

Global inflation

Christine Lagarde says US-China rift to push inflation higher

ECB president says escalation of tensions would hit critical supply chains, leading to shortages and higher prices



Christine Lagarde, president of the European Central Bank, called for “greater policy cohesion’ through countries co-operating to tackle problems © AFP via Getty Images

Martin Arnold in Frankfurt 5 HOURS AGO



Geopolitical rifts caused by rivalry between the US and China could push up inflation by 5 per cent and threaten the leading positions of the dollar and euro, Christine Lagarde has warned.

The European Central Bank president said in a speech on Monday: “We may see more instability as global supply elasticity wanes; and second, we could see more multipolarity as geopolitical tensions continue to mount.”

Disruption to global supply chains would hit “critical sectors” such as the electric-car industry, she said, pointing out that the US is “completely dependent” on imports for 14 critical materials and Europe relies on China for 98 per cent of its [rare earths](#) supplies.

“If global value chains fragment along geopolitical lines, the increase in the global level of consumer prices could range between around 5 per cent in the short run and roughly 1 per cent in the long run,” Lagarde told a Council on Foreign Relations event in New York.

Some countries could also reduce their dependence on the dollar and euro, she said, citing “anecdotal evidence” of [increased usage](#) of the Chinese renminbi or the Indian rupee in cross-border trade, and greater stocks of gold being used as an alternative reserve asset.

As developing countries trade more with China, which has become the world’s biggest exporter, they are inclined to increase their holdings of renminbi as reserves, Lagarde said.

“So far, the data do not show substantial changes in the use of international currencies,” Lagarde said. “But they do suggest that international currency status should no longer be taken for granted.”

Janet Yellen, US Treasury secretary, last year called for companies to prioritise “friendshoring” of supply chains by investing more “with countries we know we can count on”. [Beijing](#) has sought to limit its dependence on foreign countries’ technology in response to US restrictions on semiconductors and chipmaking equipment exports to China.

Lagarde said a long period of “relative stability may now be giving way to one of lasting instability resulting in lower growth, higher costs and more uncertain trade partnerships.”

Her comments reflect wider fears among [policymakers](#) at last week’s annual meetings of the IMF and World Bank that rising political tensions will weigh on the global economy by disrupting trade, weakening growth and pushing up inflation.

Yet Lagarde said she preferred to be “determined” rather than “pessimistic” about the challenges ahead, calling for “greater policy cohesion” through countries co-operating to tackle problems.

If countries worked together, such as to secure supply chains or diversify energy production, they could create “a virtuous circle of lower volatility, lower inflation, higher investment, and higher growth”, she said.

“But if fiscal policy instead focuses mainly on supporting incomes to offset cost pressures — in excess of temporary and targeted responses to sudden large shocks — that will tend to raise inflation, increase borrowing costs and lower investment in new supply,” she warned.

