Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

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Gobharnóir / Governor

Mr Simon Harris T.D.
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Dear Tánaiste,

ECONOMIC OUTLOOK AND REGULATORY PRIORITIES 2026

As in previous years, I am writing to set out my views on the macro-financial environment, the financial services landscape and the Central Bank's regulatory and supervisory priorities for the year ahead.

The economic outlook

Let me start by setting out my perspectives on the economic outlook, and the associated implications for economic policy. I would summarise these as underlining the ongoing – and increasingly urgent – need to build economic resilience for the economic, geopolitical and societal transitions that Ireland and Europe are facing.

The Irish economy and financial sector start from a strong position. Both demonstrated resilience last year, due in part to the more robust than expected performance of the global economy and financial markets, despite unprecedent policy uncertainty and the acceleration of geopolitical trends and geoeconomic fragmentation.

Over the medium term, and as outlined in our latest Quarterly Bulletin (published on 19 December), the outlook for the economy is being shaped by differing sectoral performances, ongoing structural change, geopolitical tensions and policy actions both at home and abroad.

Multinational sectors that predominantly export are adapting to a changing international environment for trade and investment, and (so far) that adjustment has been relatively benign. Domestic activity signals are more mixed, with data pointing to a slower pace of growth and higher inflation. After several years of operating above potential, momentum in the domestic economy is easing, reflected in lower employment growth and a slower pace of activity. The economy continues to face significant infrastructure constraints, reinforcing the need to improve supply-side conditions and the domestic economy's capacity to deliver sustainable gains in living standards.

The overarching context that our small open economy and large international financial sector are operating in is particularly challenging. The implications of the ongoing transition of the international order and global trade environment are yet to be fully borne out, and indeed this transition has potentially accelerated in recent weeks. In addition, the ongoing structural economic transitions – climate, demography, technology – coming alongside the risks of greater geopolitical conflicts, represent significant downside risks to the financial system and to economic growth.

Building economic resilience

In my view, an appropriate response would be to focus policy-making on building economic resilience. In particular, I suggest the following areas should be considered as priorities:

- growing the supply side capacity of our economy, in particular by managing the delivery of necessary infrastructure (housing, transport, energy, water) which is acting as a constraint on sustainable growth. To that end, I particularly welcome the Accelerating Infrastructure Action Plan;

- strengthening our indigenous business sector and its contribution to growth, complementing FDI activity and enhancing the economy's resilience. A policy focus on fostering domestic business dynamism and investment, including the adoption of new technologies, by indigenous firms will be important in driving this growth alongside continued investment in public infrastructure;

- building fiscal buffers – and creating economic space for the necessary increase in investment – by maintaining a prudent fiscal policy and rigorous expenditure control, to manage both the longer-term challenges that your Department's *Future Forty* report set out, as well as to mitigate the risks from a narrow and over-concentrated tax base;

- in the context of *Future Forty*, supporting household resilience by enabling greater retail participation in financial markets, while also addressing any barriers that exist in the availability of – or capacity to access – debt and equity finance by domestic businesses. I recommend the Ireland for Finance strategy broadens its scope and includes a focus to strengthen the contribution of the internationally-oriented sector in Ireland to financial intermediation in the domestic economy, including greater retail participation;

- working with partners to strengthen Europe's economic infrastructure (the Single Market itself along with deeper and more integrated European financial markets) so that we remove internal barriers and it delivers on its potential; and, as I argued in my remarks at the Royal Irish Academy last month,

- working with others (in the EU and beyond) to develop a new set of multilateral trading rules that deliver the certainty and stability that all successful economies 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.

Supervisory priorities

In terms of the regulation and supervision of the financial sector, our priorities continue to be set in the context of our statutory mandate, our domestic and international responsibilities, the prevailing risk environment and Ireland's large and increasingly complex financial sector.

We will continue to focus on delivering our four interrelated safeguarding outcomes – protection of consumer and investor interests, safety and soundness of regulated entities, integrity of the financial system, financial stability – in the face of an increasingly challenging external environment. The extent of global uncertainties and rapid change mean that risks once considered remote are becoming more likely, necessitating continued vigilance, resilience and agility from the sector.

We have four overarching priorities this year: (1) maintaining and building resilience to geopolitical risks and macro-financial uncertainties, (2) securing consumer and investor interests in a rapidly changing world, (3) responding to technology-driven transformations, and (4) helping to address environmental and societal transitions underway.

More specifically, our priorities for 2026 include:

- continuing to strengthen **the financial sector's operational resilience**, including its ability to manage and respond to severe operational disruptions and provide continuity of services for customers;

- a continuing focus on **maintaining the financial sector's financial resilence** though a range of actions including the assessment of credit, market, liquidity and reserving/provisioning risk exposures and risk management practices (including risk transfer) across and within relevant sectors;

- **ensuring firms have implemented the revised Consumer Protection Code** (which comes into effect in March), while also looking to apply it to all credit union regulated activities from 2027 (with a public consultation process on the proposal currently underway);

- **delivering our responsibilities under the Access to Cash legislation**, including publishing regulations outlining ATM service standards relating to the hours of availability, cash withdrawal limits, and other requirements, as well as our new registration and oversight responsibilities;

- **enhancing the financial sector's safeguards against financial crime**, including how firms support victims of fraud, and raising consumer and investor awareness of frauds and scams while detecting and punishing unauthorised providers and those engaged in market abuse;

- continuing our supervisory work related to **how the sector is embedding climate and other environmental factors** into risk management, business models and governance. This includes assessing firms' responses to the increasing frequency and severity of climate-related weather events.

- **continuing to focus on the use of AI in the financial sector**, including further developing our understanding and expectations for firms, supporting the Government's national transposition and implementation of those aspects of the EU AI Act that fall within our remit;

- continuing our work **on innovation in the financial sector**, including authorisation and supervision of innovative firms, delivering our second thematic Innovation Sandbox programme focussing on payments, as well as setting out our views and seeking feedback on the opportunities from (and implications of) tokenisation in a forthcoming Discussion Paper.

Regulating and supervising well

We will also maintain our commitment to continuous improvement and more effective and efficient regulation and supervision, as set out in my remarks at our Financial System Conference and in the roadmap we published last month ("*Regulating & Supervising well – a more effective and efficient framework*").

This coming year will see the further embedding of our new supervisory approach, implementing the recommendations of the OECD's review of our consumer protection supervision, as well as continuing the substantial work we have done in recent years to improve the efficiency of our gatekeeping activities, while retaining appropriately high standards. We will also consult publicly on a new Regulatory Impact Assessment Framework (to underpin our approach of balancing regulatory effectiveness with efficiency, and ensuring that new rules are designed to be both clear in intent and proportionate in impact).

Working with the Department

As with previous years, a key priority of mine is working well with your Department. With Ireland assuming the Presidency of the Council of the EU in July, we will support you on priority files related to the Digital Euro, Savings and Investment Union, and proposals related to simplification. We will also continue to support the National Financial Literacy Strategy, including through our role on the Executive Board established to progress that Strategy.

Conclusion

The Central Bank's objective remains to serve the public interest by maintaining monetary and financial stability, while ensuring the financial system operates in the best interests of consumers and the wider economy.

We are operating in an increasingly complex, fast-changing and uncertain external environment that presents important challenges to a small open economy, with a large internationally orientated financial sector. We must continue to ensure that our economy, our public finances and our financial sector remains resilient and adapts to these risks.

A strong working relationship between our officials, and strong engagement internationally by our institutions, remains critical to delivering on our collective responsibilities for the people of Ireland.

I look forward to working with you on these and other priorities in the year ahead.

Yours sincerely,

Gabriel Makhlouf

Appendix

LOOKING BACK AT 2025 PRIORITIES

Progress on the Central Bank's financial regulation priorities for 2025 (my letter of 12 February 2025 to the Minister for Finance) included:

- Implementation of our **new integrated supervisory framework**, building on the strong foundations of our existing risk-based, outcomes-focused approach to supervision.[1]
- Launch of the modernised **Consumer Protection Code**, which comes into force in March.
- Implementation of recommendations outlined in the report on **Fitness and Probity Regime**. All of the recommendations were enabled with work focused on embedding and strengthening our approach, ensuring the review is implemented both in practice and in spirit.[2]
- In August 2025, we published the outcome of a consultation paper in relation to **credit union** lending regulations. This brought into effect a number of changes, including increasing the capacity of credit unions to provided mortgages and business loans.
- Successfully concluded the first thematic **Innovation Sandbox Programme** focusing on combatting financial crime. The results validated our conviction that effective regulation requires open engagement with the innovation ecosystem.[3]
- Implemented and operationalised **Markets in Crypto Assets Regulation (MiCAR)**, including successful authorisation of 10 Crypto Asset Services Providers within the 12 month transition period provided for under the legislation.
- Publication of a roadmap to deliver a more **effective and efficient regulatory framework**.[4] This outlined our approach to reduce complexity and improve clarity while maintaining resilience and important protections in the system.
- Contributed **research and analysis** to inform a number of policy areas or gain a better understanding of emerging risks and trends impacting Irish consumers and investors. This

[1] See Our Approach to Supervision (Feb 2025)
[2] See Fitness and Probity Review, Report on Implementation of Recommendations (April 2025).
[3] See Innovation Sandbox Programme, Insights Report (Oct 2025).
[4] See Regulating & Supervising well – a more effective and efficient framework (December 2025).

included initiatives to better understand retail investor participation in Ireland and analysis of new products, such as Buy Now Pay Later.[5]

[5] See (1) Retail Investor Participation in Ireland – Consumer Research and Analysis (Dec 2025) and (2) Who Clicks "Pay Later"? Financial Vulnerability and Buy Now Pay Later Usage (Oct 2025).