

## **Gabriel Makhoul: Reinforcing resilience, responding to change - priorities for the year ahead**

Speech by Mr Gabriel Makhoul, Governor of the Central Bank of Ireland, to Heads of EU Missions, Dublin, 10 February 2026.

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I would like to welcome you all to the Central Bank of Ireland today<sup>1</sup>. We are delighted to host this gathering of EU Heads of Missions, representatives of our friends and partners from across the EU.

A little over a year ago I had the pleasure to meet with you all.

I spoke then of a geopolitical landscape facing significant strain and complexity; of the rise of economic nationalism and trade disputes; as well as the shift from cooperation to competition, and its impact on our ability to meet the great structural challenges of our times.<sup>2</sup>

While I take no joy in this, the year since then has unfortunately only served to strengthen those reflections.

We are over halfway through a decade which looks set to be a defining one in modern history.

Global pandemics, the return of war to Europe, the rapid advance of artificial intelligence, and the dawn of a changing international order, all unthinkable a decade ago – are now a reality that we need to respond to.

Moreover, while we have been discussing societal shifts, geoeconomic risks, climate change and rapid innovation for a number of years, these profound changes look now to be accelerating. And some of the risks they bring are already crystallising.

If we were in any doubt, 2026 has already seen extreme examples of these changes, be it from global conflict (both armed and economic), continued technological development (including its increasing use and mis-use), not to mention the implications of climate change, with extreme weather events across the globe, including here in Ireland and other parts of Europe.

It is against this backdrop that Member States and institutions of those States need to deliver for their citizens. And it is in the face of this rapidly changing and challenging world that we need to adapt, and that we need to respond.

In remarks today I will set out some reflections on responding to these changes, in particular what it means for domestic policy, what it means for Europe, and what it means for the Central Bank of Ireland.

### **Building economic resilience domestically**

As I outlined in my recent letter to the Tánaiste, this backdrop underlines the ongoing, and increasingly urgent, need to build economic resilience.<sup>3</sup>

The Irish economy and its financial system have shown remarkable resilience in recent years and enter these turbulent times from a strong position.

This includes demonstrating resilience in the face of unprecedented policy uncertainty, heightened volatility and increased geo-economic fragmentation last year, helped in part by the more robust than expected performance of the global economy and financial markets.

But given the size of the headwinds, and the potentially profound nature of the change underway, as well as the fact that they come alongside known challenges and economic vulnerabilities related to a narrow and concentrated tax base and a deficit in infrastructure delivery, there is a need for Ireland to both weather any near-term shocks while strategically orientating policy towards the medium and the long term.

This means maintaining, building and broadening the resilience of the State, of its economy and its financial sector.

In my view this means that domestic economic policy should focus on the following priorities:

- First, **growing the supply side capacity of the economy**, in particular by managing the delivery of necessary infrastructure which is acting as a constraint on sustainable growth;
- Second, **strengthening the indigenous business sector** and its contribution to growth, complementing FDI activity and enhancing the economy's resilience;
- Third, **continuing to build fiscal buffers**, and creating economic space for the necessary increase in investment – by maintaining a prudent fiscal policy and rigorous expenditure control, to manage longer-term challenges;
- Fourth, **supporting household resilience by enabling greater retail participation in financial markets**, while also addressing any barriers to debt and equity finance by domestic businesses; and,
- Fifth, working with others (in the EU and beyond) **to develop a new set of multilateral trading rules** that deliver the certainty and stability that economies and businesses need.

Underpinning all of this is maintaining macroeconomic stability, which remains a prerequisite for a successful economy, through appropriate monetary, fiscal and regulatory policy.

For monetary policy, we will continue to focus resolutely on delivering on our price stability mandate for the euro area as a whole. In an increasingly uncertain world this means continuing to respond to developments in the inflation outlook, while also taking into account surrounding risks and uncertainty, including through the appropriate use of scenario and sensitivity analyses.

For the Government, prudent fiscal policy with a medium-term orientation remains key, avoiding pro-cyclicality and ensuring spending growth is anchored to the economy's sustainable revenue-raising ability.

And regulatory policy needs to continue to promote resilience, including by keeping pace with rapid innovation in finance, while supporting financial markets to work effectively for the wider economy.

## What it means for Europe

Turning to Europe, the seismic structural shifts underway are obviously a huge moment for the continent and for the Union.

This has been recognised by many, as has Europe's tendency to progress through times of crisis. As Jean Monnet famously said, "l'Europe se fera dans les crises et elle sera la somme des solutions apportées à ces crises."<sup>4</sup>

There has been a lot of talk too about how Europe needs to change and, undoubtedly with the world changing fundamentally around us, it is clear we cannot stand still.

But as Victor Hugo wrote, "changez d'avis, maintenez vos principes; changez vos feuilles, gardez intactes vos racines".<sup>5</sup> To paraphrase: change your opinions, but stick to your principles.

These are wise words which should frame how we choose to respond, protecting the Union's roots and identity, while adapting with the times.

For we must not forget the incredible success story that is the European Union and the peace and prosperity it has brought for its Member States. In Ireland we are very clear on this, and Europe's success has been crucial to our own.

In this vein, while the focus can often be on Europe's weakness, and we are undoubtedly facing many challenges, I firmly believe that Europe should act on the basis of its strengths and its potential.

In my view those strengths includes:

- Our **openness**, which we should not forget as we rightly seek to enhance our autonomy. This means a continued commitment to open trade and open financial markets, for resilience in the modern era is unlikely to be found through a lurch towards autarky, but rather through collaboration and embracing strategic diversity.
- Our **market**, which is our single biggest asset, with a potential that is still yet to be fully realised.
- Our **shared values**, including fundamental rights and freedoms and the rule of law, which for me are the bedrock of societal and economic progress and stability.
- And our **shared sovereignty**, through which we show the world that in collective action we increase our individual resilience and our individual strength.

On this last point, as I have said before I firmly believe that Europe is at its best when harnessing the combination of its internal market alongside its international openness, outlook and leadership.<sup>6</sup>

In doing this it has sought through single rule-books, level playing fields, a belief in both the centre and the periphery as well as the equal interest of states big and small, to engender the "seek[ing] of advantage in the common advantage"<sup>7</sup> of strength in our diversity.

These are the very roots we must keep intact as we seek to preserve and forge our place in a potentially very different world.

## **Policy focus – the biggest issues, with the biggest dividends**

So, we should focus on our strengths while being clear-eyed in addressing the areas of greatest potential. And we should be prepared to change our opinions while keeping to our principles.

But if we are to meet this moment I also believe Europe needs to focus on our long term strategic objectives, and the biggest things, that pay the biggest dividends, that we need to deliver them.

There are no shortage of policy options for Europe to take. Indeed many reports from many eminent people have presented a suite of recommendations which we could follow, my former colleague Mario Draghi, and his compatriot Enrico Letta, to name but two.

To be fair, while many of these options sound simple to onlookers, in reality they are not easy. If they were, we would have done them already.

In lieu of lots of low-hanging fruit we must focus on maximising the dividends.

For if our choices are hard, and if they come with costs for some, whether political or economic or indeed ideological, then we should choose those that are most worthwhile, that make the biggest difference.

For this reason, I think we really need to focus and to slay the sacred cows that yield the most meat.

For what it's worth I will touch on three areas which I suggest deserve the greatest attention, while recognising that not everyone will agree with me.

The first, perhaps the easiest, is **trade**, both internal and external, and in both goods and services.

Internal of course means completing the single market, our greatest asset.

In a world where we are advocating against tariffs and trade barriers, we are, simultaneously, putting tariffs on ourselves, in particular in terms of services. The IMF has estimated internal barriers within the Single Market are equivalent to a 45 per cent

tariff on goods and a 110 per cent tariff on services.<sup>8</sup> ECB analysis suggests further deepening of integration could unlock significant economic potential, with estimated welfare gains of up to 1.3 per cent for convergence in the goods sector and up to 1.8 per cent in the service sector.<sup>9</sup>

Clearly we must work to remove such barriers so we can continue to grow Europe, for Europe.

External trade of course must also remain a key priority, and this means continuing to be open, deepening existing agreements and forming new trade partnerships, recognising that the majority of the world continues to believe in a multilateral rules-based trading system.

Second, and relatedly, we must continue **deepening and developing the Savings and Investment Union**. To do this we must also purposefully focus on what matters, in terms of allocating capital for our economies, and serving the needs of our citizens.

While many are focused on who supervises what and where, I don't believe that this is something that we should prioritise but rather that it should be a secondary focus. On the basis of the evidence, we already have a robust regulatory system and high-quality regulators across the financial centres of Europe. While supervision and convergence can always be, and indeed has room to be, improved, for me that is not what we are missing.

Europe's capital markets are often compared unfavourably to the US, and rightly so. But when I look at the ingredients that make up that system, it is not the centrality of their supervisor that stands out. Rather it is their deep and liquid markets underpinned by a large supply of a globally systemic safe asset; it is their high level of retail investor participation, including deep pension pools; and it is a thriving and dynamic economy with businesses which the world wants to invest in.

These are the elements I would suggest Europe should prioritise, again following that balance of developing the internal while remaining open to the world. I would therefore focus on the following three aspects in terms of developing our capital markets:

1. One: Expanding the supply of European safe assets, through exploring ways to develop common or "euro" safe assets. There are many different proposals how to do this, including from my predecessor and colleague Philip Lane, all of which would strengthen the resilience, liquidity and depth of our capital markets and bolster the international role of the Euro.
2. Two: Mobilising our internal capital, in particular through greater retail investment and participation, both in the interests of our citizens and long term household resilience, as well as the financing of our businesses and long term economic resilience. This should include learning from others, including other Member States, and look seriously at reforming pension regimes in ways that would support the triple imperative of deepening our capital markets, enhancing long term fiscal sustainability and helping our citizens and economies manage the demographic challenges that are coming.
3. Three: Increasing the attractiveness of our market to external capital and removing barriers to the flow of capital internally. This involves the dual aim of

making the European economy more investable as well as promoting internal market integration and indeed consolidation, which includes both our capital markets as well as our banking sector.

This last point leads me to the third area I believe we need to prioritise, namely productivity, which, as Paul Krugman told us over thirty years ago, "isn't everything, but, in the long run, it is almost everything".<sup>10</sup> Likewise, here, I think we need to focus on what matters.

Mario Draghi set out a number of areas to address with a clear need for more risk taking, more innovation and more strategic support for our economy. For me it boils down to ensuring we are adapting to the economy of the future, which inevitably means much greater development and adoption of technology, as well as continuing to focus on the transition to a net zero world and the future economic model that implies as Nick Stern set out in his recent book.<sup>11</sup>

In that context, while I welcome the focus on regulatory simplification, we should not pretend that reducing rules *alone* will achieve the productivity gains we need if we are to become more competitive and, indeed, raise our living standards. While improving the effectiveness and efficiency of regulation across the European Union would be a positive initiative, we need to focus on more fundamental issues, such as closing our innovation gap, removing internal barriers and accelerating our decarbonisation.

## **Central Banking in times of change**

Let me touch on what all this means for the Central Bank of Ireland. I'll be brief because I have spoken about this before, and will probably do so again.

The strategy we set out in 2021 was grounded firmly in responding to the external environment we are witnessing today. While the trends we identified have in many ways accelerated, and the horizon we were looking at has closed-in quicker than anticipated, the strategic shift we made to be more open and engaged, more future-focused, and to transform the Central Bank and our approach to our safeguarding mandate, has put us in a strong position to continue to deliver in the face of these challenges.

And indeed the challenges, geoeconomic fragmentation, digitalisation, climate change, and the need to respond to them, cut across all of our mandate from maintaining price and financial stability, and understanding and advising on the economic consequences of these changes, to regulating and supervising the financial sector and ensuring it is resilient and operating in the best interests of consumers and investors.

On this last point, in the next few weeks we will publish our Regulatory and Supervisory priorities, which are set in the context of, among other things, the prevailing risk environment and Ireland's large and increasingly complex financial sector. Our overarching priorities represent a direct response to the extraordinary external environment we are operating in and include (1) maintaining and building resilience to geopolitical risks and macro-financial uncertainties, (2) securing consumer and investor interests in a rapidly changing world, and (3) responding to technology-driven transformations.

We will continue to focus on regulating and supervising well, which includes our integrated supervisory approach, and delivering on our Roadmap to enhance the effectiveness and efficiency of our supervision and domestic regulatory framework, improving gatekeeping processes, and delivering a more integrated and less burdensome reporting and data framework.<sup>12</sup> We will also consult on a new Regulatory Impact Assessment Framework, which will further embed evidence-based policymaking into our processes and support us to ensure the orderly and proper functioning of financial markets. And of course, we are looking forward to supporting the Government in the second half of this year as Ireland takes on the Presidency of the Council of the EU.

Finally, in terms of responding to the external environment, in times like this central banks must tend to their own resilience as critical institutions of the state, the economy and the financial system. This includes financial and operational resilience, with the latter becoming ever more important.

But it also includes institutional resilience which means adapting and responding to change, while also staying firm and resolutely focused on delivering on our important mandates regardless of the external winds and headwinds. This is why, particularly in these testing times, central banks remain fundamental to ensuring monetary and financial stability, and delivering long term stable growth. But this is for a whole other speech (indeed one I will deliver next week!).

## **Conclusion**

Let me conclude there.

We are living through an extraordinary period of change, one that may well define the generations to come. And so we must respond, but by keeping our roots intact while adapting to the times.

Domestically, we need to focus on building economic resilience, reinforcing what's been done already, growing the supply side capacity of the economy, diversifying through strengthening the domestic business sector, and ensuring we are building resilience in both the public and household finances, through appropriate fiscal and financial policy.

In Europe, we should act on the basis of our strengths and our potential. Most of all, we should channel our energies into those areas that pay the biggest dividends. And while being clear-eyed in needing to respond to the changing world we operate in, we should continue to do what Europe does best by balancing the strength of our own market with our openness for others'.

Central banks, including the Central bank of Ireland, need to respond to the challenges ahead by delivering on their mandate while recognising that doing so successfully in a changing world will require us to change as well. We need to recognise the great structural transitions underway and respond appropriately so that we continue to maintain monetary and financial stability, and ensure the financial sector operates in the best interests of consumers and the wider economy.

<sup>1</sup> Thank you to Cian O'Laoide for his help with these remarks and to Vasileios Madouros, Caroline Mehigan and Simon Sloan for their helpful comments

<sup>2</sup> [See Makhoul Remarks at the EU Heads of Mission Meeting Jan 2025](#)

<sup>3</sup> [See Economic Outlook and Regulatory Priorities 2026 Letter from Governor Makhoul to Tánaiste and Minister for Finance](#)

<sup>4</sup> Jean Monnet: *"Europe [is] forged in crises, and [is] the sum of the solutions adopted for those crises"* See: The Journal of Economic History Mémoires, (Paris: Librairie Arthème Fayard) 1976

<sup>5</sup> Victor Hugo: *"Change your opinions, keep to your principles; change your leaves, keep intact your roots"* See: Intellectual Autobiography: Ideas on Literature, Philosophy and Religion

<sup>6</sup> [See Makhoul Meeting Challenges of a Changing Financial System November 2024](#)

<sup>7</sup> See Monnet Memoirs – Jean Monnet

<sup>8</sup> [See IMF Regional Economic Outlook Europe October 2024](#) Opens in new window

<sup>9</sup> [See ECB Economic Bulletin, Issue 8/2025 What is the untapped potential of the EU Single Market?](#) Opens in new window

<sup>10</sup> Paul Krugman, *The Age of Diminished Expectations*, MIT Press (1994)

<sup>11</sup> Nicholas Stern, *The Growth Story of the 21<sup>st</sup> Century*, LSE Press (2025)

<sup>12</sup> [Regulating & Supervising Well – A More Effective and Efficient Framework](#)