suggests that Brexit has been a contributing factor to stagnant investment and productivity, as well as a drag on the UK's trade performance.

In the immediate aftermath of the referendum vote, there was a sharp sterling depreciation. This caused a one-off increase in the price level, though this did not lead to inflation persistence ([Dhingra, 2025](#)). Several years went by before the UK's exit was formalised in 2020. This interstitial period was marked by considerable uncertainty as to the future trading relationship between the UK and the EU, which had real economic consequences. [Ahmad et al. \(2023\)](#) show that products more exposed to this uncertainty experienced lower trade growth. There is also evidence that some sectors – agriculture, fish products, and the automotive industry – began to stockpile inputs and re-orient their supply chains during this period, in anticipation of barriers to trade with the EU ([Bakker et al., 2022](#)).

¹ Ostry et al. ([2025](#)) provide evidence suggesting that exchange rates react to US tariff shocks in systematically different ways depending on retaliation, appreciating if the tariff is imposed unilaterally and depreciating if other countries retaliate.

The Trade and Cooperation Agreement (TCA), which set out the post-Brexit trading relationship between the UK and the EU, was implemented in January 2021. It maintains tariff- and quota-free trade in goods but introduced new non-tariff barriers such as the ability to have regulatory differences, different product certification and border checks.

The impact of these non-tariff barriers has come through in the data for trade quantities and prices. For example, in the case of food products, **Chart 4** shows, where these new barriers to trade were very high, an increased share of food prices were rising.

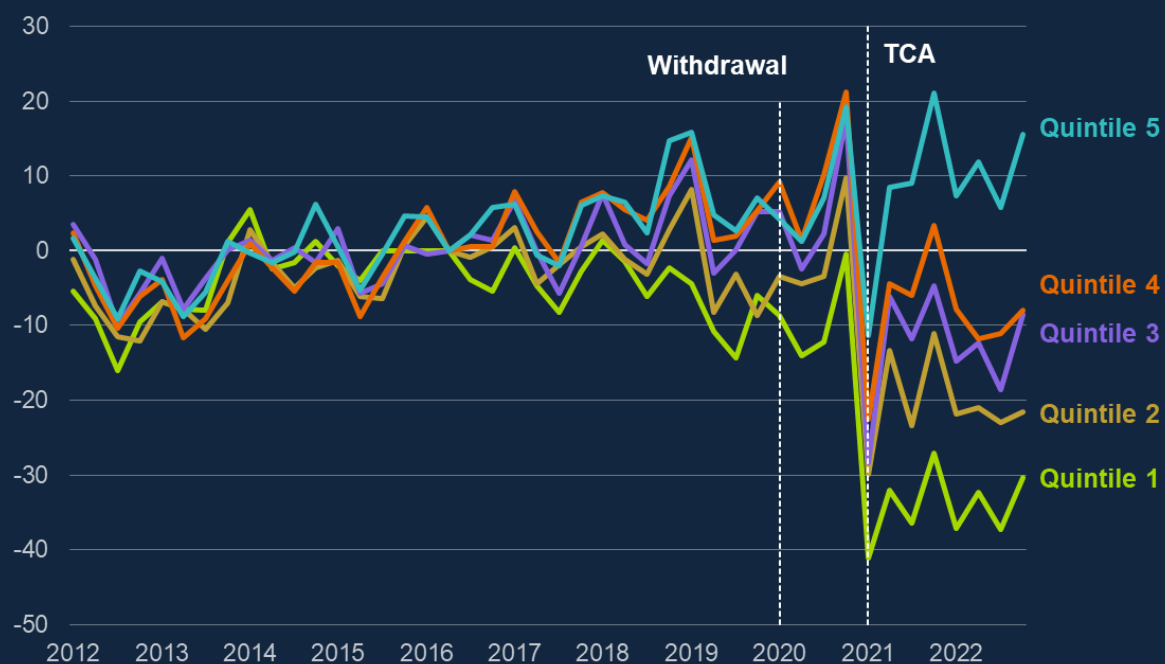


Source: Updated version from Richard Davies, originally in [Bakker et al., 2022](#).

(a) Consumer price quotes from ONS matched with UN COMTRADE data for EU share of imports. Binned by EU shares from low (up to 40%), medium (40-60%), high (60-80%) to very high (over 80%). Lines are the proportion of prices rising and falling month-on-month.

Overall, estimates suggest that these barriers reduced goods trade by as much as a fifth ([Du et al., 2023](#)). Using different methodology and data, [Kren and Lawless \(2024\)](#) find a reduction in bilateral UK-EU goods trade of a similar magnitude. There has been a heterogeneous impact though, with smaller businesses having found this burden more difficult to bear. These are businesses that are often less able to absorb significant fixed costs ([Melitz, 2003](#)). **Chart 5** shows event study estimates from [Freeman et al. \(2025\)](#), which suggest larger firms adjusted more easily to the trade barriers created by the TCA.

Chart 5: Smaller firms reduced goods exports to the EU to a greater extent
Change in trade with the EU relative to the rest of the world (%)



Source: [Freeman et al. 2025](#). Last data points are Q4 2022.

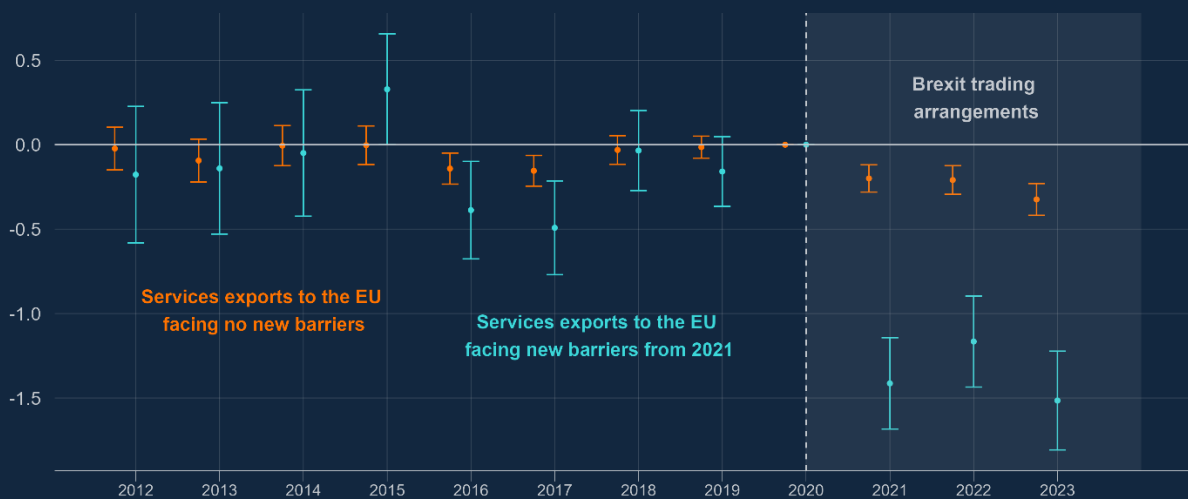
But developments in good trade are only part of the story. One reason the UK has a different trade profile compared to the EU is that, along with Ireland, most of its exports are in services rather than goods. The UK is the sixth most services-oriented economy in the OECD, while Ireland ranks second ([De Lyon et al., 2022](#)).

Barriers to services trade tend to be regulatory in nature, such as domestic licensing requirements, residency conditions, and restrictions on cross-border provision.

Over 60 percent of trade agreements now include provisions on services, compared to just 10 percent before 2000 ([Gootiiz et al., 2020](#)). Despite this progress, regulatory differences remain a major obstacle to market access. Regulatory barriers are key determinants of services trade flows, but empirical work has been limited by data gaps and institutional complexity ([Gootiiz et al., 2020](#); [Mattoo et al., 2022](#)).

With the UK out of the Single Market, new bilateral rules govern trade and investment between the UK and the EU. While the UK's services trade growth has been strong since 2019, new evidence compares UK services exports in each sector compared with that of all other countries. As shown in **Chart 6**, the sectors most exposed to Brexit barriers saw falls of 16% in exports to the EU. This loss in EU market share has not been replaced by increased share in markets outside the EU ([Bhalotia et al., 2025](#)).

Chart 6: Services sectors facing Brexit barriers saw trade with the EU decline
Fall in exports of the UK to the EU relative to other countries' exports

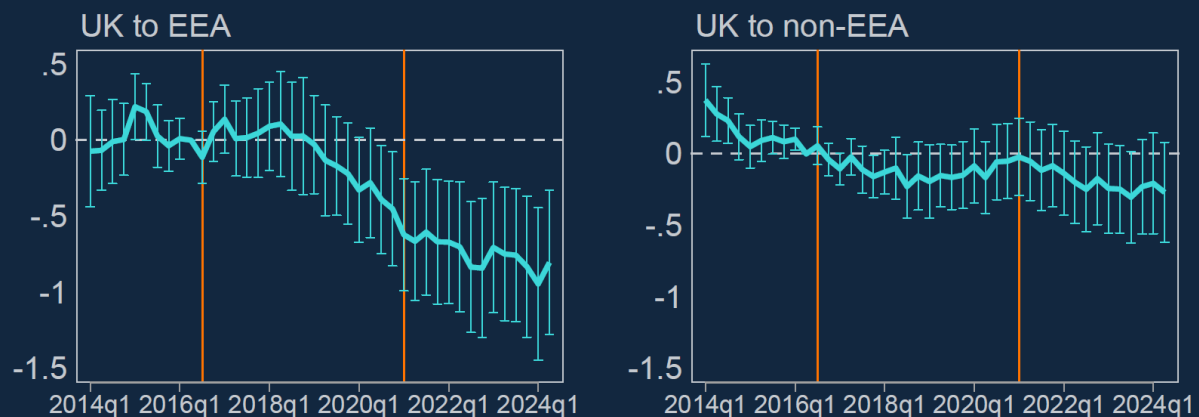


Source: [Bhalotia et al. \(2025\)](#). Last data points for OECD-WTO BaTiS are 2023.

(a) Event study impact of Brexit barriers from the Trade and Cooperation Agreement on bilateral exports of the UK to the EU, relative to other bilateral exports.

Within their services specialism, the UK and Ireland economies are closely interconnected through financial markets, both with each other and with the broader global economy. This relationship has encountered new barriers to cross-border trade and investment following Brexit. A close analysis of UK bank lending in **Chart 7** reveals a significant decline in credit extended to the European Economic Area (EEA) after the loss of passporting rights—an effect not offset by increased lending to non-EEA countries. This contraction in financial connectivity has implications for productivity in the UK, and more broadly in Ireland and the EU, as bilateral access to deeper financial markets has been diminished on both sides.

Chart 7: Loss of passporting has been a drag on UK lending to EEA
Event study estimates ^(a)

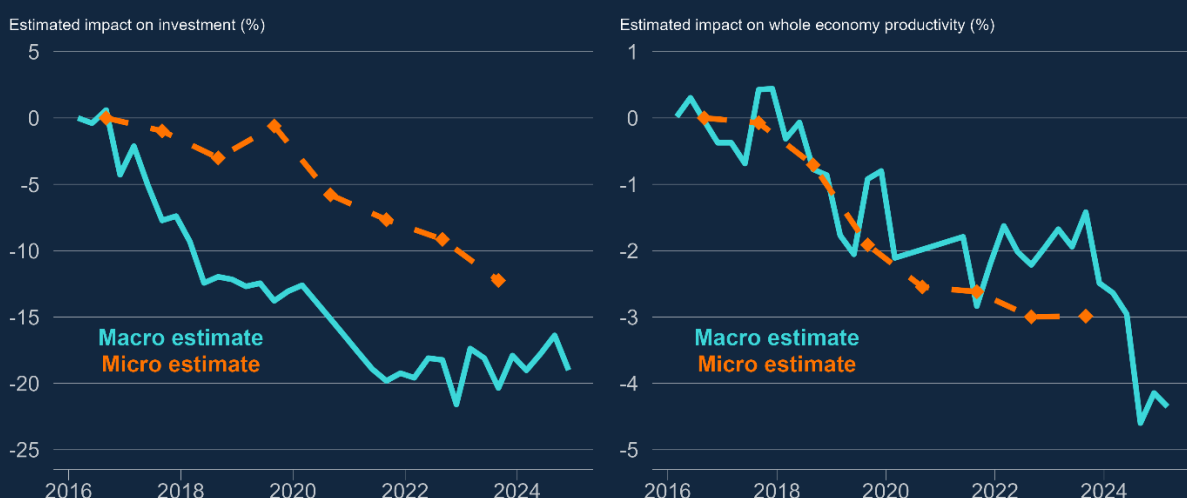


Source: Trade in Banking Services under Regulatory Barriers: Evidence from the UK (Bhalotia et al., forthcoming).

(a) Event study impact of the loss of passporting rights, a comparison of loan activity for banks that had passporting rights prior to Brexit with those that did not.

Trade weakness has combined with uncertainty in the UK to weaken both investment and productivity. A combination of micro and macro estimates suggest that the Brexit process had reduced UK GDP by 6% to 8%, investment by 12% to 18%, employment by 3% to 4%, and productivity by 3% to 4% (Bloom et al., forthcoming update of [Bloom et al., 2019](#)).

Chart 8: Brexit reduced firms' investment and the economy's productivity
Estimated impact on investment (left) and whole-economy productivity (right) (%)

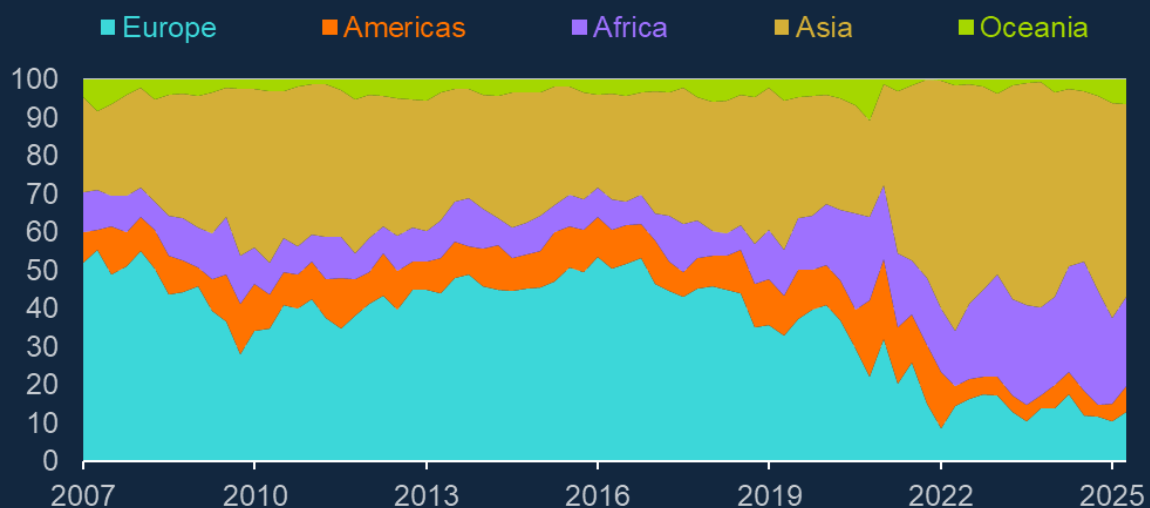


Source: The Economic Impact of Brexit (Bloom et al., forthcoming). Last data points are 2025 Q1 (macro) and FY 2023/24 (micro).

We can identify several ways in which the new trading arrangements with the EU might influence inflation in the UK. By inserting non-tariff barriers to goods and services trade, Brexit will lead to reduced demand for UK exports, which puts downward pressure on domestic prices. Businesses have also pared back their investment intentions, reducing a source of domestic demand. This reduction in demand must be set against the weaker productivity growth that will be the consequence of reduced investment and more limited availability of inputs to production.

Brexit has already re-shaped the size and composition of the UK population in a profound way. Since 2020, net migration has added 3.6% to the UK population and this is driven primarily by inward migration from outside the EU. While the composition of the stock of the migrant population has been steady, new flows of migrants has shifted dramatically to non-EU origin countries. In 2016, 60% of total arrivals came from the EU, and now 90% come from outside the EU. This is one area where despite a very substantial shift in migration from EU members to foreign non-member countries, we have yet to fully grasp the consequences for labour supply and consumption demand in the economy.

Chart 9: New flows of migrants are increasingly non-EU in origin
Composition of recent inward migration by region of origin



Source: ONS, Bank calculations. Last data points are 2025 Q2.

From non-tariff barriers to tariff barriers

Formal negotiations to bring about Brexit were barely underway when another tremor was felt along the main fault line of global trade. What began with tariffs on US imports of washing machines and solar panels in 2018 soon devolved into a full-fledged trade war between the US and China that would threaten to engulf the entire global trading system.

One consequence of China's accession to the World Trade Organisation (WTO) in 2001 was for trade relations with the US to normalise in a formal sense and for the US's Most Favoured Nation tariffs to be applied to Chinese exports. However, *de facto* trade relations always involved considerable friction. As much as seven percent of goods imports from China attracted anti-dumping and anti-subsidy tariffs in the US between 2006 and 2016 ([Bown, 2021](#)). The US brought more formal disputes against China than all other WTO members during this time. But all remained within the bounds prescribed by the WTO.

Simmering tensions boiled over in 2018. A US International Trade Commission report initiated what became a back-and-forth of escalating retaliation on an expanding set of traded goods, largely between the US and China. US tariffs ended up covering nearly two-thirds of imports from China by the end of 2019, while China's counter-tariffs covered more than half of imports from the US ([Bown, 2021](#)). For the US, this surpassed Smoot-Hawley in terms of breadth of tariff coverage ([Fajgelbaum et al., 2021](#), [Irwin, 2017](#)), even if the effective tariff rate fell short of what was seen in the 1930s.

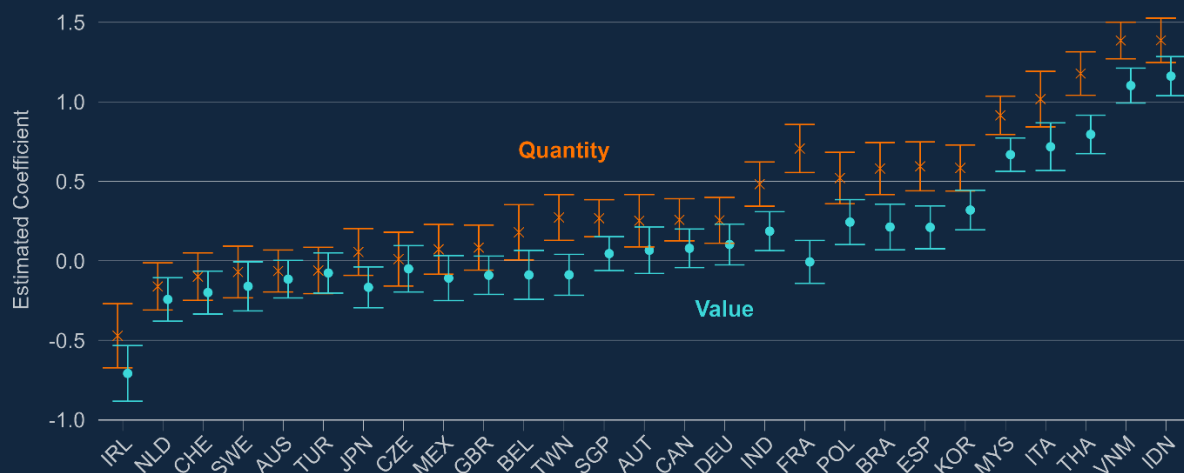
As it stands, the evidence suggests that US consumers of imported goods bore the brunt of the tariffs through higher prices, and that the trade war reduced aggregate real income in both the United States and China ([Fajgelbaum and Khandelwal, 2022](#)). Contrary to the suggestion of the literature at the time, empirical work looking across exporting countries or products differentially exposed to tariffs after the first phase of the Trump tariff war found complete pass-through of tariffs to tariff-inclusive import prices. Subsequent phases showed substantial export price reductions, such as in steel ([Amiti et al., 2019](#)).

Whereas Brexit affected both the UK and Ireland directly through higher barriers to trade, the UK and Ireland were third countries in the 2018 US-China trade war. Nevertheless, import prices for both UK and Ireland fell for goods affected by 2018–19 US-China tariffs, across all exporters, which led to a mild deflationary effect on CPI in the UK and euro area persisting for 12 months, but not always significantly so. These price changes weren't strongly linked to shifts in trade patterns or global/UK demand, or to the exchange rate.

But how do new tariffs affect those directly targeted, compared with third countries like the UK and Ireland?

The first place to look is direct exports to the US, which we can do from some preliminary work undertaken by Bank staff. In 2018, the UK's exports to the US held up relatively well despite the introduction of tariffs. In contrast, Ireland's exports were hit harder. These differences highlight how sectoral composition and trade linkages shape the impact of deglobalisation even in third countries.

Chart 9: Trade diversion effects were largest for South-East Asian countries
 Estimated effect of US-China tariffs on imports from China ^(a)



Source: Internal analysis, Bank of England.

(a) Coefficient estimates for the effect of US-China tariff changes of a product on bilateral imports of countries from China.

But the other key impact for a third country from tariffs between the US and other countries such as China is on trade diversion. Diversion is where exporters in China, Mexico or Canada – countries most directly impacted by US tariffs – need to find new markets for their products. Curiously, in 2018, the UK experienced little-to-no trade diversion from China. The majority of diversion was to Asia and Latin America in both quantities and values. The EU in contrast was more exposed to trade diversion, particularly in quantities.

Chart 10: Diversion to the EU is larger than to the UK
 Estimated effect of US-China tariffs on imports from China ^(a)



Source: Internal analysis, Bank of England.

(a) UK-Comparable consists of Australia, Canada, Japan, Switzerland, Singapore, and Türkiye.

Furthermore, some of what appeared to be trade diversion in 2018 may actually have been re-routing. Re-routing occurs when exporters redirect their goods through an intermediary country with lower tariffs, often re-labelling or adding minimal value to bypass rules of origin. Evidence suggests the EU did not significantly increase its exports of tariffed products to the US, implying that much of the adjustment was absorbed by domestic markets. Meanwhile, Asia and Latin America increased their exports to the US, suggesting that they took advantage of the retreat of China from the US market.

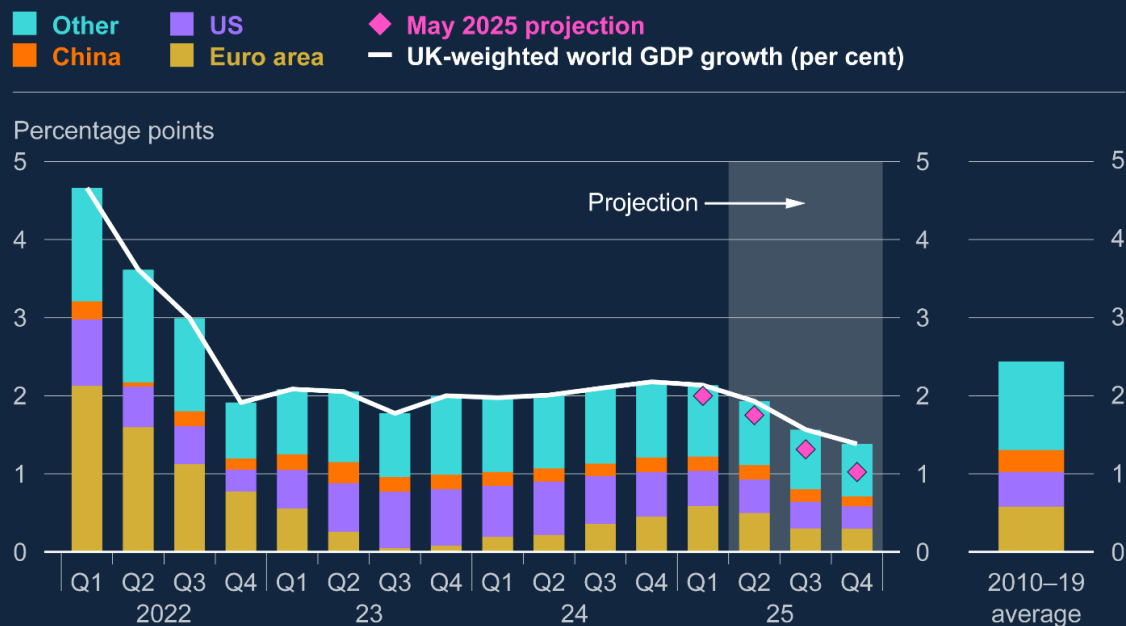
Overall, import prices and unit values saw downward pressure outside of the United States and China, suggesting that trade destruction was present and possibly more relevant than trade diversion in third countries, such as the UK and comparable countries (**Chart 10**).

While 2018 provides a useful reference point, there are important differences today. One key difference is how sweeping the measures are in comparison to 2018. This expansion of coverage limits the possibility of trade re-routing, which could lead to greater trade destruction or diversion in the short term. In addition to wider scope, the change in US trade policy is greater in scale. Higher tariff rates could lead to responses that are much larger in magnitude than the standard trade responses estimated from previous episodes of more contained shifts in trade policies.

While the UK's exposure to the current trade policy environment was low in 2018, there are reasons to believe it may have increased since then. Imports from China have grown since 2018, and a larger share of these imports now consists of capital goods, which are more sensitive to global trade disruptions.

Even if exchange rate movements remain muted and trade diversion limited, some drag on UK economic activity is likely. Ireland will also feel this impact, including through heightened uncertainty affecting investment decisions and weaker global demand.

Chart 11: Global GDP growth is projected to remain below historical norms
 Four-quarter UK-weighted global GDP growth with contributions by region



Source: [August 2025 Monetary Policy Report](#).

Global commodities and energy shocks

For a small open economy such as the UK, global integration presents challenges on several fronts, internally and externally. Brexit exemplifies the internal challenge of ensuring gains from trade are shared and maintaining domestic support for participating in international agreements. External challenges might take the form of navigating the cross currents of strategic competition among great powers, as in the case of the US-China trade war. But the external environment is also the source of destabilising commodity-specific supply shocks.

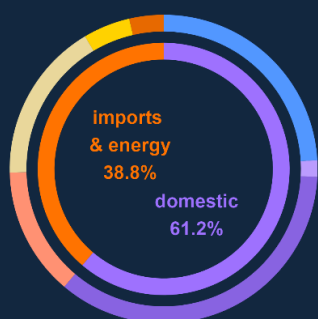
This matters a lot in a world of interconnected global supply chains. It may matter even more in the future, as climate-related disruption increases in frequency and severity. For an economy's production activities, specialisation – one of the productivity-enhancing advantages of global trade – threatens to become a vulnerability. A small open economy relies on inputs from abroad at all stages, upstream (rare earths), midstream (semi-conductors), and downstream (food) – the less substitutable, the more vulnerable. For this reason, we've seen increasing appeals to national security as justification for restrictions on trade.

This was made clear dramatically by the Russian invasion of Ukraine in 2022.

Russia's strategic decision to curtail gas supply to Europe sent gas prices soaring to their highest recorded level in real terms. As a net importer of energy, the UK suffered a massive terms-of-trade shock as a result. Higher energy costs were reflected not only in household bills, but also in the input costs that businesses faced at every stage of production. **Chart 12** illustrates how, even after the initial shock unwound, relative prices took several years to fully adjust, as upward pressure from energy costs fed through to prices across sectors.

Chart 12: Evolution of cost component contributions to inflation measures
Cost decomposition of the CPI basket (left) and of CPI measures (right) ^(a)

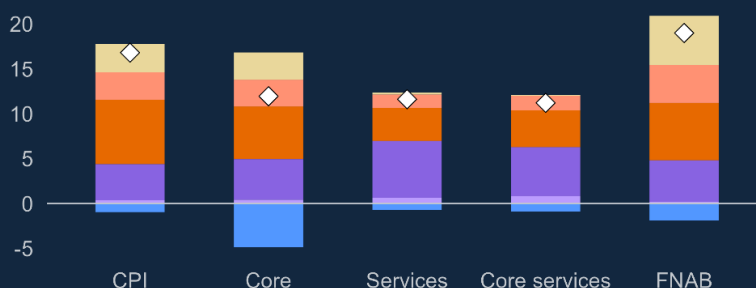
CPI basket by input, 2022



Energy (final)
Imports (final)

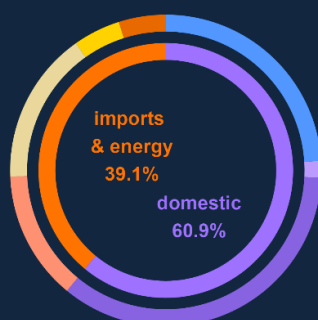
Energy (intermediate)
Imports (intermediate)

Contributions to cumulative inflation since 2019 Q4
Percent, as of 2022



Energy (total)
Gross operating surplus
Wages
Taxes

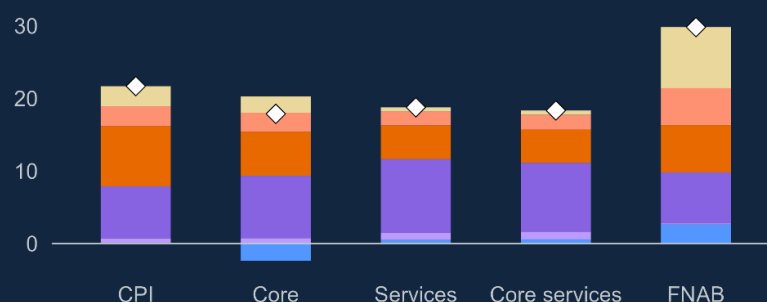
CPI basket by input, 2023



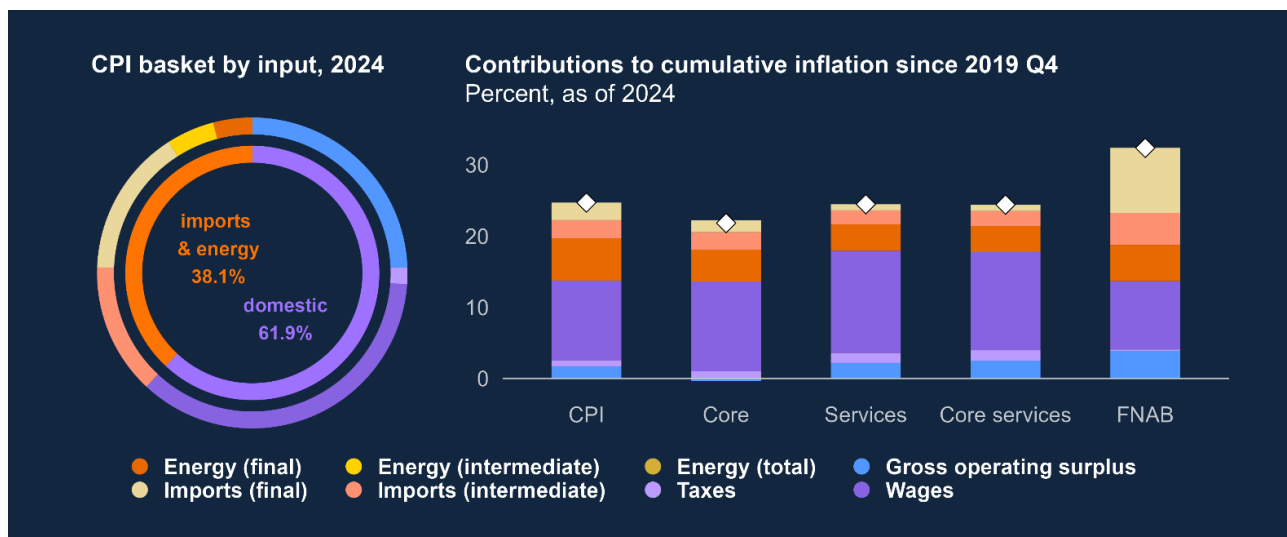
Energy (final)
Imports (final)

Energy (intermediate)
Imports (intermediate)

Contributions to cumulative inflation since 2019 Q4
Percent, as of 2023



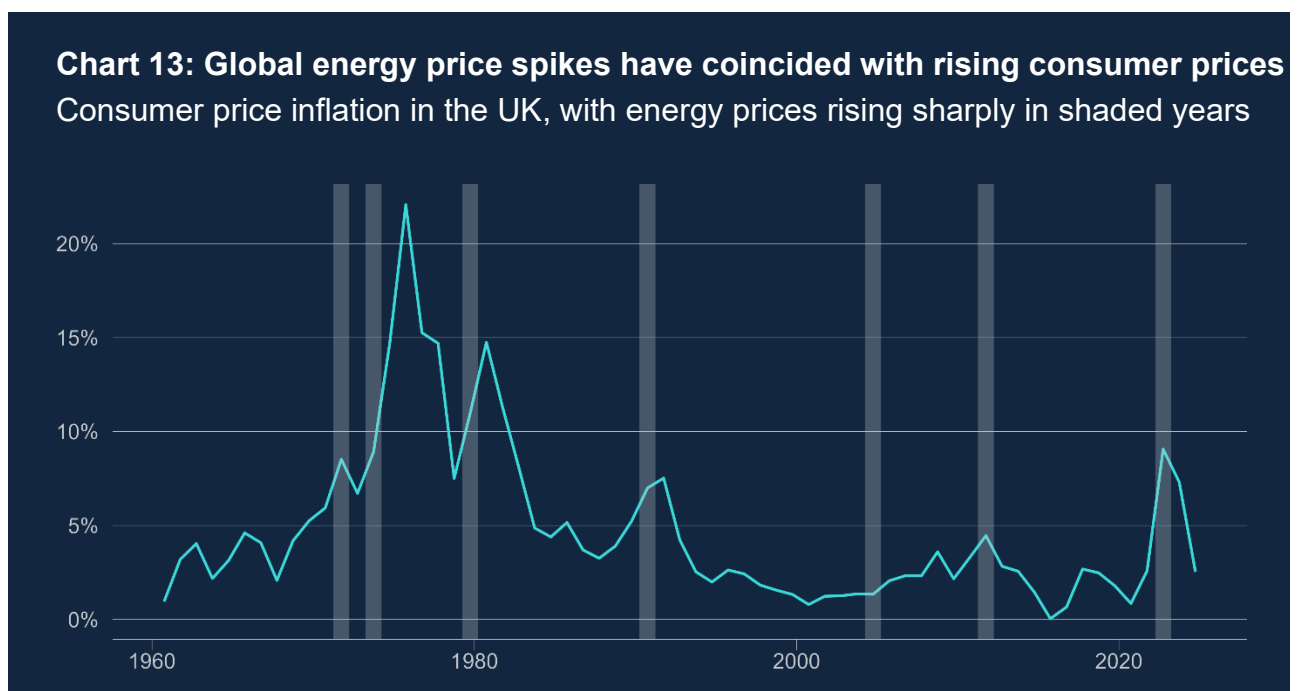
Energy (total)
Gross operating surplus
Wages
Taxes



Source: ONS, Bank calculations.

(a) See [Appendix](#) for methodology.

Crude oil likewise represents an industrial input with widespread use, as well as an especially salient component of household final consumption. Since the 1960s, steep increases in the price of oil and energy globally have coincided with periods of elevated consumer price inflation. Sharp spikes in essential commodities that have broad-based usage across the economy, like the global energy price spikes depicted in **Chart 13**, remain an ever-present risk, especially as increased trade policy uncertainty and regional conflicts leave the world exposed to sudden and unpredictable supply disruptions.



Source: ONS, Bank calculations.

Oil and gas are not the only commodity inputs with geographically concentrated supply. News in recent weeks of the dispute between the US and China over rare earth and other critical minerals underscores the latent vulnerability of global supply chains to geopolitical tensions. These minerals, the production and processing of which are dominated by China, are essential inputs to high-tech manufacturing. Their export licensing requirements give one country the ability to bring about unilaterally a halt to the trade of crucial inputs, disrupting the production of semiconductors and smartphones, among much else.

Given their role in production, these minerals are unlikely to generate inflation risks in the way that energy would. But it's conceivable that, under the right conditions, a sudden scarcity of a certain input could be a trigger for a disorderly fragmentation, as countries seek to exploit the dependence of rivals on its production, processing, or transport. In any ensuing rush to secure supply, spillovers up and downstream could have a cascading effect on prices for other inputs. This could generate inflationary pressures in the short term and weigh on economic growth in the long run ([Dhingra, 2025](#)).

Monetary policy when trading on thin ice

Having surveyed the challenges to cross-border integration, I'll return to the present moment to explain how we can marshal the lessons from these episodes to inform our thinking about monetary policy. But first, some scene-setting.

There are many ways in which the imposition of tariffs and any concomitant re-configuration of global trade patterns might affect UK consumer prices.

British consumers buy products imported from the US, as do British businesses. Tariffs on imports to the US will tend to increase the price of goods produced in the US, as the costs of inputs rise. UK imports from the US may become more expensive as a result. However, while the US is our largest individual trading partner, it still only accounts for around 10 per cent of UK goods imports ([Butlin, 2025](#)).

Countries exporting to the US will see demand fall, compounded by spillovers from weaker growth in the rest of the world. This will put downward pressure on global prices, possibly reinforced by third-country exporters, cutting prices to manage overcapacity.

Global trade looks set to decline, however this plays out. The IMF takes this view in their latest [World Economic Outlook \(2025\)](#), even if some front-loading of consumption and investment and delays to tariff implementation props up the profile in the near term. As the effect of trade destruction build, it's likely the case that any re-allocation of resources and re-distribution of supply chains ultimately leaves the global economy worse off ([Taylor, 2025](#)).

It's less clear whether the effects of higher US prices and any supply chain disruption will dominate the effects of discounting linked to the diversion or destruction of trade, or the reverse. Various elasticities (price elasticity of US demand for imports, price elasticity of non-US demand for diverted trade, etc.) will determine how expenditure switching and trade diversion affect global prices and volumes. Exchange rates will determine how this affects domestic prices.

In my view, the primary transmission channel of tariffs to the UK in 2025 come through weaker demand, as tariffs act as a drag on global growth. So far, the recent episode appears to be one-off adjustments to global reorganisation. Therefore, I would expect orderly fragmentation with some reduction in international diversification – this means lower overall growth – and some downward pressure on prices in the medium term.

So what is monetary policy to do in this case?

Brexit has demonstrated the corrosive effect of policy uncertainty on trade, productivity, and business investment. And this effect builds over time, so the more prolonged and pervasive the uncertainty, the more concerned we should be about outcomes. Evidence suggests that US investment fell by about 1.5 per cent in 2018 as a result of trade policy uncertainty ([Caldara et al., 2020](#)). Similar uncertainty today could slow UK economic growth (particularly in high value-added export sectors). Commitment to meeting our 2% inflation target is one crucial way in which the Monetary Policy Committee can promote stability in uncertain times.

For central banks, one lesson to take from the US-China trade war was the importance of distinguishing shifts in the price level and inflation. The UK saw a change in price level following the first round of Trump tariffs ([Monetary Policy Report, 2018](#)), and broader evidence suggests that tariff shocks on imported inputs typically do not translate into persistent inflation ([IMF research, 2024](#)). But the UK's experience of the energy price shock brought into sharp relief how these price-level impacts could be transmitted in such a way that inflation remained above target for an extended period. All that was required was a sufficiently important input and a sufficiently large shock. Then, the relative price adjustment to a sectoral price level shift can become broad-based and eventually translate into a persistent inflationary dynamic.

This was exacerbated by the weakness of and disruptions to supply in the UK, partly attributable at least to Brexit and Covid. Inflexible and uncertain supply side conditions make the task of meeting an inflation target all the more difficult ([Bailey, 2025](#)). It's precisely out of concern for the UK's supply-side prospects that I've long argued for a swifter normalisation of the monetary policy stance. In the absence of more robust growth in productivity capacity – human and technological, the UK economy will struggle to absorb the sort of shocks we've seen over the last decade.

Taken together, these episodes – Brexit, the US-China trade war, and the energy price shock – illustrate the range of outcomes that are possible, and their unpredictability. Any disorderly unravelling of cross-border integration (supply chains, capital flows, labour, legal/regulatory) will have profound consequences for what we produce and consume. But even the price impacts of most de-integration are uncertain in their directionality, magnitude, and dynamics.

Therefore, the appropriate monetary policy response cannot be treated as a forgone conclusion or deduced confidently a priori. Instead, it will depend on precisely which trade policies are implemented and the nature of the counter measures. Calibrating monetary policy to geopolitical reorganisation requires evaluation of the nature of fragmentation shocks, their sectoral impacts and the time horizon over which they would be expected to unwind ([Attinasi et al., 2024](#)).

Correctly identifying the nature of these shocks and their sectoral impacts requires distinguishing supply from demand and global from domestic. To underscore the UK's sensitivity to global economic fluctuations, over the past fifteen years, at least [50 percent](#) of variations in UK GDP growth and [50 percent](#) of variation in UK CPI are estimated to have been driven by global shocks rather than purely domestic factors. Monetary policy focus has been on domestic and demand-driven price dynamics in recent decades and over the last few years global and supply factors have seen a resurgence ([Tenreyro, 2023](#), [Fornaro, 2023](#), [Greene, 2025](#)). At times, the magnitude and duration of these supply and demand effects can be challenging to assess in real-time, especially when shocks occur concurrently or in quick succession, making their individual effects difficult to isolate.

One obstacle to better outcomes is the quality of our data and analytical tools, which I've touched on in a [previous speech](#) and [Attinasi et al. \(2024\)](#) have discussed in the context of analysing supply chains and trade interdependencies. But another is the set of policy tools at our disposal. Even outside of extreme scenarios, monetary policy action alone is not well-suited to address systemic price shocks in key sectors such as energy and food, as witnessed in the recent inflation episode where countries that deployed other policy tools were more effective in quickly containing sharp inflationary effects ([Coibion and Gorodnichenko, 2025](#)). It may even be counterproductive, as it could constrain investment that would enhance supply resilience.

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