

The value of trusted institutions - Governor Gabriel Makhlouf at Čičin-Šain lecture

13 March 2025 Speech



Good morning everyone.

It's a pleasure to be in Zagreb.^[1] It is my first visit to a city that my family has connections to: my parents lived here and in fact my father died here back in 1992. I have never had the opportunity to visit and am pleased to be here with you.

Before I begin today's lecture, I would like to thank the Croatian National Bank (HNB) for organising this special event in honour of the late Dr Ante Čičin-Šain. This is the first lecture since 2018 due to a Covid-enforced hiatus, and as you all know, these lectures provide a focus for discussion and contact between Ireland and Croatia on matters of economic interest, as well as marking Dr Čičin-Šain's unique contribution to fostering trust and furthering relations between the two countries.

It's an honour to be here today to rekindle our special relationship and to deliver this lecture.

Although Ante Čičin-Šain needs no introduction here at the Croatian National Bank, I would like to pay tribute to his career and role he played in developing deep relations between Ireland and Croatia.

As Croatia's first Ambassador to Ireland, he was highly committed to developing Irish-Croatian relations and the two countries have enjoyed a very successful relationship since he took up his role. Prior to becoming Ambassador, Dr Čičin-Šain was of course the first Governor of the independent Croatian National Bank, during a particularly testing time for his country. He brought about monetary independence for Croatia, and successfully introduced a new currency while Governor in the early 1990s.

In his role as Ambassador, he forged relationships and built trust between our two countries and further developed the path for Croatia which ultimately led to the country's accession to the EU in 2013.

Indeed the unique part he played in promoting Croatian-Irish relations was recognised by the Irish Government when, after he had retired as Ambassador, he was appointed Ireland's first Honorary Consul in Zagreb.

The Central Bank of Ireland and the Croatian National Bank have developed a successful relationship together over the past few decades. One significant milestone in our relationship that stands out was the coin that we issued jointly in 2007, commemorating Ivan Meštrović. He was one of five artists who, in 1927 and at the request of Irish poet and Nobel Prize winner William Butler Yeats, drew up the propositions for the design of the first coins of the Irish Free State.

Unfortunately, Meštrović received the request too late but, as Yeats recorded, “Meštrović made one magnificent design and, on discovering that the date had passed, gave it to the Irish Free State with great generosity”. Meštrović's design ('Girl with a Harp') is now used by us at the Central Bank of Ireland as our official seal.^[2]

Institutions and social capital

From coins and seals to institutions. Some of you here today may have been in attendance in Dublin in 2006 when Dr Čičin-Šain delivered the first of these lectures. He spoke about the importance of building relationships between Croatia and the European Union and the role that Ireland played in the development of the Croatian economy. He also spoke about the establishment of Croatian institutions, and in particular the HNB following a particularly turbulent period for your country.

In my remarks today I will focus on institutions. Although my starting point is the broad definition of institutions as the frameworks that societies have designed to structure political, economic, and social interactions, I will concentrate on the institution that I lead. I will discuss the important role that trust and credibility play to ensure that an independent central bank delivers its objectives. And I will also discuss the importance of communicating effectively to maintain and improve trust. Finally, I want to address the challenge of sustaining trust in a world of alternative truths and disinformation bubbles.

Let me start by making some general remarks about the role of social capital in growing the economic capital that ultimately underpins a society's prosperity. As I have argued before, the combination of financial and physical capital, natural capital, human capital and social capital represent the economic capital that supports and enhances a society's wellbeing.^[3] Social capital, in particular, is essential to the success of institutions such as independent central banks whose core functions take place in the public realm.

I think of social capital as “the social connections, attitudes and norms that contribute to societal wellbeing by promoting coordination and collaboration between people and groups in society.”^[4]

Ultimately, social capital is how people connect with one another.

I do not intend to delve deep into the definitional and measurement issues around social capital (that's something for the future). But social capital is essential to what we – central banks – do every day, and why we do it. And, perhaps not surprisingly for a central banker, trust and credibility are the aspects of social capital that I will focus on today.

There is a mutually reinforcing connection between trust and credibility, and a central bank's goals.

If a central bank is credible, and households, firms and the financial sector have high levels of trust in its ability to deliver on its mandate, then arguably it will be easier for it to succeed. Trust is a broader concept, one which captures the public's belief in the goodwill or integrity of a central bank. The public's trust in an institution is linked to whether that institution is delivering public value, via the interconnected stewardship of the authorising environment.^[5] In broad terms, that environment consists of the institutions, structures, process and activities that transform the interests and views of individuals citizens into a 'collective public' that can articulate what is worth taxing, what is worth regulating and what is worth investing in or spending on. In that environment, leaders and staff at those institutions work to build the legitimacy, credibility and support required to sustain a public enterprise over time.

Trust is fragile and relies on “informal norms and social capital”.^[6] It is not a matter of blind faith. It is earned through transparency, accountability and a demonstrated credible commitment to act in, and serve, the best interests of

society.

Here, in Croatia, the creation of the HNB as a strong and independent central bank and regulator was an important step for a young, independent country in the early 1990s.

The HNB became a trusted institution through maintaining financial stability and implementing an independent monetary regime, which enabled stabilisation in a country that had previously been through a long period of economic instability, high inflation and frequent devaluations. Through its macroprudential measures, it protected the economy from the extremes of the global financial crisis and it successfully managed the move to the currency union in 2023.

On the other hand, if a central bank fails to deliver on its mandate, it can affect how credible and trustworthy it is perceived to be. In Ireland, we saw this during the financial crisis, when the lack of a sufficiently robust regulatory environment was identified as a key failure contributing to the collapse of the banking sector.^[7]

It has been a long road back to rebuild trust for the Central Bank of Ireland. There have been significant changes to the powers, structures and mind-sets within our organisation, along with a new macroprudential policy regime, reforms to our regulatory and supervisory approach, and a consumer protection framework that is responsive to emerging risks.

Institutional independence matters

Whether old or new, institutions matter.

Economists from Adam Smith, to Ronald Coase, Mancur Olsen and, more recently, Daron Acemoglu and James Robinson, have explained how institutions are critical for the rule of law, property and civil rights, economic development, economic stability, and solving information and co-ordination problems across communities and societies.^[8] As Andy Haldane put it, the “secret [of institutions] lies in solving societal problems of knowledge, co-ordination and incentives. Institutional memory can help lengthen and strengthen otherwise short and subjective minds.”

Today we find ourselves in a period of geopolitical uncertainty, with the economic landscape facing significant strain and complexity, driven by competing interests, shifting alliances with different values and increasingly independent economic blocs. Although there continues to be a global trend towards enhancing central bank independence – signalling a broad recognition of the importance of independent monetary policy in maintaining economic stability – it is also true to say that established institutions, and their independence and effectiveness, are being challenged.^[9] As ECB President Christine Lagarde said earlier this year, “although *de jure* central bank independence has never been more prevalent than it is today, there is no doubt that *de facto* independence is being called into question in several parts of the world”.^[10]

Ultimately, if we view social capital as a means for how we connect with each other, then it is clear that institutions matter for building social capital. This connection and the role institutions play in social capital is arguably more critical than ever, in a time when the changes brought on by social media have given birth to a period of social disconnection. In particular, algorithms have driven the greater atomisation of society. And they have also enabled the growth of self-reinforcing extremes where established institutional frameworks are being undermined.

Central banks, as important institutions of the State, play a critical role. In my view, and notwithstanding the *de facto* challenges I just mentioned, I believe that there is a general acceptance of the important role that central bank independence plays in helping to keep inflation in check. It is an enabler of society’s expectation that authorities will act in a predictable manner in pursuing their objectives and that they will be successful in their mandate. ^[11] But to continue to have the authorising environment within which to operate independently, we need to continue to have the trust of the public we serve. And we cannot take that trust for granted.

Trust

Trust for a central bank is at the core of enabling effective delivery of its mandate. In today's complex and fast-changing world, the independence of a central bank does not mean it acts in isolation.

It engages with individuals, businesses, the political system, the financial system and many other stakeholders on a daily basis.

And, to be clear, it is trust and not popularity that central banks should strive for.

Being a trusted, independent central bank contributes to the anchoring of inflation expectations and to reduced uncertainty about future inflation. It helps contain short-term incentives and pressure on the central bank and facilitates the achievement of its goals.[\[12\]](#)

Numerous central banks' mission statements, or their codes of conduct, often emphasise the importance of being a trusted central bank. In fact both the Central bank of Ireland and the HNB, as members of the Eurosystem, share a mission statement that attaches "utmost importance to credibility, trust, transparency and accountability."

Trust is important for many dimensions of central banking, and is core to what we do.

Financial stability relies on trusting that the financial system is stable and well-regulated. Trust underpins the very notion of money, and thereby the modern system of money itself. In effect, trust builds resilience in the financial system. And during a financial crisis, a central bank that has widespread public trust as a competent, is likely to find that its actions and communications are viewed as credible and reassuring, increasing their effectiveness.

Needless to say, trust also affects public and financial markets' inflation expectations, an important anchor and determinant of price stability. Monetary policy requires trust – along various dimensions – to keep inflation expectations anchored.

In brief, a central bank that is trusted as having high integrity and whose policies are supported by the public is likely to be less prone to the influence of short-term electoral horizons.[\[13\]](#)

Building and maintaining trust helps to build social capital and helps us to grow our economic capital.

How we can continue to build trust to improve public value?

But building and maintaining trust has become more challenging. I mentioned *de jure* and *de facto* central bank independence earlier. In fact surveys have shown that trust in public institutions has, in general, been on a downward trend.[\[14\]](#) Some of this is a result of the social disconnection I also mentioned earlier, and some of it comes from the ongoing damage of the Global Financial Crisis. There are no doubt other reasons, but I will only mention one of them.

The world of alternative truths and of disinformation bubbles has certainly had a corrosive effect on social capital. In his recent book, Nicholas Carr warns of the dangers of "our frenzied, farcical, information-saturated time".

[\[15\]](#) Algorithms can act as a poisonous accelerant towards a 'post-truth' society. It is a particular challenge for institutions such as central banks that rely on facts, and who sometimes must explain to the public inconvenient truths or the rationale for increasing interest rates, such as to deliver on their objectives. I don't have a solution to this challenge but I do think we need to address it proactively and not be passive in the face of its growing impact.

I suggest central banks need to do a few things:

- First and foremost and self-evidently, we need to do our job well. Nothing can earn trust better than delivering on your mandate to maintain price and financial stability, protect consumers and ensure the financial system works for the real economy;
- We need to be transparent and accountable. And also humble. We need to tell people what we're trying to do and why we're trying to do it. And if we make mistakes, we should own them, fix them and learn from them;

- We should be open to diverse views and be prepared to change our view. Your view may have been right, but when the facts change, you need to recalibrate. Change can strengthen institutions. Or, to put it another way, if you only try to preserve an institution, you may in fact be weakening it;
- We need to be connected to the community as a whole, not least to the households and businesses that live in the real economy and are the ultimate owners of the ‘authorising environment’. We should make efforts to understand which, in my view, will also help us to be understood; and, perhaps, most of all,
- We should place our communication into a coherent narrative that helps understanding. Narratives matter. As Robert Schiller has pointed out, “the spread and dynamics of popular narrative, particularly those of human interest and emotion and how these change over time” have an impact on the economy.^[16] And as I’ve said before, there’s always a narrative and vacuums are always filled, not necessarily by facts that are accurate or benign.^[17]

What’s critical to being trusted is of course the need to demonstrate trustworthiness. It is not simply a matter of asking the public to trust you. Trust is valuable when placed in trusted and credible institutions, but can be damaging or costly when (mis)placed in untrustworthy agents and activities.^[18] The public’s view of a credible public institution is formed, in part, through the competent delivery of its mandate by the institution and its employees. Doing our job well is fundamental to trust: it is what the public sees and feels.

Communicating effectively to improve trust

The importance of both understanding, and being understood, is a critical element of how an institution can strengthen its trust with the public.

At the Central Bank of Ireland, we have placed significant importance on the value of engaging and listening to our various stakeholders, as well as how we are communicating the delivery of our mandate.

How we engage with our communities and our commitment to being open and engaged, focused on transparency, and building genuine connections with the public we serve, matters to us. It allows us to foster a wider understanding of our mandate and role, it enhances the effectiveness of our policy-making and it contributes to maintaining trust and confidence in the financial system.

The changing dynamics of the world in which we inhabit, not least how information is accessed and shared, means that institutions need to evolve if we are going to inform and if we want to be understood. We have to meet the public – in fact all our stakeholders – where they are, rather than hope that they will come back to the old ways of receiving and accessing information. I guess that most of us in this room can remember those old days when we received almost all of our information through broadcast and newspapers.

Those days are gone.

Today, the proliferation of multiple platforms in the social media age has led to multiple ways of being informed – whether accurately or not – and this presents a challenge to us all.

And the onus is on us to meet the challenge. We need to meet people where they are, be it online, through different forms of media, or in person. We have to engage and communicate in ways that are accessible and understandable.

Conclusion

Let me conclude.

We have entered a more uncertain geoeconomic and political environment where social capital will need to be nurtured carefully if it is to make its important contribution to growing our economic capital and enhancing the prosperity of our communities. The integrity and independence of trusted institutions matters more than ever.

Trust is needed for institutions to succeed, and central banks are no different. We need to consider carefully how we can build credibility and trust and sustain it in a world of alternative truths. It's a challenge that I am confident we can meet by doing our job well, by being transparent, humble and accountable, by being connected and open to different views, and by communicating clearly. Perhaps, most of all, we can build and sustain social capital by seeking to understand so that we can also be understood.

[1] Thank you to Vasileios Madouros, Conor O'Shea, Cian O'Laoide and Steven Cull for their help in preparing these remarks.

[2] 75 Years of Change: The Story of the Central Bank of Ireland

[3] Makhlof, Gabriel. [Growing our economic capital: investing in sustainable improvement in our wellbeing](#). Speech at Victoria University Wellington (3 November 2016)

[4] Makhlof, Gabriel. “[Social Capital and the Living Standards Framework](#)”. Address to University of Auckland (27 March 2018)

[5] Understanding Public Value; <https://www.dpmc.govt.nz/sites/default/files/2022-12/understanding-public-value-mark-moore.pdf> (PDF 836.56KB)

[6] Discussion Paper Series: <https://cepr.org/system/files/publication-files/DP19811.pdf>

[7] Resolving Ireland's Banking Crisis by Patrick Honohan

[8] Haldane, Andrew; Address to the Centre for Research on Socio-Cultural Change (CRESC) Annual Conference, School of Oriental and Africa Studies, September 2003 [\(PDF 243.94KB\)](#) [\(PDF 243.94KB\)](#) [Why institutions matter \(more than ever\)](#) [\(PDF 243.94KB\)](#) [\(PDF 243.94KB\)](#)

[9] Trust in Central Bank Independence, David Romelli

[10] Lagarde, Christine. [Central bank independence in an era of volatility](#). Speech at the Lamfalussy Lectures Conference (27 January 2025).

[11] Carstens, Augustín. [Origins and foundations of central bank independence](#) (PDF 420.16KB). Speech at the Bank of Madrid (17 January 2025).

[12] <https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp3006~502710f3fa.en.pdf> (PDF 2.22MB) - ECB working paper

[13] <https://cepr.org/system/files/publication-files/DP19811.pdf> - Aikman, Monti and Zhang

[14] OECD Survey on Drivers of Trust in Public found that across the 30 countries, the share of people with low or no trust in the national government (44%) outweighs the share of those with high or moderately high trust (39%). https://www.oecd.org/en/publications/oecd-survey-on-drivers-of-trust-in-public-institutions-2024-results_9a20554b-en/full-report.html

[15] Carr, Nicholas. *Superbloom: How Technologies of Connection Tear Us Apart*. (W.W.Norton & Co, 2025)

[16] Schiller, Robert. *Narrative Economics* (Cowles Foundation, Yale University 2017)

[17] Makhlof, Gabriel. [Chances, choices and challenges: New Zealand's response to globalisation](#). Lecture at the University of Canterbury (17 August 2017)

[18] <https://www.tandfonline.com/doi/full/10.1080/09672559.2018.1454637?scroll=top&needAccess=true> Linking Trust to Trustworthiness