



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# Central Bank of Ireland **Financial Stability Review 2026:I**



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# Notes

1. Unless otherwise stated, this document refers to data available on 8 May 2026.
2. Unless otherwise stated, the aggregate banking data refer to all credit institutions operating in the Republic of Ireland.

The term “domestic banks” refers to three banks offering retail banking services within the Irish State: Allied Irish Banks plc, The Governor and Company of the Bank of Ireland and Permanent TSB, unless stated otherwise.

3. The following symbols are used:

e	estimate	H	half-year
f	forecast	rhs	right-hand scale
Q	quarter	lhs	left-hand scale

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# Preface

The Central Bank is responsible for maintaining monetary and financial stability and ensuring the financial system works in the interests of the community.

The *Financial Stability Review* evaluates the main risks facing the financial system and assesses the resilience of the financial system to those risks. A resilient financial system is one that is able to provide services to Irish households and businesses, both in good times and in bad. The Central Bank's policy actions seek to ensure that the financial system functions in this manner.

In this first edition of the year, the *Financial Stability Review* focuses on the Central Bank's assessment of the main risks facing the Irish financial system over the short to medium term while taking into account the resilience of the domestic-facing financial system to adverse shocks and the Central Bank's macroprudential policy stance.

Ireland is host to a large and diverse financial sector. A large part of that financial sector serves international clients, with limited direct implications for the domestic economy. This publication focuses on the segments of the financial sector that provide services to Irish households and businesses. This edition of the *Review* includes an In Focus piece on the domestic financial stability implications of developments in AI financing.

The Central Bank is committed to transparency over its judgements around financial stability and uses the *Financial Stability Review* as a key vehicle to explain the policy actions taken, within its mandate, to safeguard financial stability. The publication reflects, and is informed by, the deliberations of the Central Bank's Financial Stability Committee. It focuses on adverse outcomes that may materialise, and their potential implications for domestic financial stability in the event of materialisation, rather than on presenting economic forecasts.

# Overview

Since the last *Review*, risks facing the domestic financial system from the global environment have intensified. The materialisation of a global energy shock will have implications for growth, inflation and financial conditions. While the global financial system has so far been resilient to the shock, and markets have continued to function in an orderly manner, the ultimate impact will depend on the intensity and duration of the conflict in the Middle East.

The potential for multiple risks to materialise simultaneously in this environment has increased. A further escalation in the conflict, or a prolonged supply-chain disruption, could trigger multiple pre-existing vulnerabilities across the financial system, for example high AI valuations combined with debt-driven investments, exposures to the growing private credit market, and continuing liquidity mismatch and high leverage among certain global non-bank financial intermediaries (NBFIs). These financial vulnerabilities exist against a backdrop of declining fiscal space in many countries – limiting their capacity to respond to the energy shock or to prepare for slower-moving structural changes such as climate transition.

Beyond financial risks, cyber risks also continue to intensify amid heightened geopolitical tensions and rapid developments in AI. The evolving cybersecurity threat landscape necessitates continued bolstering of operational resilience capabilities by the financial system to prevent a disruption to core financial services.

The domestic financial system and economy remain resilient but are vulnerable to these elevated external risks. This highlights the importance of preserving resilience to both financial and non-financial risks (including cyber and wider operational disruptions) for domestic financial intermediaries.

Since the last *Review*, risks arising from the global macro-financial environment have increased further. The conflict in the Middle East has created a global energy supply shock, which will have implications for growth, financial conditions and critical global supply chains if it remains unresolved. Even if the crisis resolves in the near term, countries most exposed to the energy shock could face a slower recovery. Despite a series of shocks in recent years, the global economy has remained resilient but continues to adjust and absorb the legacy effects of previous crises. Economic vulnerabilities also remain, as growing global sovereign debt reduces the capacity to deal with potential shocks in the near term and to address long-run growth potential in a more fragmented and volatile geoeconomic environment. Since February, growth outlooks have been revised down, and higher inflationary pressures could lead to higher debt-servicing costs as expected interest rate paths rise. The combination of lower growth and higher inflation would create negative macro-financial feedback effects, testing financial system resilience.

While financial markets have adjusted, valuations remain high and markets are vulnerable to a sharp repricing of risk in the event of a change in the outlook. Global financial conditions have tightened following the escalation of tensions in the Middle East. Financial markets have repriced risk, experienced higher volatility and posted lower returns but overall, the reaction has been contained. Equity markets continue to remain sensitive to AI-related announcements, given the sector's dominance in global indices and concerns on high valuations. Growing recourse to debt financing and circular deals to fund large investment plans within the AI sector create additional financial stability risks. Private and public credit markets are providing finance to software and AI

companies. This creates spillover channels should risks materialise in either sector. Valuation and underwriting concerns have led to a spike in redemptions in some US private credit funds. At a global level, the relative opacity of private credit markets can be a source of vulnerability in and of itself, and global regulators are increasing scrutiny of interlinkages with banks, insurers and other funds.

**Heightened geopolitical risks together with rapid developments in AI have also increased cyber and operational risks.** Increased incidence of cyber-attacks can affect financial institutions directly and indirectly, through third-party service providers, with system-wide and disruptive economic effects. The financial sector must carefully balance the risks and operational benefits of AI and continue to build resilience in this area.

**The domestic financial system is starting from a position of resilience, supported by ongoing domestic growth.** The supportive domestic economic backdrop is expected to continue, albeit with more moderate growth given elevated external risks. Ireland's dependence on international trade and imported energy means that supply-side shocks can have large domestic consequences even when direct exposures to the origin of the shock are limited. A more fragmented geoeconomic environment can also affect supply-chain security, investment flows and the concentration risks associated with multinational activity across tax revenue, employment and economic activity. Consumer confidence has weakened, given elevated uncertainty and further higher costs of living, which could affect future spending. Similarly, private investment could reduce if lower or more volatile revenue forecasts or higher financing costs curb expansionary plans. Irish banks have limited direct exposures to private credit and AI-related investments but would not be immune to second-round effects or a marked domestic economic slowdown.

**A combination of weaker growth and higher inflation could test borrower resilience.** Credit risks could rise in a stagflationary environment through lower real incomes, weaker corporate margins and increasing debt-servicing pressures. Irish households have modest levels of indebtedness, but credit growth has picked up, driven by mortgages. The mortgage measures and prudent commercial lending standards should continue to anchor new lending standards. Some existing borrowers on variable or short-term fixed interest rates are vulnerable to refinancing at higher rates, should shocks materialise. For the corporate sector, the key risk is that a renewed cost shock would weaken profitability at a time when financing conditions might become restrictive.

**Tighter global financing conditions would impact non-bank lenders and real estate institutional investment.** Certain non-bank lenders are sensitive to US economic conditions and developments in global public and private lending markets. Many of these lenders finance SMEs as well as parts of the Irish property market. The housing market continues to expand with ongoing unmet demand. Sustained efforts to increase delivery of new housing units are needed but renewed cost pressures could give rise to challenges. Irish commercial property had entered a recovery phase prior to the outbreak of conflict in the Middle East. This market is highly cyclical, and any domestic economic slowdown combined with lower institutional investment could delay a recovery.

**In an environment of heightened geopolitical and macroeconomic uncertainty, preserving the resilience built up in recent years remains central to safeguarding financial stability.** Continued focus on operational resilience, prudent lending standards and maintaining buffers of loss-absorbing capital and liquidity remain important foundations for limiting the amplification of external shocks through the financial system.

# Réamhrá

Tá an Banc Ceannais freagrach as cobhsaíocht airgeadaíochta agus airgeadais a choimeád ar bun agus as a áirithiú go bhfuil an córas airgeadais ag obair ar mhaithe le leas an phobail.

San *Athbhreithniú ar Chobhsaíocht Airgeadais*, déanaimid measúnú ar na príomhrioscaí atá ann don chóras airgeadais agus ar athléimneacht an chórais airgeadais i leith na rioscaí sin. Is ionann córas airgeadais athléimneach agus córas atá in ann seirbhísí a chur ar fáil do theaghlaigh agus do ghnóthaí Éireannacha le linn tréimhsí maithe agus drochthréimhsí araon. Trína chuid gníomhaíochtaí beartais, féachann an Bhainc Ceannais lena áirithiú go bhfeidhmíonn an córas airgeadais ar an mbealach seo.

Sa chéad eagrán seo den *Athbhreithniú ar Chobhsaíocht Airgeadais* don bhliain seo, díritear ar mheasúnú an Bhainc Ceannais ar na príomhrioscaí atá i ndán do chóras airgeadais na hÉireann sa ghearrthéarma agus sa mheántéarma, agus athléimneacht an chórais airgeadais intíre i leith turraingí díobhálacha mar aon le seasamh beartais macrastuamachta an Bhainc Ceannais á gcur san áireamh.

Tá earnáil mhór ilchineálach airgeadais ann in Éirinn. Freastalaíonn cuid mhór den earnáil airgeadais sin ar chliaint idirnáisiúnta, sa chaoi go mbíonn impleachtaí díreacha teoranta ann don gheilleagar intíre. Díritear san fhoilseachán seo ar na codanna sin den earnáil airgeadais a chuireann seirbhísí ar fáil do theaghlaigh agus do ghnóthaí Éireannacha. San eagrán seo den *Athbhreithniú*, áirítear Alt Béime ar na himpleachtaí a bhíonn ag forbairtí ar mhaoiniú SI don chobhsaíocht airgeadais intíre.

Tá an Banc Ceannais tiomanta do thrédhearcacht a chuid breithnithe maidir le cobhsaíocht airgeadais agus baineann sé úsáid as an bhfoilseachán seo mar mheán tábhachtach chun míniú a thabhairt ar na gníomhaíochtaí beartais a ghlactar laistigh dá shainordú chun cobhsaíocht airgeadais a chosaint. Tá breithnithe an Choiste um Chobhsaíocht Airgeadais de chuid an Bhainc Ceannais mar bhonn eolais don fhoilseachán agus tá léiriú orthu ann. Dírónn an foilseachán ar thorthaí díobhálacha a fhéadfaidh teacht chun cinn agus a gcuid impleachtaí ionchasacha don chobhsaíocht airgeadais intíre i gcás ina dtiocfaidís chun cinn, seachas réamhaisnéisí eacnamaíocha a chur i láthair.

# Forbhreathnú

Ó foilsíodh an tAthbhreithniú deireanach, tá géarú tagtha ar na rioscaí atá ann ón timpeallacht dhomhanda don chóras airgeadais intíre. Beidh impleachtaí ag turraing dhomhanda fuinnimh don fhás, don bhoilsciú agus do dhálaí airgeadais. Cé go bhfuil an córas airgeadais domhanda athléimneach i leith na turrainge go dtí seo, agus go bhfuil margaí ag feidhmiú i gcónaí ar mhodh ordúil, beidh an iarmhairt deiridh ag brath ar dhéine agus ar fhad na coinbhleachta sa Mheánoirthear.

Tá méadú tagtha ar an bhféidearthacht go dtiocfaidh rioscaí iomadúla chun cinn ag an am céanna sa timpeallacht seo. Dá mbeadh géarú ar an gcoinbhleacht, nó dá mbeadh suaitheadh fadtréimhseach ar shlabhraí soláthair, d'fhéadfaí an t-iliomad leochaileachtaí atá ann cheana a spreagadh ar fud an chórais airgeadais, mar shampla luachálacha arda IS i dteannta infheistíochtaí arna spreagadh ag fiachas, neamhchosaintí ar an margadh creidmheasa phríobháideach atá ag dul i méid agus neamhréir leanúnach leachtachta agus gearáil ard i measc idirghabhálaithe airgeadais neamhbhainc áirithe domhanda. Tá na leochaileachtaí airgeadais seo ann i bhfianaise spás fioscach laghdaitheach i roinnt mhaith tíortha - rud a chuireann srian lena gcumas chun freagairt don turraing fuinnimh nó chun ullmhú d'athruithe struchtúracha níos moille amhail an t-athrú aeráide.

Taobh amuigh de rioscaí airgeadais, leanann cibear-rioscaí de bheith ag géarú i bhfianaise teannas geopholaitiúil ardaithe agus forbairtí tapa maidir le IS. Mar gheall ar thimpeallacht na mbagairtí cibearshlánda, is gá leanúint den chumas athléimneachta oibríochtúla a neartú ag an gcóras airgeadais d'fhonn suaitheadh ar sheirbhísí lárnacha airgeadais a sheachaint.

Tá an córas airgeadais agus geilleagar intíre athléimneach i gcónaí agus tá siad leochaileach do na rioscaí seachtracha ardaithe sin. Léiríonn sé seo an tábhacht a bhaineann le hathléimneacht na n-idirghabhálaithe airgeadais intíre a choimirciú i leith rioscaí airgeadais agus neamhairgeadais araon (lena n-áirítear cibearshuaití agus suaití oibríochtúla níos leithne).

Ó foilsíodh an tAthbhreithniú deiridh, tá méadú breise tagtha ar na rioscaí a eascraíonn as an timpeallacht macrairgeadais dhomhanda. Tá turraing soláthair fuinnimh cruthaithe ag an gcoinbhleacht sa Mheánoirthear, agus beidh impleachtaí aici sin don fhás, do dhálaí airgeadais agus do shlabhraí soláthair riachtanacha domhanda mura réitítear í. Fiú má réitítear an ghéarchéim sa ghearrthéarma, seans go mbeidh téarnamh níos moille i gceist sna tíortha sin is mó atá neamhchosanta ar an turraing fuinnimh. D'ainneoin sraith turraingí le blianta beaga anuas, tá an geilleagar domhanda athléimneach i gcónaí ach leanann sé de bheith ag dul in oiriúint d'éifeachtaí leagáide na ngéarchéimeanna roimhe seo agus de na éifeachtaí sin a iompar. Tá leochaileachtaí eacnamaíocha ann i gcónaí freisin de réir mar a laghdaítear an cumas chun déileáil le turraingí ionchasacha sa ghearrthéarma agus chun dul i ngleic le hionchas fadtéarmach fáis i dtimpeallacht gheo-eacnamaíoch níos ilroinnte agus níos leochailí mar gheall ar an bhfiachas méadaitheach ceannasach domhanda. Ó mhí Feabhra i leith, tá athbhreithniú anuas déanta ar ionchais fáis, agus d'fhéadfadh go n-eascródh costais seirbhísithe fiachais níos airde as brúnna boilscitheacha níos airde de réir mar a ardaíonn rátaí úis. Leis an teaglaím d'fhás níos ísle agus de bhoilsciú níos airde, d'fhéadaí iarmhairtí diúltacha aischothaithe macrairgeadais a chruthú, rud a thabharfadh dúshlán d'athléimneacht an chórais airgeadais.

Cé go bhfuil margaí airgeadais tar éis dul in oiriúint do chúrsaí, tá luachálacha ard ann i gcónaí agus beidh margaí leochaileach d'athphraghsáil riosca má bhíonn athrú ar an ionchas. Tá daingniú

tagtha ar dhálaí airgeadais domhanda mar gheall ar an teannas géaraithe sa Mheánoirthear. I gcás na margaí arigeadais, tá athphraghsáil déanta acu ar riosca, tá luaineacht níos airde ag baint leo agus tá torthaí níos ísle fógartha acu ach, tríd is tríd, bhí an fhreagairt srianta. Leanann margaí cothromais de bheith leochaileach i gcónaí d'fhógraí a bhaineann le IS i bhfianaise cheannasacht na hearnála in innéacsanna domhanda agus imní maidir le luachálacha arda. Nuair atáthar ag dul ar iontaobh maoiniú fiachais agus idirbhearta ciorclacha chun pleananna móra infheistíochta a mhaoiniú, cruthaítear rioscaí breise don chobhsaíocht airgeadais. Tá maoiniú á sholáthar ag margaí creidmheasa príobháideacha agus poiblí do chuideachtaí bogearraí agus IS. Cruthaíonn sé seo cainéil iarmhartacha má thagann rioscaí chun cinn in aon cheann den dá earnáil sin. Tá borradh tagtha faoi fhuascailtí i roinnt cistí creidmheasa príobháideacha SA mar gheall ar ábhair imní maidir le luacháil agus frithghealladh. Ar leibhéal domhanda, féadfaidh gur foinse leochaileachta ann féin é doiléire áirithe na margaí creidmheasa príobháideacha, agus tá grinnschrúdú níos mó á dhéanamh ag rialtóirí domhanda ar idirnaisc le bainc, le hárachóirí agus le cistí eile.

**Tá méadú tagtha ar chibear-rioscaí agus ar rioscaí oibríochtúla freisin mar gheall ar rioscaí geopholaitiúla i dteannta forbairtí tapa in IS.** Féadfaidh méadú ar chibearionsaithe difear díreach agus indíreach a dhéanamh d'institiúidí airgeadais, trí sholáthraithe seirbhíse tríú páirtí, agus féadfaidh éifeachtaí eacnamaíocha suaiteacha agus uile-chórais a bheith acu. Ní mór don earnáil airgeadais cothromaíocht a aimsiú idir rioscaí agus buntáistí oibríochtúla IS agus leanúint d'athléimneacht a chothú sa réimse seo.

**Tá an córas airgeadais intíre ag tosú amach ó sheasamh athléimneach agus tá fás intíre leanúnach ag tacú leis.** Meastar go mairfidh an cúlra tacúil eacnamaíoch intíre, ach go mbeidh fás níos measartha ann i bhfianaise na rioscaí seachtracha méadaithe. Ciallaíonn spleáchas na hÉireann ar thrádáil idirnáisiúnta agus ar fhuinneamh allmhairithe go bhféadfaidh móriarmhairtí intíre a bheith ag turraingí soláthair fiú nuair a bhíonn neamhchosaintí díreacha d'fhoinsé na turraingí teoranta i gceist. Ina theannta sin, féadfaidh timpeallacht gheo-eacnamaíoch níos ilroinnte difear a dhéanamh do shlándáil an tslabhra soláthair, do shreafaí infheistíochta agus do rioscaí comhchruinnithe a bhaineann le gníomhaíocht ilnáisiúnta ar fud ioncam cánach, fostaíochta agus gníomhaíocht eacnamaíoch. Tá lagú tagtha ar mhuintir tomhaltóirí i bhfianaise éiginnteacht ardaithe agus costais mhaireachtála níos airde, rud a d'fhéadfadh difear a dhéanamh do chaiteachas amach anseo. Ar an gcaoi chéanna, d'fhéadfadh go mbeadh laghdú ar infheistíocht phríobháideach dá gcuirfeadh réamhaisnéisí ioncaim níos luainí nó costais maoiniúcháin níos airde srian le pleananna forleathnaitheacha. Tá neamhchosaintí díreacha teoranta ag bainc Éireannacha ar chreidmheas príobháideach agus infheistíochtaí a bhaineann le IS ach ní bheidís slán ó éifeachtaí iarmhartacha nó ó mhoilliú suntasacha eacnamaíoch intíre.

**D'fhéadfadh fás níos laige i dteannta boilsciú níos airde dúshlán a thabhairt d'athléimneacht iasachtaithe.** D'fhéadfadh méadú teacht ar rioscaí creidmheasa i dtimpeallacht marbh-bhoilscithe trí bhíthin fíorioncaim níos ísle, corrlaigh chorparáideacha níos ísle agus brúnna seirbhísithe fiachais níos airde. Tá leibhéal mheasartha féichiúnais ag teaghlaigh na hÉireann, ach tá méadú tagtha ar fhás creidmheasa, rud atá á spreagadh ag morgáistí. Ba cheart go leanfadh na bearta morgáiste agus na caighdeáin stuama maidir le hiasachtú tráchtála de bheith mar bhonn faoi na caighdeáin nua maidir le hiasachtú. Tá iasachtaithe reatha áirithe a bhfuil rátaí úis gearrthéarmacha seasta acu leochaileach d'athmhaoiniú ag rátaí níos airde dá dtiocfadh turraingí chun cinn. I gcás na hearnála corparáidí, an príomhriosca atá ann is ea go lagófaí brabúsacht dá dtiocfadh turraingí costais athnuaite chun cinn tráth a bheadh dálaí maoiniúcháin sriantach.

Bheadh iarmhairt ag dálaí maoiniúcháin domhanda níos géire ar iasachtóirí neamhbhainc agus ar infheistíocht institiúideach réadmhaoine. Tá iasachtóirí neamhbhainc áirithe leochaileach do dhálaí eacnamaíocha SA agus d'fhorbairtí i margaí iasachta poiblí agus príobháideacha domhanda. Bíonn FBManna agus codanna eile de mhargadh maoine na hÉireann á maoiniú ag na hiasachtóirí sin. Leanann an margadh tithíochta de bheith ag leathnú le héileamh leanúnach nach bhfuil á shásamh. Is gá iarrachtaí leanúnacha a dhéanamh chun seachadadh aonad tithíochta nua a mhéadú ach d'fhéadfadh dúshlán do na hiarrachtaí sin eascairt as brúnna costais athnuaite. Bhí tréimhse téarnaimh i gceist do mhaoin tráchtála na hÉireann sular thosaigh an choinbhleacht sa Mheánoirthear. Tá an margadh sin thar a bheith timthriallach, agus d'fhéadfadh aon mhoilliú ar an ngeilleagar intíre mar aon le hinfeistíocht institiúideach níos ísle moill a chur ar an téarnamh.

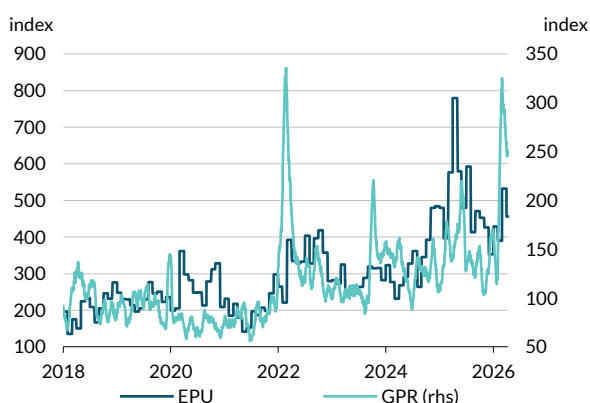
I dtimpeallacht ina bhfuil éiginnteacht ardaithe gheopholaitiúil agus mhaicreacnamaíoch, tá sé ríthábhachtach go gcaomhnófar an athléimneacht atá cothaithe le blianta beaga anuas chun an chobhsaíocht airgeadais a chosaint. Is bunchlocha tábhachtacha i gcónaí iad béim leanúnach ar athléimneacht oibríochtúil, ar chaighdeán stuama maidir le hiasachtú, agus ar mhaoláin caipitil d'iompar cailteanais agus ar mhaoláin leachtachta a choimeád ar bun chun teorainn a chur le méadú ar thurraingí seachtracha tríd an gcóras airgeadais.

# Global risk assessment

Global risks have intensified since the last Review, driven by the war in the Middle East. The global economy has demonstrated notable resilience to a range of shocks in recent years, most recently in the face of a rise in uncertainty due to events such as security tensions over Greenland, ambiguity over the future of NATO and the decision of the US Supreme Court regarding tariffs (Chart 1). However, the unexpected escalation in the conflict in the Middle East towards the end of February poses significant risks to the macro-financial environment, exacerbating existing vulnerabilities in high AI valuations, limited fiscal space, liquidity mismatch and high leverage in global NBFi including private credit. The impact of these developments is made more unpredictable by the already fragile geo-economic backdrop.

**Chart 1: Uncertainty increased on the back of geopolitical developments this year**

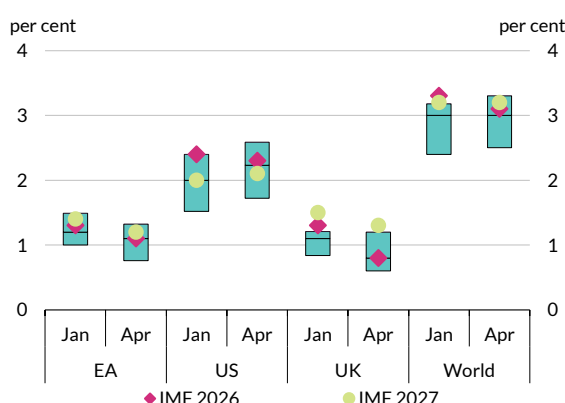
Geopolitical Risk Index and European Economic Policy Uncertainty Index



Source: Baker, Bloom and Davis, Caldara and Iacoviello via Bloomberg. Notes: Global GPR Index is a 30-day moving average with last observation as of 8 May 2026. European Composite EPU Index is monthly with last observation as of April 2026.

**Chart 2: Dispersion in GDP growth projections reflects uncertainty**

Economic growth forecasts for 2026 and 2027



Source: Bloomberg, IMF World Economic Outlook January and April. Notes: The box plots represent the median, 10<sup>th</sup> percentile and 90<sup>th</sup> percentile dispersion of 2026 forecasts from Bloomberg contributors in January and April. The pink diamonds represent IMF WEO forecasts in January and April for 2026. The green dots represent the same for 2027.

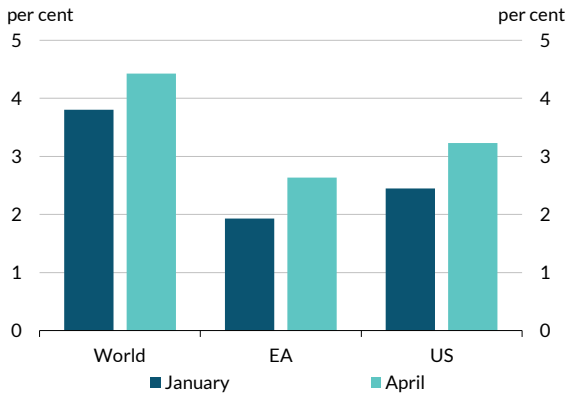
The global outlook has weakened due to the inflationary supply shock caused by the Middle East war. The closure of the Strait of Hormuz, coupled with the destruction of regional infrastructure, constitutes a material supply-side shock. The medium-term growth implications of the shock will depend on the duration of the shock and the damage to infrastructure in the region. Asian and, to a lesser extent, European economies face pronounced vulnerability due to their dependency on critical energy and down-stream product imports. The US, as an energy exporter, is more insulated from these pressures. The latest IMF projections point to weaker global GDP growth than previously projected, with downward revisions for the UK and the euro area for both 2026 and 2027. Furthermore, the dispersion of analyst forecasts for euro area and UK growth has increased (Chart 2). Such uncertainty around the growth outlook could lead to weaker economic output due to delayed private investment, credit tightening or capital misallocation.

The supply-side shock has increased inflation pressures and expectations of tighter monetary policy. The Middle East conflict has triggered substantial inflation surprises (Chart 3), with abrupt price increases in oil, gas and food and emerging shortages of essential commodities, including oil, natural gas, fertilisers and helium. Central banks are expected to tighten monetary policy as energy inflation picks up (Chart 4). Despite weaker demand-side pressures—such as consumption and investment—relative to the 2021-2022 post-Covid recovery, risks to the inflation outlook are

still to the upside. Unexpectedly persistent price growth could necessitate more restrictive monetary policy, with consequent implications for debt servicing capacity and asset price stability.

**Chart 3: Inflation expectations have risen on the back of geopolitical developments**

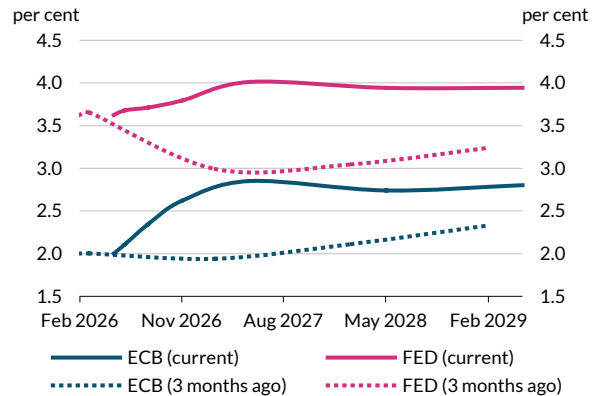
Evolution of inflation outlook for 2026



Source: IMF World Economic Outlook, January and April.

**Chart 4: Markets now expect interest rates to be significantly higher**

Market implied policy rates



Source: Bloomberg and staff calculations.  
Notes: Current refers to 15 May 2026.

**The conflict compounds scarring effects from previous shocks, which resulted in lower GDP growth and higher sovereign debt.** Net debt issuance of many euro area sovereigns has increased in recent years, following a succession of crises such as the 2020 pandemic and the 2022 Russia-Ukraine war, which added to other scarring effects such as lower GDP growth. These crises led to a substantial deviation from the long-term expected debt growth path (Chart 5). After coming down as the pandemic measures eased in 2022, net debt issuance in the euro area increased to around €600 billion annually since late 2023 on the back of new spending needs for defence, infrastructure, digitalisation, climate, etc.

**Increased debt levels will reduce fiscal space to respond to crises and could delay efforts to address structural challenges.** Increased debt levels restrict the fiscal space necessary to deal with any potential new crisis. Furthermore, European governments are already being faced with difficult trade-offs between addressing contemporaneous strategic imperatives, such as alleviating energy costs for households and NFCs, whilst addressing important structural challenges such as digitalisation, defence, ageing populations and climate transition. Paradoxically, any delays to climate transition initiatives could prolong reliance on fossil fuels by slowing the transition to cleaner energy.

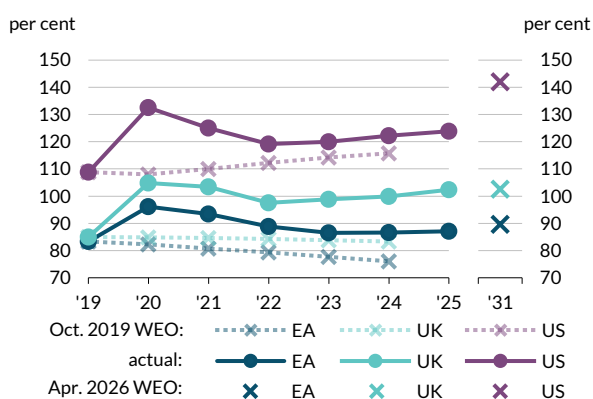
**A deterioration of the US fiscal position could raise risk premia and tighten financial conditions globally.** US sovereign indebtedness is projected to increase steadily over the next decade. The cost of servicing this debt has also risen, from just over \$400 billion in the fiscal year 2015 to over \$1.2 trillion in 2025. Debt servicing has grown particularly since the pandemic. The largest increases in these costs are found in the servicing of short-term bills and medium-term notes, as the share of securities with a maturity of 6 months or less has increased substantially. Debt sustainability pressures could lead investors to demand higher risk premia. Higher Treasury yields have a strong impact on financial conditions globally as Treasuries serve as a benchmark for dollar funding.

**Volatility in equity and bond markets has increased since the start of the year but overall market functioning has remained orderly.** Equity and bond market volatility has jumped since the onset of conflict in the Middle East with the VIX, VSTOXX and MOVE indices reaching levels not seen since the tariff announcements in April 2025 (Chart 6). However, markets have continued to behave in

an orderly manner throughout the conflict. In currency markets, the USD appreciated during the increased market volatility, in contrast to its weakening during trade tensions last year. Furthermore, US markets have demonstrated greater resilience than Asian and European counterparts during the conflict. They have experienced smaller declines during sell-offs and stronger recoveries following positive ceasefire developments.

**Chart 5: Sovereign debt levels have risen well above their originally projected levels as successive crises resulted in expansionary fiscal policy**

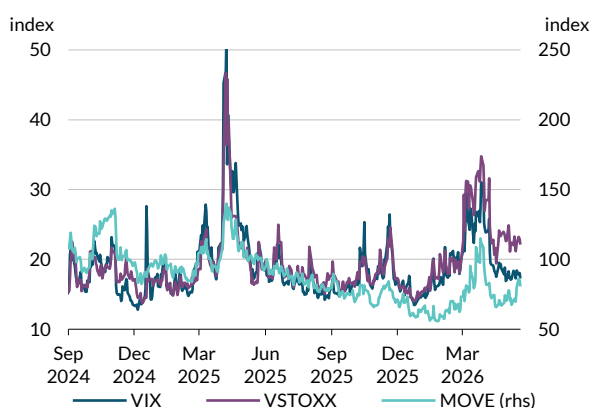
Actual sovereign debt-to-GDP versus IMF projections



Source: IMF WEO via Haver Analytics.  
Notes: Faded lines with asterisks represent the October 2019 WEO forecasts through to 2024. Forecast for 2031 from the April 2026 WEO.

**Chart 6: Geopolitical developments have triggered market volatility**

VIX, VSTOXX, MOVE indices



Source: Bloomberg.  
Notes: The VIX index measures 30-day expected equity market volatility of the US stock market while the VSTOXX index measures 30-day equity market volatility based on the EuroStoxx 50 index. The MOVE index measures expected bond market volatility by tracking US Treasury options. Last observation 20 May 2026.

**Elevated valuations and debt-funded investment concentrated in a small number of AI companies pose financial stability vulnerabilities.** Despite recent volatility, valuations and market concentration in US equity markets remain elevated, primarily driven by a small number of AI-related companies (Chart 7). Significant capital investment and expectations for future earnings in these companies have been driving equity market growth, with expectations that productivity gains will represent an increasingly important contribution to general economic performance. However, several financial stability risk narratives are emerging, including the risk that earnings will underperform these expectations or that successful AI adoption will make certain business models obsolete. Moreover, AI capital expenditure is increasingly debt funded, which makes it more vulnerable to increasing interest rates and negative earnings surprises; and increases the financial stability risks (see *In Focus: AI*).

**Market repricing could be triggered if the positive scenarios that are currently priced do not materialise.** Recent sharp price fluctuations demonstrate the large and immediate influence of developments related to the conflict in the Middle East on equity markets. However, investors are currently looking through the uncertainty surrounding a wide range of policy and war outcomes. Recent successive shocks have not led to a disorderly correction and strong earnings growth has continued in the US market. A Middle East escalation could spark a sharp asset repricing through multiple channels—energy price spikes, supply chain disruptions and rising interest rates—with these factors potentially amplifying each other across asset classes.

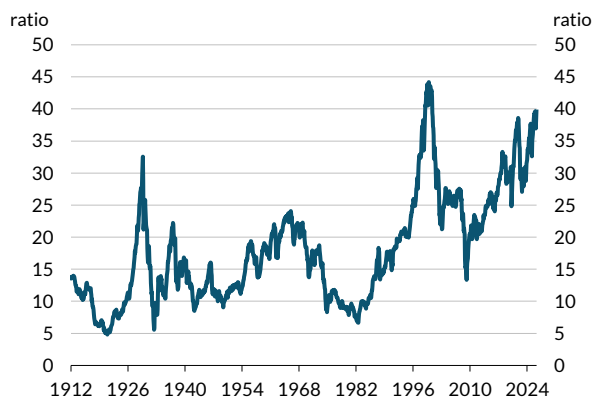
**Credit spreads remain compressed despite recent widening and could reverse in response to an upwards policy rate path and a slowdown in growth.** Credit spreads widened this year but still remained at highly compressed levels relative to long term standards.<sup>1</sup> Historically tight spreads

<sup>1</sup> In 2026, high yield bond spreads increased 71 bps in the euro area and 65 bps in the US, to their peaks since Q2 2025.

could indicate an under-pricing of risk, disconnected from elevated geopolitical uncertainty.<sup>2</sup> If economic growth slows or if interest rates rise in response to an inflationary shock, this could increase refinancing costs and tighten financial conditions, prompting a repricing of credit risk.

**Chart 7: Some S&P500 valuation measures are at historically elevated levels**

Shiller Price Earnings Ratio of S&P500

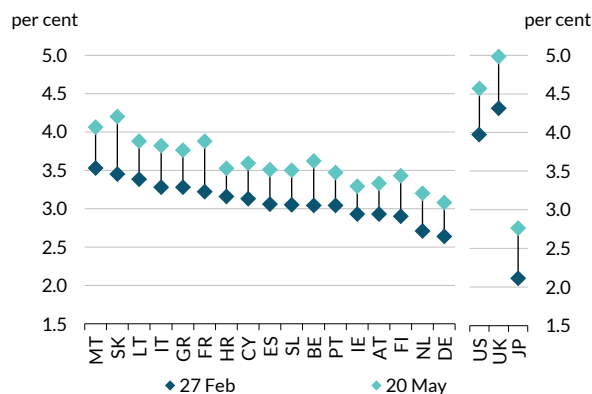


Source: Robert J. Shiller.

Notes: The Shiller PE Ratio is also known as the Cyclically Adjusted Price Earnings (CAPE) Ratio. Last observation May 2026.

**Chart 8: Sovereign yields have increased following the start of the Middle East conflict**

10-year sovereign yields



Source: LSEG/National Central Banks/US Treasury via Haver Analytics, authors' calculations.

Notes: BG, EE, LU and LV omitted due to a lack of data.

Despite recent resilience, vulnerabilities amongst some cohorts of non-bank financial intermediaries could lead to the amplification of a market shock to the real economy and wider financial system. There has been no evidence of significant disruption in non-bank financial intermediaries in the face of recent volatility in financial markets. However, vulnerabilities related to high leverage and liquidity transformation persist in certain cohorts. When combined with concentrated exposures, high valuations and strong interconnectedness with the banking sector, these vulnerabilities could lead to shocks being amplified and/or transmitted to the wider financial system and real economy. For example, highly leveraged global hedge funds have the potential to amplify a shock by withdrawing liquidity and/or actively selling into a bearish (sovereign debt) market.<sup>3</sup>

Sovereign yields have risen due to concerns that the Middle East conflict could increase inflation and debt levels. Sovereign yields have begun to diverge as the increase in hostilities in the Middle East led to renewed worries about inflation and debt sustainability (Chart 8). Yields on 10-year securities increased to multi-year highs for some countries as markets started pricing in various rate hiking scenarios. This can have knock-on effects on broader asset pricing as well as economic growth more generally. The sovereign-bank nexus in the euro area remains sizable.

Private credit is playing an increasingly important role in credit supply, but its risks require continued monitoring. Global private credit has expanded significantly, with its AUM growing five-fold between 2009 and mid-2024, reaching an estimated \$2 trillion.<sup>4</sup> As the bulk of private credit is originated in the US, direct systemic risks to the euro area financial system appear limited. The primary investors—international insurers and pension funds—typically possess substantial risk-bearing capacity.<sup>5</sup> While private credit can contribute to a competitive and diverse lending landscape in the euro area, concerns remain regarding its opacity and uncertainty regarding asset

<sup>2</sup> In 2025, the premium for investment grade corporate bonds over government debt reached lows not seen in the US and euro area since 1998 and 2008, respectively.

<sup>3</sup> An assessment of financial stability risks in Irish domiciled hedge funds found limited market footprint in sovereign bond markets. See [Fragkou et al. 2026, Central Bank of Ireland](#).

<sup>4</sup> See [Berrospide et al. \(2025\)](#).

<sup>5</sup> ECB (2025) [Private markets: risks and benefits from financial diversification in the euro area](#).

quality, valuations and rating practices. Such concerns are heightened where there are liquidity mismatch and/or growing linkages with other sectors, including banks and households.

**Liquidity mismatches and redemption pressures in private credit funds pose emerging risks to financial stability, with potential spillover effects across credit markets.** January 2026 witnessed somewhat of a reversal of investor sentiment towards private credit. This reversal reflected mounting concerns around asset quality, valuations and liquidity at certain private credit funds. Investors are focussing on exposures to companies facing risks of disruption from AI, notably in software and services. These vulnerabilities have been evident in the underperformance of publicly listed companies with strong links to private capital (Chart 9). Furthermore, Q1 2026 saw a surge in redemption requests in US private credit funds as investors look to withdraw funds. These requests were partially managed by imposing withdrawal restrictions to preserve fund liquidity.<sup>6</sup> However, concerns remain over liquidity mismatch in private credit funds, with funds offering frequent access to funds for investors while holding mainly illiquid assets (loans). Large redemptions in the private credit sector may spill over to other credit markets including leveraged loans, high-yield bond funds etc. which may impact the wider financial system.

**Direct private credit exposures in the Irish-domiciled financial sector remain modest.** Defining private credit exposures uniformly across sectors remains challenging in the absence of a universally accepted definition. Standard regulatory reporting by firms does not clearly segregate loans or investments connected to private credit. The Financial Stability Board (FSB) defines private credit as lending by non-bank entities to middle-market companies through bilateral or privately negotiated structured finance arrangements. Broadly syndicated loans, collateralised loan obligations (CLOs), and asset-backed finance are often associated with the private credit ecosystem but are not part of the direct exposure definition. Focussing on the exposures related to middle-market companies, staff analysis suggests that direct private credit exposures among Irish banks appear limited and is estimated at less than 1% of total assets<sup>7</sup>. Direct exposures of insurance firms, and investment funds also appear limited relative to non-linked investment portfolios, and net asset value respectively. This suggests that while private credit has grown substantially in the US, its growth in the Irish financial sectors has been more modest to date. Moreover, Ireland's private credit fund sector, valued at €70bn in 2024 of which €1bn is issued to Irish borrowers, is characterised by closed-ended entities or structures with limited withdrawal opportunities for investors.<sup>8</sup>

**Geopolitical tensions are converging with AI innovation to create new vulnerabilities in essential digital services, with potential implications for financial stability.** Heightened geopolitical tensions are increasingly threatening essential digital services, as demonstrated by recent attacks on critical infrastructure in the US and the medical technology company Stryker.<sup>9</sup> Frontier AI models are being developed that have the capability to identify and exploit vulnerabilities in systems (Chart 10), enabling faster and larger-scale cyber-attacks. These tools can also be used by defenders to detect and remediate vulnerabilities, highlighting that AI itself is both an evolving threat and a vital defence mechanism.<sup>10</sup> AI-enabled cyber threats could potentially pose particular

<sup>6</sup> For example, an [FT article](#) highlights that - in Q1-2026 - sixteen US private credit funds saw USD 19 billion redemption requests, or 7.2% of AUM. To preserve their liquidity, funds used redemption restrictions and met half of such requests. Blue Owl Capital restricted withdrawals after particularly elevated redemptions.

<sup>7</sup> The use of different definitions for private credit could potentially change the quantification of exposures significantly, while the inconsistent definition across various financial returns makes comparison across sectors difficult.

<sup>8</sup> See FSR H2 2025 Box C [New insights on Irish-authorized private credit funds](#).

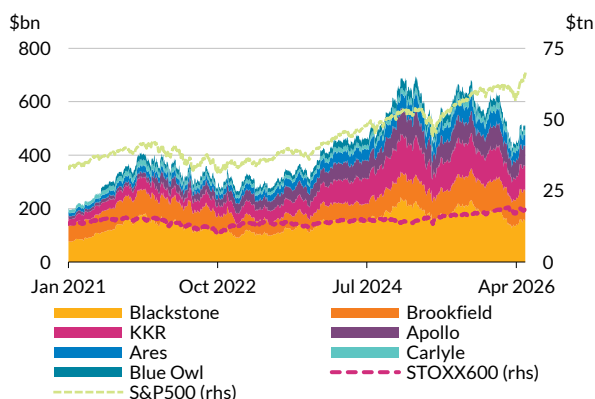
<sup>9</sup> See [EPA, FBI, CISA, NSA Issue Joint Cybersecurity Advisory to Water System Regarding Iranian-Affiliated Cyber Attacks](#), and RTE, [Stryker's Cork base impacted by global cyber attack](#).

<sup>10</sup> See IMF Blog, [Financial Stability Risks Mount as Artificial Intelligence Fuels Cyberattacks](#).

risks to financial stability as they are systemic, borderless and can spread across the financial and other sectors. Their impact can be amplified when multiple institutions rely on common third-party providers for systems or services (for example, software or cloud providers). Furthermore, geographic concentration of AI providers outside of the EU could potentially limit access for EU financial institutions to defensive tools and capabilities.

**Chart 9: Private credit valuations declined recently as private market investor sentiment deteriorated amid elevated uncertainty**

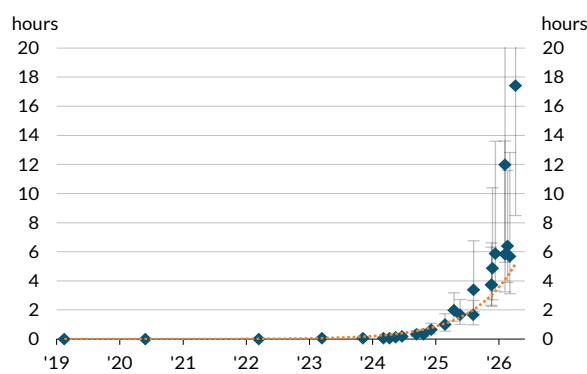
Market capitalisation of leading private credit managers, S&P 500 and STOXX 600



Source: Bloomberg.  
Notes: Last observation 8 May 2026.

**Chart 10: AI models are becoming increasingly capable of performing complicated tasks in short periods of time**

Human Expert hours needed to achieve what an AI agent succeeds at 50 per cent of the time



Source: Model Evaluation & Threat Research (METR).  
Notes: The x-axis shows the date of release of each AI agent tested in this benchmark. The y-axis shows the number of hours an expert would require to perform a task that an AI agent can also complete 50 per cent of the time. 95 per cent confidence interval shown with whiskers. Some upper bounds of confidence intervals go well beyond the y-scale shown. The chart does not reference the time it takes the AI agents to complete the tasks. Trend is shown using an orange dashed line.

**The Irish financial system continues to face growing cyber risks requiring strengthened resilience across the sector.**

Building on the financial sectors’ work to date on operational resilience, including following the introduction of DORA, firms should remain vigilant to ensure they have appropriate levels of resilience to respond to this step-change in cyber risk. While there is no evidence to date of a material increase in incidents affecting the domestic financial system, the combination of higher geopolitical tensions and known vulnerabilities across firms and third-party service providers warrants continued vigilance. Risks may arise not only through direct attacks on financial entities but also through service providers, subcontractors and group-wide dependencies. It is a key priority that firms get the fundamentals of cyber defence and resilience to the required levels, bolstering their systematic and programmatic capability to keep up with rapidly evolving technologies.

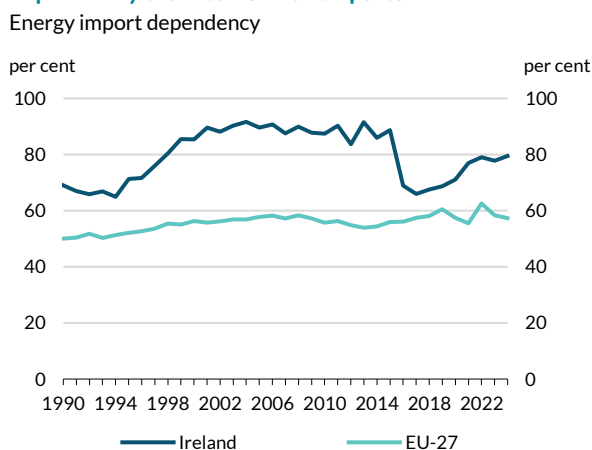
**AI-related cyber risks are increasingly in focus.** The NCSC’s 2025 National Cyber Risk Assessment identifies evolving technology and its security implications as one of three key systemic cyber risks, alongside the geopolitical environment and supply-chain security.<sup>11</sup> For financial firms, the most relevant channels are likely to be the use of AI to increase the scale and credibility of social engineering, online fraud and ransomware activity. Interlinkages in operational vulnerabilities are also increasing as the same AI tools are adopted within firms and by their third-party service providers. These risks reinforce the need for strong governance of AI-enabled systems, secure procurement and vendor oversight, effective monitoring and incident response, and continued investment in operational resilience.

<sup>11</sup> See [NCSC 2025 National Cyber Risk Assessment, December 2025](#).

# Domestic risk assessment

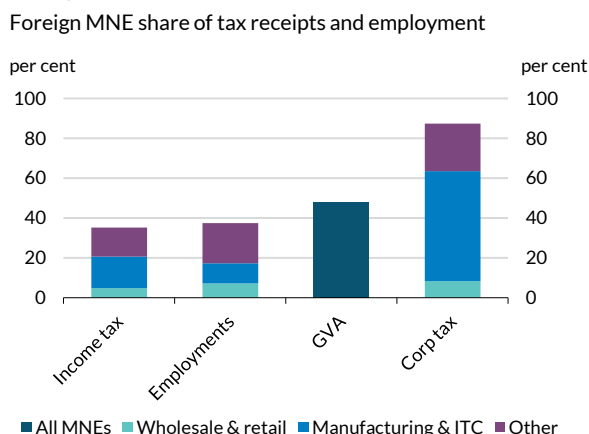
Risks to the Irish economy and financial system have increased amidst a more uncertain external environment. The main near-term macro-financial risk is that a prolonged period of higher energy prices, renewed supply-side inflation and weaker external demand would erode real incomes and weigh on investment, increasing debt-servicing pressures for households and firms (*Risks: Global*). As a small open economy dependent on imported energy and US FDI, Ireland is particularly exposed to shifts in energy pricing, global trade and investment conditions (Chart 11). Significant shares of both income and corporate tax receipts, employment, and gross value added in the economy are accounted for by foreign MNEs (Chart 12).

**Chart 11: Ireland has higher energy import dependency than its EU counterparts**



Source: Eurostat.  
Notes: Latest data 2024.

**Chart 12: Government tax receipts are reliant on MNEs**



Source: CSO, The Revenue Commissioners and Central Bank of Ireland calculations.  
Notes: Data for MNE activity and GVA are for 2024. GVA relates to non-EU owned MNEs' GVA as a percentage of economy wide total.

The Central Bank's latest baseline macroeconomic projections point to continued domestic growth, but at a slower pace than in 2025 and with less room to absorb shocks. Modified Domestic Demand (MDD) saw robust growth in 2025, rising by 4.9 per cent, but is forecast to slow to a more moderate pace in the next period. The labour market is normalising as the period of considerable tightness begins to abate. The baseline is for employment growth to ease to below but close to 2 per cent per annum out to 2028, with unemployment remaining close to, but above, 5 per cent. This does not signal a sharp deterioration in labour market conditions, but it does imply a reduced capacity of labour income growth to cushion the effect of higher inflation on household finances compared with recent years. Prior to the start of the conflict in the Middle East, inflation was moderating from earlier peaks. However, the outlook has become less benign, and inflation is forecast to remain at or above 2 per cent in the coming years.

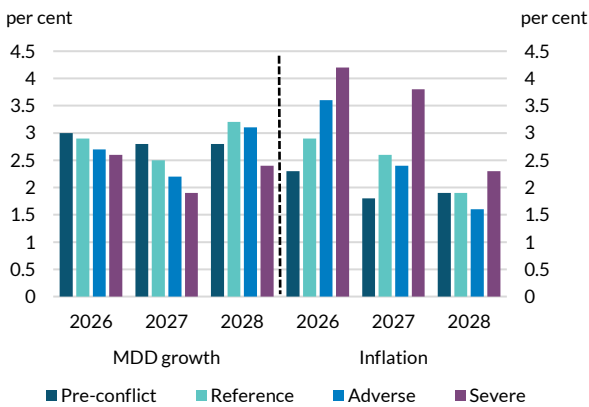
The outlook remains sensitive to developments in international energy markets, with alternative scenarios highlighting material downside risks to growth and upside risks to inflation. Relative to the final quarter of 2025, benchmark oil futures markets prices are approximately 55 per cent higher and benchmark gas approximately 50 per cent higher, with these increases already weighing on the baseline forecasts for growth through weaker household real incomes and softer consumption. The high level of uncertainty about the intensity and duration of the current energy shock requires a flexible forecasting approach. In addition to the baseline forecasts, the Central Bank has simulated adverse and severe scenarios (Chart 13). In these scenarios MDD at the end of the forecasting horizon would be approximately 1.8 percentage points lower than the baseline

projections, a meaningful deterioration in the economic outlook. The scenarios also suggest that HICP inflation could be 4.2 per cent in 2026 and 3.8 per cent in 2027. For Ireland, as an energy importer, such an outcome would amount to a significant adverse terms-of-trade shock, weakening real incomes, raising business costs and increasing the risk of a more stagflationary macro-financial environment. Higher energy prices for a prolonged period would raise inflation directly and, through transport, intermediate input, and distribution costs put pressure on a much wider set of prices. A continued rise of international food commodity prices will affect cohorts along the income distribution in line with the prevalence food products in each household’s consumption basket. If monetary policy expectations were to tighten further in response, financing conditions would remain restrictive for longer.

The outlook for growth will be considerably impacted if financial conditions tighten further in the case of a prolonged inflationary shock. Risks to the economic outlook have increased. If the inflationary outlook deteriorates further, financial conditions can be expected to tighten considerably. Such a deterioration in the financial environment for households, firms, and the government will lead to considerably worse economic growth outcomes. The Central Bank’s Growth at Risk model estimates that if financial conditions were to tighten as much as they did in the wake of the 2022 energy crisis in Europe, the distribution of possible growth outcomes shifts significantly lower and the magnitude and probability of a recession increases considerably (Chart 14).

**Chart 13: Energy price scenarios imply higher inflation and lower growth than the baseline**

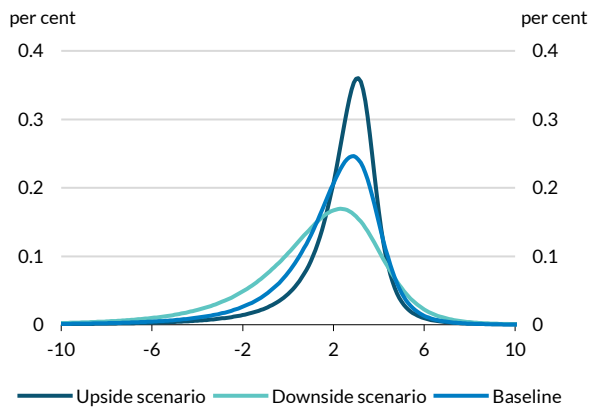
Evolution of inflation and growth forecasts



Source: Central Bank of Ireland calculations.  
 Notes: Data are the Central Bank’s forecast for Irish Inflation and MDD as reported in the [Quarterly Bulletin No.1 2026](#). Pre-conflict scenario refers to baseline forecasts in the [Quarterly Bulletin No. 4 2025](#).

**Chart 14: Expected growth outcomes deteriorate considerably if financial conditions were to tighten**

Evolution of growth forecasts dependent upon financial conditions



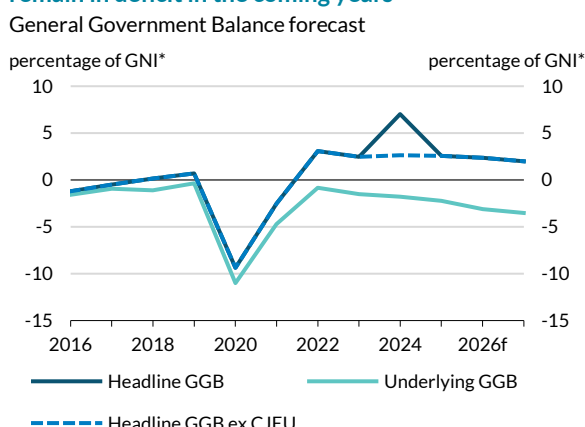
Source: Central Bank of Ireland calculations.  
 Notes: Data are the Central Bank’s forecast for MDD growth as reported in the [Quarterly Bulletin](#). The baseline reflects the 1-year ahead MDD forecast growth distribution for 2026Q4. The downside scenario reflects a prolonged 1 standard deviation increase (deterioration) in the reported 2025Q4 value of the model’s financial conditions indicator (Irish Composite Stress Index (ICSI)). The upside scenario reflects a sustained 0.5 standard deviation reduction (easing) in the ICSI. Baseline GaR tail risk is estimated at -1.6 per cent growth rate (5<sup>th</sup> percentile forecast). In the downside scenario this deteriorates to -2.7 per cent. In the upside scenario it eases to -0.7 per cent growth rate.

The fiscal position of the Irish government remains favourable in headline terms, but underlying vulnerabilities are increasing. Strong tax receipts, and in particular buoyant corporation tax revenues, have supported successive budget surpluses and improved the headline public finance position. The underlying general government balance remains weaker, however, once excess corporation tax receipts are excluded and is projected to remain in deficit over the coming years

(Chart 15).<sup>12</sup> This would leave the State exposed to the risk that a deterioration in global conditions, or a shock affecting multinational activity, would result in a sharp shortfall in revenues. It also means that the room for broad-based fiscal support in response to a new energy or inflation shock is more limited than headline balances alone may suggest. While globally the composition and trajectory of government debt is under increased scrutiny (see *Risks: Global*), Irish sovereign 10-year yields have increased only modestly and spreads to benchmarks remain within their well-established low range (Chart 16).

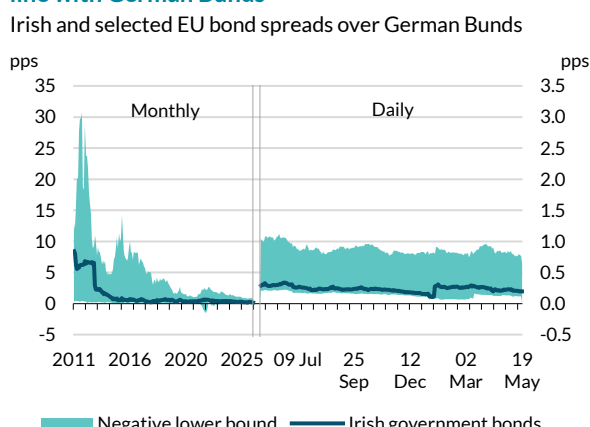
**In this environment, fiscal supports to affected sectors of the economy should balance benefits with potential costs.** Temporary and targeted income supports aimed at the most vulnerable households and businesses can help mitigate the distributional consequences of higher energy and food prices without adding materially to demand pressures or undermining fiscal sustainability. By contrast, broad, untargeted, and not time-limited measures could unduly sustain inflationary pressures, potentially forcing monetary policy to tighten more than it otherwise would<sup>13</sup>. Additional measures should be funded from existing budgetary allocations. Sustainable fiscal policy therefore remains an important component of broader macro-financial resilience, not only in responding to immediate challenges but also in preserving capacity to respond to future shocks.

**Chart 15: Underlying budget balance is projected to remain in deficit in the coming years**



Source: CSO and Central Bank of Ireland.  
 Notes: The underlying GGB excludes Central Bank estimates of excess corporation tax and receipts from the CJEU (Court of Justice of EU) ruling on Apple State Aid case. See [Quarterly Bulletin No. 1 2026](#).

**Chart 16: Irish sovereign debt continues to trade in line with German Bunds**



Source: Bloomberg.  
 Notes: Data are for a time-varying range of 16 EU Member States. Left pane shows month-end values for period June 2010 to May 2026. The right pane shows daily data for the past year. Last observation 19 May.

**The resilience of households has remained broadly intact, but some existing borrowers are vulnerable to a combination of higher living costs, higher borrowing costs and weaker labour income growth.** Aggregate household balance sheets have continued to benefit from rising nominal incomes over recent years, and accumulated savings and wealth. Since the start of the interest rate rising cycle in 2022, the adjustment to higher repayment burdens has been manageable. However, if mortgage interest rates were to rise in the case of a prolonged energy and inflation shock, the debt servicing costs of households would rise for the majority (two-thirds) of borrowers that are currently either on variable rate mortgages or in fixed rate contracts that expire within the next 2 years (Chart 17). Non-performing loan rates remain low in aggregate and have declined from their crisis-era levels (Chart 18), but pockets of vulnerability remain. Earlier increases in mortgage arrears were concentrated among legacy borrowers, including pre-crisis cohorts and those with a previous history of repayment difficulty. This points to the importance of

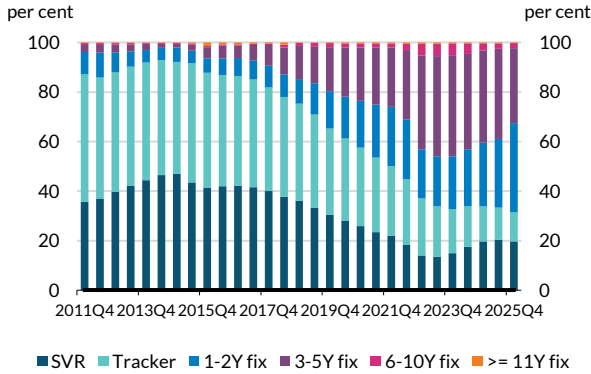
<sup>12</sup> See [Financial Stability Review, Central Bank of Ireland, 2025:I](#) and [IFAC-Budgeting like there's no tomorrow, Fiscal Assessment Report, November 2025](#).

<sup>13</sup> See [The energy shock: where we stand and what we need to know, Christine Lagarde, 20 April 2026](#).

looking in detail at the different cohorts of borrowers when assessing risks from a renewed shock. While the household sector as a whole appears resilient, stress is unlikely to be evenly distributed.

**Chart 17: Many mortgaged households face fixed rate expirations over the next two years**

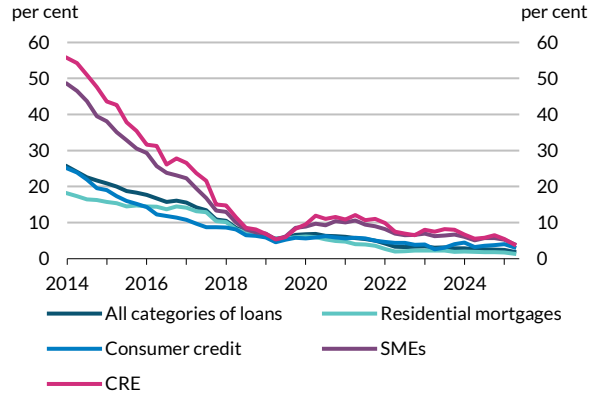
Domestic banks' PDH mortgage balances by interest rate repayment type and fixation length



Source: Central Bank of Ireland.  
Notes: 1-2 Y Fix provides the share of loans whose fixed period end date will expire within 1-2 years. Similar for 3-5 Y Fix and 6-10 Y Fix. >=11YFix includes the small share of mortgages that are fixed until maturity. Last observation 2025Q4.

**Chart 18: Non-performing loans at domestic banks remain low across all loan categories**

NPL ratios by loan type

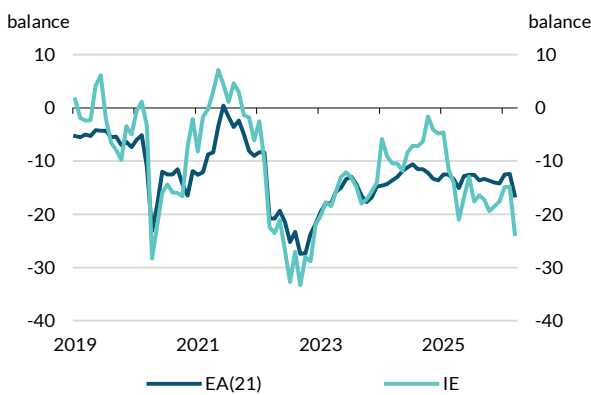


Source: Central Bank of Ireland.  
Notes: Last observation 2025Q4.

Consumer spending would be affected by the interaction of higher debt-servicing costs, economic uncertainty and more costly essential expenditure. Higher expected inflation might already be weighing on consumer behaviour. The consumer sentiment survey suggests that households are particularly concerned in relation to future spending plans (Chart 19)<sup>14</sup>. Fuel and transport costs make up approximately a fifth of household weekly expenditure. The addition of housing and food-related expenditures raises this cumulative share to approximately 60 per cent (Chart 20). The impact of a persistent rise in inflation would be most acute for lower-income and more indebted households, and for borrowers with limited liquid savings. Recent evidence<sup>15</sup> suggests that most households came through the earlier inflation and interest rate shocks in a resilient position, helped by employment growth, wage increases and Government supports.

**Chart 19: Consumer confidence has fallen further since the start of the Middle East conflict**

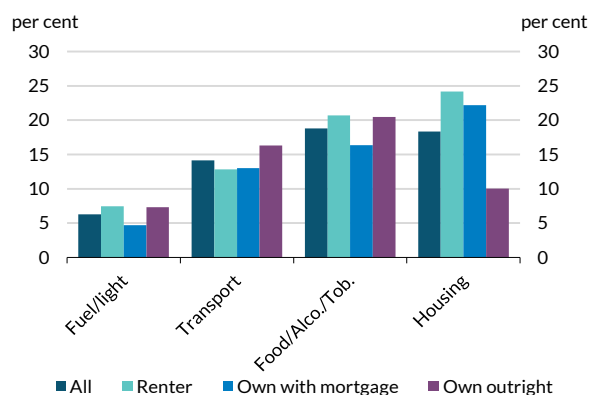
Consumer confidence indicator: Euro area and Ireland



Source: Eurostat.  
Notes: Last observation March 2026.

**Chart 20: Approximately a fifth of household weekly expenditure is on fuel and transport**

Key categories of household weekly expenditure



Source: CSO Household Budget Survey.  
Notes: The share of average weekly household expenditure by item and housing tenure in the period 2022-2023.

<sup>14</sup> The relationship between consumer sentiment and the purchasing behaviour of households has evolved in recent years, with some weakening of this relationship in some jurisdictions.

<sup>15</sup> See [Pratap Singh, A. and F. Yao, 2025, Household Resilience to Current Income and Cost-of-Living Shocks, Staff Insights, Vol. 2025, No. 10, Central Bank of Ireland.](#)

For the corporate sector, the key risk is that a renewed cost shock would weaken profitability at a time when financing conditions might become restrictive. Irish firms, including SMEs, adjusted well to the earlier energy price shock, aided by the ability to pass through higher costs, strong post-pandemic demand and fiscal supports to households. Profitability remained broadly resilient in aggregate and insolvencies, while rising, remained contained. However, the current environment poses new challenges to the corporate sector, with the uncertainty about the duration and intensity of the current shock the main risk to business profitability. If higher energy prices feed into broader inflation, transport, intermediate inputs and wage demands, firms could face a much more significant compression in margins than would be implied by energy costs alone. Those firms with low pricing power, narrow margins or weaker balance sheets would be most exposed. The weaker macroeconomic backdrop would also weigh on turnover. If households cut back on discretionary spending as real incomes come under pressure, domestically oriented firms would face weaker demand at the same time as costs remain elevated. For indebted firms, this would make refinancing more difficult and increase the risk of insolvency. While aggregate leverage in the SME sector remains modest, exposures are not uniform, and some larger corporates could also remain vulnerable to higher interest costs.

Residential property price growth has been showing some signs of moderation over the past year. According to data for the CSO, in March 2026 the national residential property price index increased by 6.5 per cent from the year before, a slowdown from the most recent high of annualised growth of 10.9 per cent recorded in August 2024 (Chart 21). Survey evidence suggests that a further easing in the rate of house price growth is expected over the near to medium term.<sup>16</sup> In the private rental sector, there has been a broad reduction in the pace of rental inflation in recent years with rents rising 2.7 per cent year-on-year at the end of 2025, down from 5.4 per cent a year earlier, and below the 10-year average (5.9 per cent).<sup>17</sup> However, there has been an uptick in the growth rate of rents during the opening quarter of the year with data from the CSO showing annual rents up 4.1 per cent in April 2026.<sup>18</sup> There was an acceleration in the delivery of new housing supply in the latter part of 2025, notably apartments in the greater Dublin area.<sup>19</sup> Lower hiring rates in the younger cohorts of the labour force as well as broader adjustments in the labour market, and a moderation in the rate of inward migration<sup>20</sup> may be contributing factors to recent developments in the housing markets.

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<sup>16</sup> The most recent *Central Bank/SCSI Residential Property Price Survey (2025Q4)* shows that the median expected rate of house price inflation for the coming year was 5 per cent. Over the 3-year horizon, the median cumulative expected level of growth has slowed to 6 per cent, from 8 per cent at the time of the previous survey in mid-2025.

<sup>17</sup> The most recently published data for March 2026, show a slight increase in the annual growth rate of private rents to 3.1 per cent, though still well below the recent peak level of almost 13 per cent in mid-2022 and an average rate of 4.3 per cent during 2025. See [Consumer Price Index](#), CSO, March 2026.

<sup>18</sup> Similarly, Daft.ie found asking rents increased by 4.4 per cent between the end of 2025 and March 2026, the largest quarterly increase in the series which dates back to 2002. This brought the rate of annual rental inflation to 7.8 per cent, a level last seen during 2023Q3. See [Daft.ie Rental Report 2026Q1](#).

<sup>19</sup> Increased apartment building in the second half of last year saw overall housing output rise by one-fifth during 2025, to 36,300 units, the highest annual total since 2008.

<sup>20</sup> In 2025 employment permits were down 22 per cent compared to 2024. In the first three months of 2026, permits are 11 per cent lower compared to the same period in the previous year. [Department of Enterprise, Tourism, and Employment, Employment permits statistics, April 2026](#).

**Chart 21: The rate of residential property price growth continues to ease**

Residential property price growth: annual and quarterly

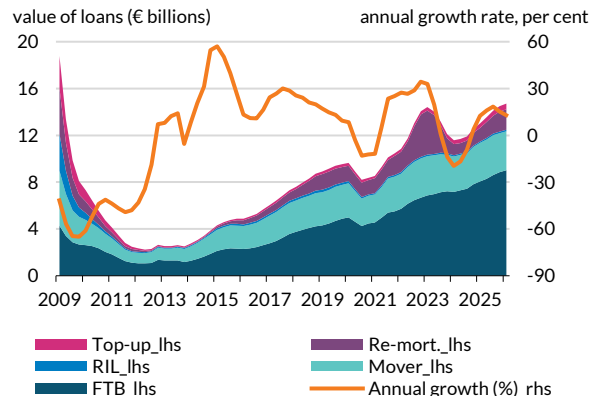


Source: CSO.

Notes: Last observation March 2026.

**Chart 22: First time buyers remain the chief driver of mortgage lending growth**

Value of annual mortgage drawdowns by buyer type – rolling annual totals



Source: Banking and Payments Federation Ireland.

Notes: Last observation 2026Q1.

**Mortgage credit growth has been robust in recent quarters, with significant increases in both approvals and drawdowns.** Over 46,500 mortgages were drawn down in the year to 2026Q1 with an aggregate value of €14.7bn,<sup>21</sup> the highest rolling annual totals since 2009 (Chart 22). First time buyers continue to dominate, accounting for over 60 per cent of the value of loans written, with remortgaging activity also experiencing strong growth. The annual rolling total of mortgage approvals increased (by 2 per cent) to just over 53,000 in March 2026, well above its 10-year average figure of ~47,700.<sup>22</sup> Analyst forecasts prior to the start of the conflict in the Middle East were pointing to a further expansion of mortgage credit during 2026.<sup>23</sup> The combination of weaker than expected income growth and tighter financial conditions could however reduce mortgage credit availability, increase households' debt burdens, and give rise to increased credit risk. The presence of the mortgage measures in the market since 2015 has served to reduce excessive leverage and anchor lending standards, which should mitigate the scale of potential credit risk. To ensure the mortgage measures remain fit for purpose as the housing market evolves, the Central Bank announced in April 2026 a targeted amendment to the mortgage measures for principal home bridging loans.<sup>24</sup>

**Sustained efforts to increase the delivery of new housing units are needed in the medium term, but renewed cost pressures could threaten plans.** Forward-looking indicators of residential construction activity show a notable increase in the number of units granted planning permission in 2025 and a bottoming out of housing commencements, following the withdrawal of waivers for water connection charges and rate rebates in 2024 (Chart 23). Central Bank forecasts suggest housing completions could reach 46,000 units per annum by 2028 (Chart 23). The upward momentum in residential construction activity could be threatened by higher construction costs and supply chain disruption arising from the conflict in the Middle East. Higher oil and gas prices increase the production costs of energy intensive building materials such as steel, concrete, insulation and piping. As building and construction material costs have already experienced

<sup>21</sup> See [Mortgage drawdowns exceeded €3 billion in Q1 2026 - BPF](#). Drawdown totals include remortgages and top-ups.

<sup>22</sup> In addition, the value of mortgage approvals rose by over 7 per cent to almost €17 billion, in the year to March 2026, see [BPF Mortgage Approvals Report for March 2026](#).

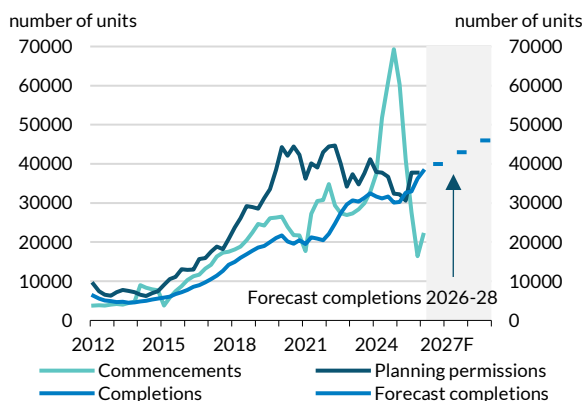
<sup>23</sup> While this remains the case, there have been recent downward revisions to these forecasts due to lower-than-expected switching activity (as the range of fixed rates on offer has tightened) and fewer movers due to the reduced supply of homes offered for sale.

<sup>24</sup> See the announcement here: [Central Bank of Ireland – Targeted Amendment to Mortgage Measures for Principal Home Bridging Loans, 8 April 2026](#).

significant price spikes during the 2021/2022 period (Chart 24), renewed inflationary pressures will raise further concerns surrounding the viability of some schemes which could hinder the delivery of new housing.

**Chart 23: Residential property completions increased notably last year, with forward-looking indicators of construction indicating further upward momentum**

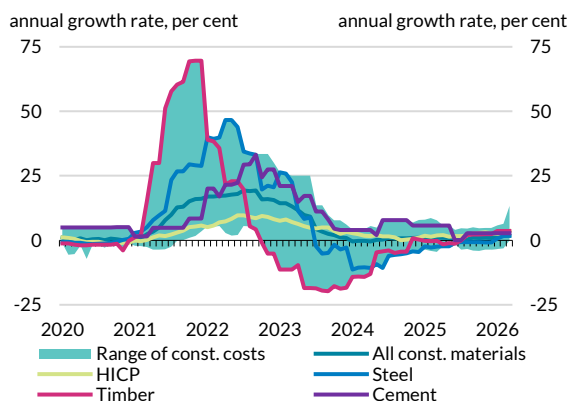
Indicators of residential construction activity - rolling annual totals



Source: CSO, Department of Housing, Local Government and Heritage and Central Bank of Ireland.  
 Notes: Latest commencement and completion observations 2026Q1, latest planning permission observations 2025Q4. Forecast completions as per [Quarterly Bulletin No. 1 2026](#).

**Chart 24: Higher energy prices could feed through to construction costs once again, following on from the price spikes many building materials experienced in 2021/2022**

Annual growth rate in Wholesale Price Index for building and construction materials

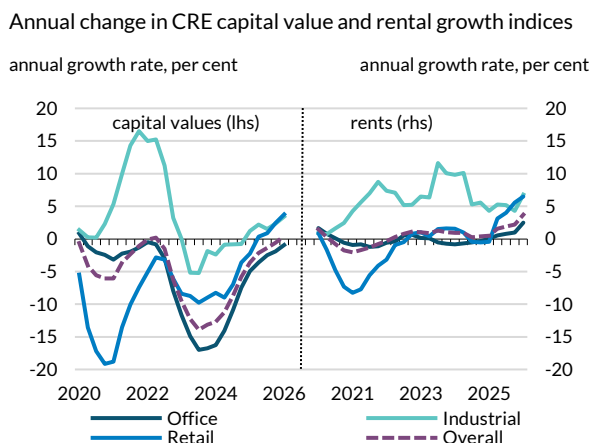


Source: CSO.  
 Notes: Construction input costs include: "stone, sand and gravel, cement", "ready mixed mortar and concrete", "concrete blocks and bricks", "other concrete products", "structural steel and reinforcing metal", "rough timber (including plain sawn)", "other treated timber", "bituminous macadam, asphalt and bituminous emulsions", "electrical fittings" and "all other materials". Last observation March 2026.

A cautious recovery in the domestic commercial property market had been underway prior to the outbreak of the conflict in the Middle East, characterised by a stabilisation of values and improving sentiment amongst investors and occupiers. The speed of decline in the overall annual CRE capital value growth index continued to ease during 2025, before a return to growth in 2026Q1 (0.4 per cent) for the first time in four years (Chart 25). Commercial property rents have also maintained their upward trajectory (Chart 25), with retail rents posting a higher annual growth rate in 2025Q4 than both the industrial or office sectors for the first time since 2019, and continuing the trend during the opening quarter of 2026. The office sector remains the weakest in terms of capital value and rental growth, with the largest price declines for lower quality, older and less energy efficient units. There are signs however that the office market may be reaching a turning point. Solid letting activity in 2025H2 saw take-up in the Dublin office market reach its highest level (240,000 sqm.) since 2019, as the vacancy rate (15.7 per cent) continues to decline from the 2024 peak (18.6 per cent). Take-up in 2026Q1 remained relatively steady, albeit down marginally compared to 2025Q1<sup>25</sup>, despite the elevated uncertainty arising from events in the Middle East. Additional outstanding office demand requirements, a muted development pipeline over the near-term and an increase in return to the office mandates could see the vacancy rate decline further over the coming year, from its 2024 peak.

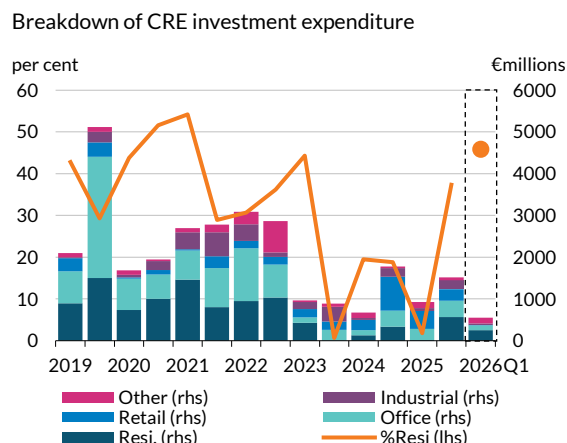
<sup>25</sup> According to CBRE, approximately 38,000 square metres of Dublin 5 office space was let during 2026Q1. The equivalent figure during 2025Q1 was 40,600 square metres.

**Chart 25: Irish commercial property values had been stabilising prior to the outbreak of war in the Middle East**



Source: MSCI.  
Notes: Last observation 2026Q1.

**Chart 26: While similar to 2024 levels, investment in the Irish CRE market last year was well down on the 10-year annual average figure, although the share of residential investment has increased**



Source: CBRE Research.  
Notes: Each bar presents a breakdown of CRE investment on a 6-monthly basis, i.e. the first and second halves of the year, apart from 2026 data which account for CRE investment during the opening 3 months of the year only. Last observation 2026Q1.

While investment in Irish CRE assets last year was similar to the level in 2024, it remains well below the annual average figure for the past decade or so. Data for the opening quarter of 2026 suggest the uncertain international backdrop may be tempering activity, with investment volumes of €550 million about 30 per cent lower than the average Q1 figure since the beginning of the decade. Recent housing policy initiatives, such as a tax measures to support apartment delivery, plans for increased spending on associated water, travel and energy infrastructure and changes to the legislation governing the private rental sector are aimed at increasing certainty within the sector which it is hoped will attract the additional volume of private investment required for a significant expansion of housing supply.<sup>26</sup> With this in mind, it is worth noting the rebound in the residential element of Irish CRE investment during the second half of 2025, which saw the strongest half yearly flows since 2022H2 (Chart 26). Data for the opening quarter of 2026 suggests this trend has continued during the opening months of the year. The Irish CRE market has in recent years attracted inward investment from a range of countries, with European and North American investors most prominent, and relatively modest participation by investors from countries affected by the ongoing conflict in the Middle East. A more recent fall-off in US acquisitions has been offset by an increase in spending from the UK and mainland European investors. Any tightening in financial conditions leading to an increase in bond yields, would result in wider risk premiums and lower capital market valuations for commercial property with potential knock-on effects for domestic banks’ asset quality. However, CRE exposures are now a considerably smaller share of lending than they were in the pre-GFC period. Previous analysis<sup>27</sup> has also indicated that a significant share of high LTV loans is expected to need refinancing from 2027 onwards, leaving the market vulnerable to interest rate changes.

The Irish banking sector enters this period of uncertainty from a strong starting position. The current capital and liquidity buffers should help banks absorb potential losses, should asset quality or financial conditions deteriorate (Chart 27). While direct exposures to the Middle East are

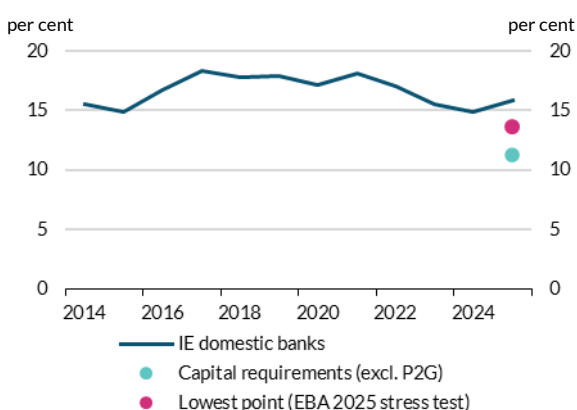
<sup>26</sup> See [Delivering Homes, Building Communities 2025-2030](#), for more details on the Irish Government’s plans to speed up the delivery of new homes and tackle homelessness.

<sup>27</sup> [Lambert, D., M. Mahony, and N. McGeever, 2024. The financial resilience of Irish CRE borrowers. Financial Stability Notes, Vol. 2024, No. 4, Central Bank of Ireland.](#)

limited, borrowers in energy dependent sectors are most exposed to the recent spike in oil and energy prices. Firms in the transportation and storage, electricity, gas and steam, and manufacturing sectors collectively account for 82 per cent of all business sector energy consumption in 2023 according to CSO data.<sup>28</sup> Banks have €14 billion in loans outstanding to these sectors or approximately 27 per cent of their lending exposures (Chart 28). While NPL ratios are currently low, a more protracted conflict could increase the likelihood of distress in these sectors. The importance of Irish banks continuing to invest in operational resilience remains high, particularly in the current environment of heightened geopolitical risk and AI enabled cyber-attacks (see *Risks: Global*).

**Chart 27: Irish banks have capital buffers to help absorb losses that may arise from the current stress period**

Transitional CET1 capital ratio and requirements for IE banks

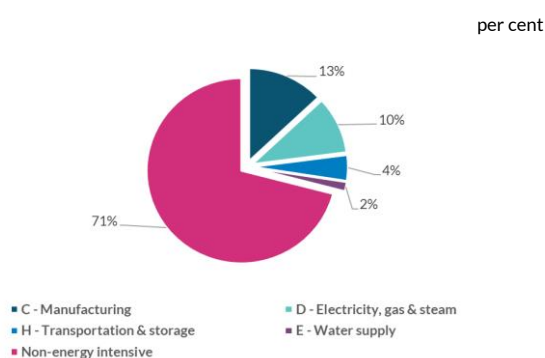


Source: Central Bank of Ireland.

Notes: The green dot shows IE banks' capital requirements (excluding P2G) at December 2025. The pink dot shows the lowest point for IE banks under the EBA 2025 adverse stress test to illustrate that IE banks still have capital buffers for absorbing similar adverse shocks.

**Chart 28: Energy dependent sectors are most exposed to the recent spike in oil and energy prices arising from the conflict in the Middle East**

Share of Irish banks' exposures to the largest energy consuming sectors



Source: Central Bank of Ireland and CSO.

Notes: The three sectors that consume the most energy in Ireland are: Transportation & Storage; Electricity, Gas & Steam and Manufacturing.

**Annual aggregate bank credit continued to grow over 2026 but remains, so far, in line with domestic economic activity.** The rate of aggregate bank credit growth has been strengthening and in early 2026 is at its highest rate since early 2009 (Chart 29).<sup>29</sup> When the impact of inflation is stripped out, annual real aggregate bank credit growth, which has also strengthened over recent years, was a more moderate 1.7 per cent in March. Credit growth continues to be driven by housing. Mortgage drawdowns were the largest contributor, with annual growth of 5.8 per cent in March. NFC credit growth also rebounded from a slower start to the year. An estimate of the national credit cycle<sup>30</sup> is now just below levels signalling heightened vulnerability at a three-year horizon and requiring close monitoring (Chart 30). As noted in the Box on the 2026Q2 CCyB decision, credit growth has been strengthening but has not to date been indicative of elevated cyclical risks. The recent pace of credit growth has not been out-of-line with that of economic output, and wider CCyB relevant macro-financial risk developments point to a mixed picture at present. The Central Bank has decided to maintain the CCyB rate at 1.5 per cent to preserve financial system resilience in the context of heightened external uncertainty (see *Box: CCyB*).

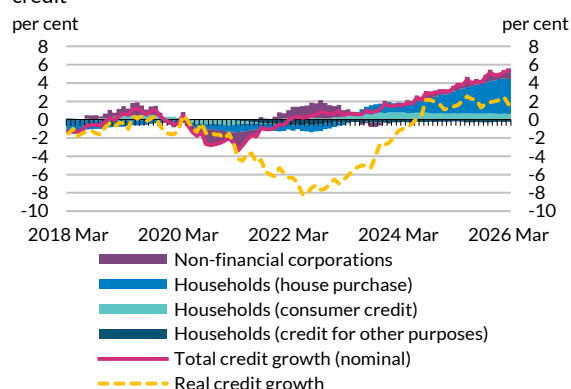
<sup>28</sup> [Business In Ireland 2025 - Emissions and Energy Use by Enterprises.](#)

<sup>29</sup> Aggregate bank credit relates to credit institutions including credit unions resident in Ireland, as per [Money and Banking Statistics.](#)

<sup>30</sup> Following the methodology of [Mugrabi, F. and G. Runstler, 2025. Housing and Credit Cycles in Ireland, Research Technical Paper, Vol. 2025, No. 16, Central Bank of Ireland.](#)

**Chart 29: Aggregate bank credit growth has accelerated, driven by lending for house purchases but real credit is growing at a more moderate pace**

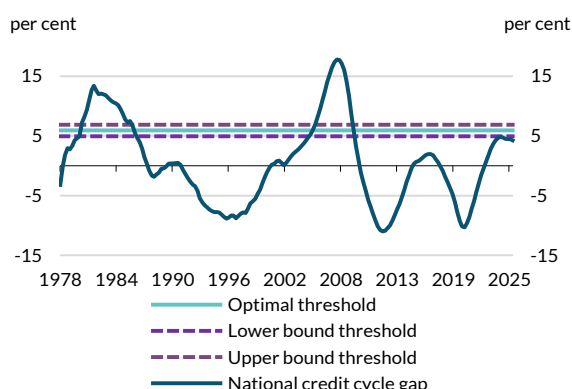
The contribution by loan type to annual growth of total bank credit



Source: Central Bank of Ireland Credit & Banking statistics and CSO.  
Note: Credit calculations based on data from Tables A.1 and A.6. Last observation March 2026.

**Chart 30: The credit cycle is estimated to be close to but below a level that would be indicative of heightened systemic risk**

Estimated credit cycle as per Mugrabi & Rünstler (2025)



Source: Central Bank of Ireland calculations.  
Note: Credit cycle and threshold is estimated using the multivariate unobserved components modelling approach. Upper and lower bounds are 1-standard deviation around the estimated threshold.

Non-bank lenders (NBLs) have deepened Irish credit supply but also created new vulnerabilities, particularly for those sensitive to international financial conditions and/or private market funding. In September 2025, NBLs accounted for around 26 per cent of total domestic credit; for company credit, their share was higher, at around 38 per cent.<sup>31</sup> Non-bank business lending is concentrated in smaller firms. Current estimates suggest that more than 70 per cent of new business lending to NBLs during 2025 went to SMEs.<sup>32</sup> While this lending deepens the supply of credit, it also creates a potential important amplification channel. In an energy-price and financial-market shock, weaker demand conditions could coincide with lower credit availability. Central Bank research shows that credit supply by NBLs is more sensitive to changes in financial conditions, with specialist property lenders particularly exposed.<sup>33</sup> Specialist property lenders also have strong links to private credit funding sources, introducing a further layer of vulnerability to credit supply in the Irish economy from this sector.<sup>34</sup>

Climate-related risks are an important structural risk to financial stability, with the potential to amplify existing vulnerabilities through both physical risks and the transition to a low-carbon economy. Physical risks, including flooding, can affect borrower income, business continuity and collateral values, while transition risks can affect firms through changes in energy costs, regulation, consumer preferences and asset valuations.<sup>35</sup> Analysis of domestic business lending finds that 6.3 per cent of loan value is currently in areas exposed to flood risk, rising to 13 per cent under a mid-range future scenario and 16 per cent under a high-end scenario.<sup>36</sup> Survey evidence from Irish firms also points to a gap between concern about climate-related risks and actual adaptation investment, with financial barriers limiting the response.<sup>37</sup> Delayed adaptation would also risk increasing future fiscal costs, as larger climate-related losses raise demands for emergency relief, infrastructure repair and other public recovery supports.

<sup>31</sup> See Central Bank of Ireland [Frontier Statistics: Total Domestic Credit](#) for details.

<sup>32</sup> See chart 5 [Frontier Statistics](#).

<sup>33</sup> See [Giuliana, R. and P. Reddan, 2025, Non-bank Lenders to SMEs: Sensitivity to Financial Conditions, Research Technical Paper, Vol. 2025, No. 5, Central Bank of Ireland.](#)

<sup>34</sup> See [Moloney, M. and P. O'Gorman, 2025, Specialist Property Lenders and Private Credit: Financial Stability Considerations, Financial Stability Notes, Vol. 2025, No. 1, Central Bank of Ireland.](#)

<sup>35</sup> See [Climate Observatory, Central Bank of Ireland, January 2026.](#)

<sup>36</sup> See [Measuring Flood Risk in Business Lending, Central Bank of Ireland, January 2025.](#)

<sup>37</sup> See [Beliefs and barriers: climate change and Irish firms, Central Bank of Ireland, July 2025.](#)

# In Focus: Domestic financial stability implications of developments in AI financing

AI will likely have a transformational impact on the global economy supported by large-scale investment in the necessary physical infrastructure. However, the timing and scale of this impact remain uncertain. Developments in AI and the transition period around this will have significant economic effects, and as with all transitions, it will be important to monitor for potential effects on financial stability. Financial stability could be affected by scenarios where AI adoption takes place very quickly and causes disruption in certain sectors or parts of the economy, but also in the event that AI progress is slower than expected and does not bring the returns expected by financial markets. The physical infrastructure and energy usage needed to progress AI-related systems is significant, and this infrastructure buildout is dominated by a small number of large US technology companies, which have huge investment plans in the coming years. However, while the economic potential of AI could be transformative, the timing, impact and long-run investment returns remain uncertain.

This in-focus piece considers the financial stability risks from developments in AI financing looking at interactions between AI-related risks, as well as their direct effects on the domestic financial system. Overall, direct exposures to the Magnificent 7 and US technology stocks are small across the non-financial and traditional financial sectors in Ireland. This is in contrast to Irish-domiciled equity funds, which have large exposures to these entities. These funds, though, are not generally leveraged, limiting the potential for amplification dynamics. The impact of an AI-related shock on the domestic financial system would likely come through second-round effects, including the potential effects of a shock on the profitability of US MNEs with a presence in Ireland, tighter global financing conditions, as well as the impact on the US growth outlook, depending on the scale of the AI-related market shock and its interaction with other vulnerabilities.

If the crisis in the Middle East persists, the resulting economic and financial impacts will affect AI-related financing, including private credit exposures. A stagflationary outcome or even a global economic slowdown arising from current tensions could curb equity and debt investment in AI, with wider market spillovers. The sector is also sensitive to energy prices, as AI infrastructure is highly energy-intensive, as well as trade disruption for critical inputs and to wider geopolitical issues among key countries. Interlinkages with private credit markets mean that any shock to markets arising from AI will spill over across public and private equity and debt markets.

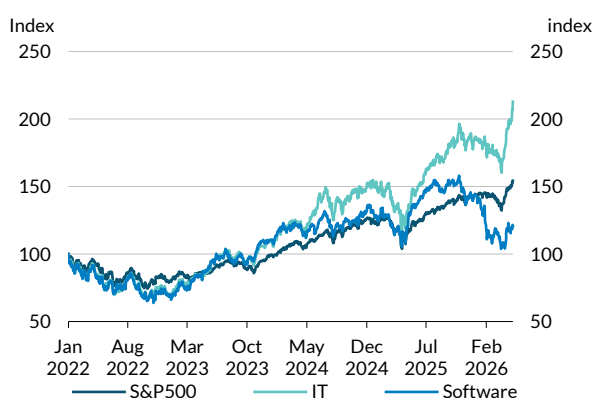
## Financial market developments and financing of AI

Equity markets have become increasingly concentrated around a small number of very large technology companies—known as hyperscalers—which have driven market growth in recent years. Hyperscalers now represent an increasingly large share of US - and thus global - equity markets and trade at very high valuations. This concentration reflects rapid growth in these AI-related stocks, which are likely to remain a key driver of equity market capitalisation. However, such concentration makes equity markets more sensitive to idiosyncratic shocks affecting a select number of firms.

Financial markets face different AI-related risks, from the risk that hyperscalers' earnings do not materialise to the extent that is priced into valuations, to the risk that AI could exceed expectations leading to disruption of existing business models in certain sectors. The former concerns have been discussed in FSR 2025:II. Concerns regarding AI company overvaluations and US stock market concentration risk persist. The Shiller valuation measure is at historically elevated levels despite elevated geopolitical risks (see Chart 7, *Risks: Global*). AI valuations are largely driven by expectations of earnings growth and productivity gains resulting from large capital investments. The latter concerns emerged at the start of this year, leading to sharp declines in software-related stocks (Chart 31). This has affected US private credit companies due to their elevated exposures to this sector.<sup>38</sup> The adverse macro-financial conditions related to the Middle East conflict exacerbate AI repricing risks due to shifting global risk sentiment (see *Risks: Global*).<sup>39</sup>

**Chart 31: Software is underperforming relative to IT and the wider S&P500**

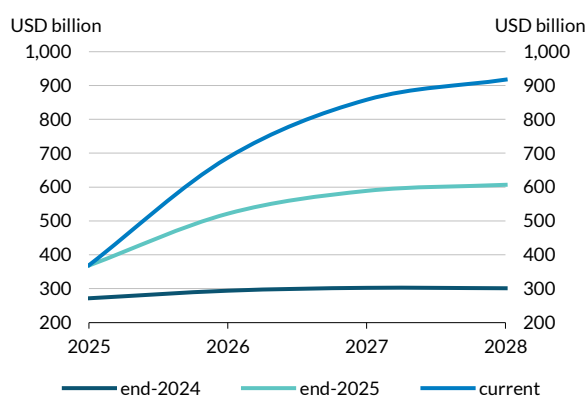
S&P500 with Information Technology and Software sectors



Source: Bloomberg.  
Notes: Indexed to January 2022. Last observation 8 May 2026.

**Chart 32: Hyperscalers' CapEx continues to climb rapidly over the past year and a half**

Consensus estimates for hyperscalers' 2025-2028 CapEx



Source: Bloomberg.  
Notes: Hyperscalers are companies investing in hyperscale data centres. Current figures refer to 8 May.

Investments in AI infrastructure are accelerating and are increasingly contributing to US financial market growth, with the potential for resulting productivity gains to drive economic growth. The infrastructure required to train and power AI systems means that investment is rapidly expanding and projected to reach \$800 billion in 2028 (Chart 32). Major global market makers estimate that over the next three to five years, total investments in AI projects will range from \$3 trillion to \$5 trillion, which is between 10 and 17 per cent of US GDP in 2024.<sup>40</sup> IT investment as a share of US economic output has surged to the highest level since 2001.<sup>41</sup> These AI-related investments are increasingly driving financial market growth in the US and, if AI adoption continues, could substantially increase productivity and boost medium-term growth. The IMF estimates that AI-related investments contributed 0.5 percentage points to US GDP growth in 2025.<sup>42</sup> However, AI investments are largely driven by a few companies, adding to concentration risks and increasing the potential economic impact of an AI-related market shock.

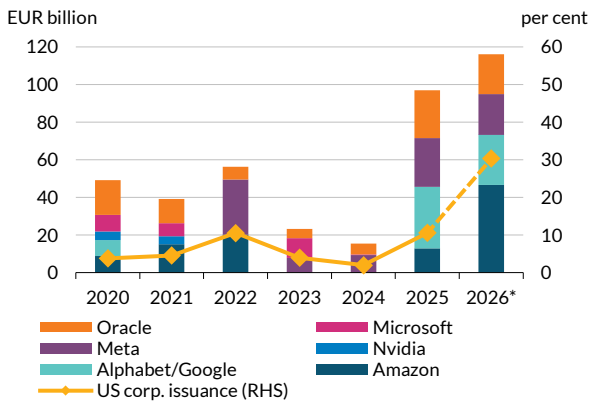
While a large part of investment thus far has been financed from profits, further financing of AI is likely to increasingly come from a combination of public and private credit increasing contagion risks to credit supply and investment. The issuance of publicly traded debt by the largest AI companies has increased from an average of under €40 billion annually between 2020 and 2024 to

<sup>38</sup> UBS (2026) Private Credit Outlook: Defaults, Disruption and Dispersion.  
<sup>39</sup> Throughout 2026, BofA's Fund Managers surveys ranked the AI bubble as one of the top five 'tail risks'.  
<sup>40</sup> [How AI debt financing impacts duration supply and interest rates.](#)  
<sup>41</sup> See IMF Blog: [Global Economy Shakes Off Tariff Shock Amid Tech-Driven Boom.](#)  
<sup>42</sup> See [IMF World Economic Outlook, April 2026.](#)

nearly €100 billion in 2025. In the first quarter of 2026 the debt issuance of these firms is already as large as the entire previous year (Chart 33). Debt issuance is expected to remain elevated given projected investment levels in the coming years. Loans from private credit funds to AI companies are also becoming more common. The BIS previously highlighted that private credit funds are lending nearly 8 per cent of their total loan book to AI companies as of end-2025 (Chart 34). Increasing levels of debt funding increases the risk of contagion to credit markets, of tighter financing conditions and of lower investment generally in the event of an AI-related market shock.

**Chart 33: The largest AI companies have recently been issuing large amounts of debt**

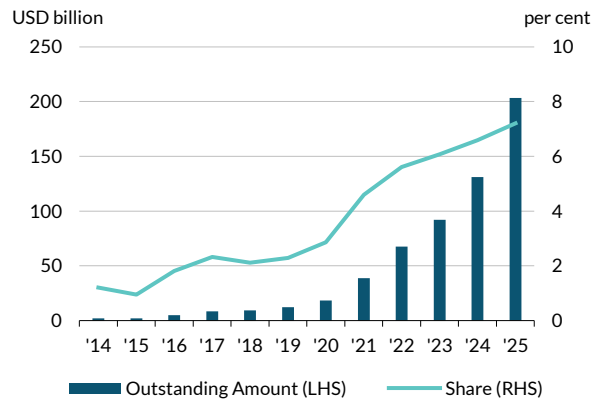
Debt issued by major AI companies at face value



Source: CSDB, Federal Reserve Board via Haver Analytics, and staff calculations.  
 Notes: Figures relate to the face values of tradable debt securities only. Based on known issuances until 8 May 2026. US Corp. issuance figure for 2026 is the total for Q1.

**Chart 34: Private credit loans to AI firms are growing fast**

Outstanding private credit loans to AI firms



Source: Pitchbook via BIS authors (Aldasoro, Doerr & Rees, 2026).  
 Notes: "AI firms" refers to firms operating in the Pitchbook-defined verticals "Artificial Intelligence", "Big Data" and "Cloud Tech". Outstanding direct loan amounts to AI firms in billions of US dollars as well as share of total outstanding direct loans by private credit firms.

**Increasing circularity of investments in AI companies increases the vulnerability of AI infrastructure suppliers in a market downturn.** Companies that are vital suppliers of the AI infrastructure are investing in firms developing AI applications. This creates compounding vulnerabilities for these infrastructure firms as, in the event of an AI shock, they are exposed both via a reduced demand for their product and via poor performance of their investments. Combined with high market concentration and debt-funded investments, this circularity substantially increases repricing risk should AI investments underperform. Furthermore, ongoing consolidation of the sector into a handful of dominant companies increases operational risk, cyber risk and too-big-to-fail externalities.

**Transmission channels of an AI-related financial market shock**

The initial transmission channels of an AI-related financial market shock to the domestic macro-financial system vary by sector and depend on the extent of the shock. A significant repricing of AI-related stocks would initially reduce the equity investment holdings of institutional sectors in Ireland. The resultant economic effects depend on the scale of exposures across the financial and non-financial sectors and their ability to absorb the shock. Given the role of AI companies/ investment in US economic growth and global financial markets, an abrupt correction could also tighten global financial conditions and have wider economic effects. Therefore, firms and sectors reliant on market-based financing such as non-bank lenders and institutional investors could pull back on investment plans, impacting borrowing and certain infrastructure (for example, real estate). The concentration of corporation tax from resident technology MNEs is a further transmission channel for risks to the sovereign in the event of a shock to this sector. Employment and investment could be affected if resident technology MNEs or software companies experience

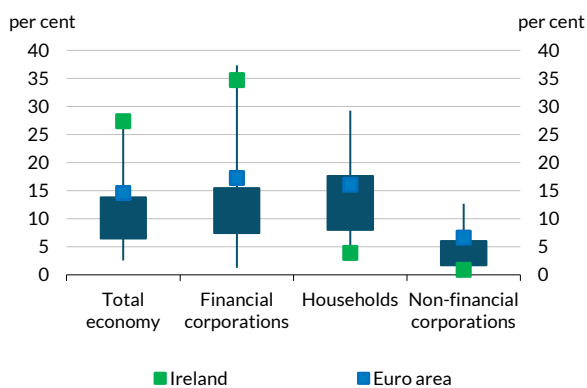
a significant profitability hit from an AI-related shock that could necessitate cost cutting in Ireland.<sup>43</sup>

### Direct exposures and financial system resilience to market risk

Irish households have relatively low direct equity risk compared with the euro area, though this varies by income. A significant fall in equity prices could reduce household wealth and consumption. However, Irish retail participation in capital markets is relatively low, in aggregate, despite the accumulation in savings during the pandemic.<sup>44</sup> Decomposing sectoral exposures to both listed shares and non-money market fund investment shares across the Irish financial system, as at 2025Q3, highlights the difference compared to euro area households who have relatively higher financial investment (Chart 35)<sup>45</sup>. Housing assets are the main component of Irish household wealth rather than financial assets.<sup>46</sup> Distributional wealth data for Ireland show that this result can vary across the income distribution with higher-income households holding a higher share of financial assets. These wealthier households are also less leveraged suggesting higher resilience, should these investments fall in value. Household financial assets such as insurance or pension entitlements may also be affected by equity market developments. Holdings of investment fund shares create a further indirect link, although the exposure is small at 2 per cent of total financial assets. [Moreno, \(2026\)](#) examines these holdings using a look-through approach and finds that this indirect channel raises household exposures to US equities (Chart 36).

**Chart 35: Equity market exposures primarily reflect the internally orientated financial sector**

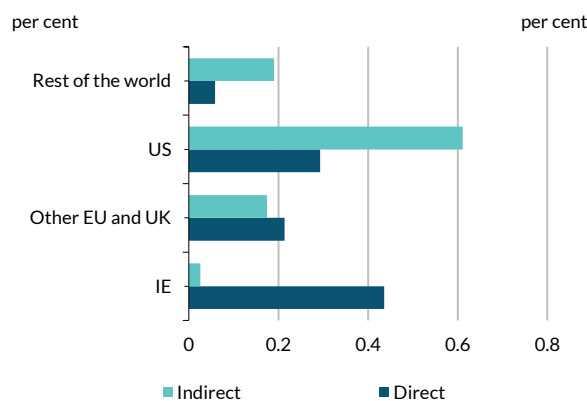
Breakdown of financial accounts by sector holdings of listed shares and non-MMF investment fund shares/units



Source: ECB quarterly financial and non-financial sector accounts.  
Notes: Data expressed as a percentage of total financial assets. Box-plot shows the range of cross-country shares of euro area member states. Data as at 2025Q3.

**Chart 36: Households have higher indirect US equity exposures via investment funds, but are small on average across the sector**

Breakdown of Irish household direct and indirect exposures by geography for listed shares



Source: Moreno 2026.  
Notes: Data are 2025Q3. Indirect exposures are based on holding via investment funds only. Insurance and pension funds' exposures are not included.

<sup>43</sup> It is difficult to size the scale of potential job losses in Ireland under the specific scenario of an AI-related financial market shock, as many leading resident tech MNEs are also undergoing cost cutting to right-size post Covid and to fund investment plans. Additionally, AI disruption, in general, will lead to job displacement risk (ESRI, 2026). Such impacts are likely to be uneven within and across sectors. Examining global software companies which have experienced the greatest declines on the S&P500, the majority have offices in Dublin. Many workers, however, may choose to relocate to other countries or there could be new companies created as AI progresses.

<sup>44</sup> See [Central Bank of Ireland, Retail Investor Participation in Ireland, Consumer Research and Analysis December 2025](#).

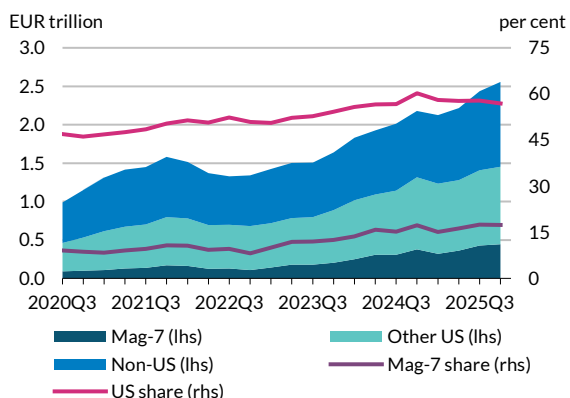
<sup>45</sup> Data on Irish household's direct holdings of financial assets are from [Securities Holdings Statistics](#) published by the Central Bank of Ireland. These household data are from Irish resident custodians only and therefore may not fully capture all exposures.

<sup>46</sup> Based on [Quarterly Financial Accounts](#), Irish households' financial wealth has its largest share in insurance and pension entitlements followed by currency and deposits and other financial instruments.

NFCs in Ireland also do not appear to have material exposure to large AI stocks. In common with other firms across the euro area, Irish NFCs do not have a material share of their financial assets in direct holdings of listed shares or in investment fund shares based on available data from Irish custodians. Within these exposures, just under a fifth are to the US market. Quarterly financial account data suggest that equity is the largest source of financing for Irish NFCs but it is a mix of listed and unlisted shares.

**Chart 37: The holdings of listed shares of reporting entities have more than doubled in the past 5 years with an increasing share accounted for by the Mag 7**

Breakdown of the value and share of listed shares accounted for by the Mag 7



Source: Central Bank of Ireland.  
Notes: Last observation 2025Q4. Data are market value.

**Table 1: Investment funds account for the vast majority of total resident holdings of US equities**

Breakdown of direct exposures to US equity markets

	€ billion	Total direct shares held		
		Total	US	Mag 7
Financial sector	Investment funds	2,331.3	1,356.6	410.3
	Insurance corporations	80.0	44.0	14.2
	Other financial intermediaries	2.0	0.8	0.3
	Pensions funds	1.5	0.7	0.2
	Credit institutions	4.4	0.2	0.2
Private non-financial	Households	11.6	3.4	1.1
	Non-financial corporations	1.4	0.3	0.1
<b>Total</b>		<b>2,432.2</b>	<b>1,405.9</b>	<b>426.4</b>

Source: Central Bank of Ireland.  
Notes: Data as of 2025Q3.

**Irish banks’ direct exposures are small but are not immune from indirect and second-round effects.**

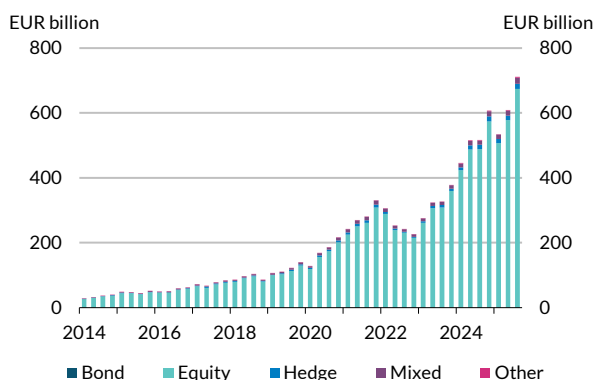
Irish resident banks do not have significant direct US or Magnificent 7 equity exposures (Table 1). Another potential channel of direct exposure is through the financing of data centres. Estimated domestic retail bank exposures to such construction activities currently appear small but may grow over time, if more projects become viable and hyperscalers chose not to self-finance. Despite these small direct exposures, market risk can be material for certain banks given their trading exposure and funding composition, leaving them vulnerable to general market shocks. The 2025 EU-wide banking sector stress test included a market shock in addition to a geopolitical driven adverse scenario. Specifically, the exercise assumed that European stocks fall by 50 per cent and US by 60 per cent over 2025. The scale of estimated capital depletion suggested that the modelled shock could be absorbed for Irish banks in the exercise. While positive, the speed and nature of any future market-based shock could differ depending on whether the shock was an idiosyncratic or sector wide AI one. The impact at bank level will depend on the effectiveness of hedging strategies in addition to overall exposures to the exact nature of market risk. Wider economic impacts alongside exposures to private credit funds/companies, could expose banks to both macro and counterparty credit risks, if currently prevailing risks from the external financial system interact and crystallise at the same time.

**Insurance companies allocate a relatively insignificant portion of non-linked investments to US equities. While linked investment exposures are more significant, strong capital buffers mitigate risks.** Within equity portfolios, Irish insurers report that one third of non-linked equities and more than half of linked equities are US listed. European insurance firms are subject to both bottom up (EIOPA) and top-down (at national level) stress testing exercises incorporating market shocks. Recent exercises have found sufficient capital coverage, but as with banks, there are caveats when considering the current risk environment.

Within the financial sector, Irish resident investment funds and in particular equity funds are the largest holders of technology sector shares. Equity market exposure of directly reporting entities have grown in recent years, reflecting, in part the overall buoyancy and composition of global equity market performance. The share held in the large technology companies (“Magnificent 7”) and in other US equities has grown (Chart 37). Resident investment funds have a significant direct equity exposure to the US market (Table 1) with the scale of the exposure in absolute terms dwarfing the other institutional sectors. Reflective of the wider equity market, investment funds have become increasingly concentrated in a select number of AI-related firms, driven primarily by equity funds which are largely unlevered and have little liquidity mismatch (Chart 38). This increased exposure is driven by sizable valuation gains. Since the end of 2019 about two thirds of the increase in tech sector equities can be attributed to gains in valuation, with only a third being explained by a steady flow of net purchases. As the majority of these equity funds are not leveraged, this limits the potential for amplification effects through vulnerabilities at a fund level.

**Chart 38: Irish investment funds’ exposure to tech sector stocks has predominantly been driven by equity funds**

Equity exposures of Irish investment funds to tech sector companies by fund type



Source: Central Bank of Ireland (MMIF).

Notes: Tech sector stocks based on technology sub-indices of main stock indices. Data as of end-September 2025.

Data centre construction has increased in Ireland but appears to not have material direct links to the Irish financial sector.

Ireland is a significant hub for data centre construction, given the large MNE tech presence. As noted in the Irish Government’s Annual Progress Report<sup>47</sup> investment in data centre related hardware contributed to national investment and MDD in 2025. The scale of energy usage and Ireland’s energy grid capacity constraints means that new data centre construction will be limited in the near term, unless projects can be self-generating. As mentioned above, estimated domestic banking sector exposures to such construction activities are currently small but may grow over time if more projects become

viable and hyperscalers chose not to self-finance. Such large-scale projects usually require a range of financing products over their life cycle and can involve many intermediaries (domestic and cross border). Like emerging risks associated with a growing private credit market, project specific analysis and data sharing across agencies may be needed to fully assess the ultimate risk bearer in the event of a demand or financing shock.

**In summary, overall, direct exposures via listed shares to the Magnificent 7 and US technology stocks are found to be small across the non-financial and traditional financial sectors in Ireland.**

This contrasts with domiciled equity funds, which have large US exposures, albeit the low leverage of these funds limits the potential for amplification effects. The impact of an AI-related financial market shock on the domestic financial system would likely come through the second-round effects, including through tighter global financing conditions and the impact on the US growth outlook. The overall global impact will depend on the scale of the AI-related market shock and its interaction with other vulnerabilities.

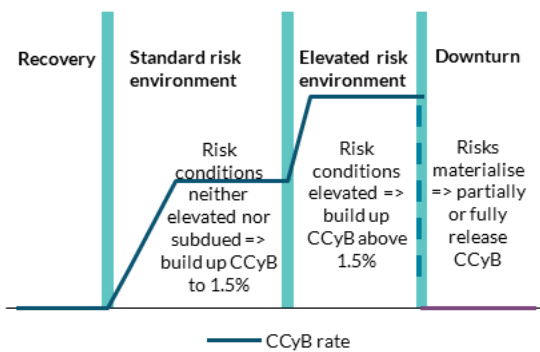
<sup>47</sup> See Box 3 in the Government’s Annual Progress Report [April 2026](#).

# Box: CCyB Announcement

The Central Bank is maintaining its existing policy stance for the CCyB, supporting banking sector resilience proportionate to the risk environment. Following its latest quarterly review, the Central Bank is maintaining the CCyB rate at 1.5 per cent which has been in effect since June-2024 (having been initially announced a year previously). It is judged that maintaining the rate at 1.5 per cent remains appropriate in the context of the objective and strategy for the instrument and the prevailing macro-financial conditions. Within the framework for the CCyB, a rate of 1.5 per cent is deemed appropriate for when cyclical risks are neither elevated nor subdued (Chart 39).

**Chart 39: The CCyB policy stance reflects the Central Bank’s strategy for the buffer**

The Central Bank’s framework for macroprudential capital



Source: [The Central Bank’s framework for macroprudential capital](#).  
Notes: Stylised representation.

The Central Bank considers that the 1.5 per cent rate remains appropriate given the prevailing macro-financial risk environment. Cyclical conditions have not evolved in a manner that would warrant a change in the CCyB rate. As discussed in *Risks: Domestic*, the central outlook is for continued, albeit lower, economic growth, given downside external risks, with moderating cyclical pressures evident in the labour market and residential real estate prices. Credit growth has been strengthening but has not to date, been indicative of elevated cyclical risks, especially when considered in the context of wider, CCyB

relevant macro-financial developments. Maintaining resilience remains important in the context of the current uncertain environment and the exposure of Ireland to external risks which have intensified of late (see *Risks: Global*). The CCyB is the Central Bank’s primary macroprudential policy instrument to safeguard resilience against macro-financial risks, including those stemming from the small and globalised nature of the Irish economy. Therefore, maintaining the 1.5 per cent CCyB rate supports resilience to the materialisation of such risks. Latest banking sector indicators point to its continued solid (balance sheet) performance with limited signs of stress emerging.

The Central Bank remains alert to the potential need for a change in the CCyB rate in either direction. CCyB rate decisions will be based on macro-financial conditions in a manner consistent with the Central Bank’s strategy for the instrument. The CCyB would be reduced or released in order to support the banking system to absorb losses and maintain the supply of lending to the economy should it be warranted arising from a materialisation of risks or downturn in the economy. On the other hand, the CCyB rate could be increased above 1.5 per cent if cyclical risks were deemed to have become, or risk becoming, elevated. In so doing, the Central Bank will continue to ensure its policy stance reflects the objective for the CCyB of promoting resilience in the banking sector – proportionate to the risk environment - with a view to facilitating a sustainable flow of credit to the economy through the macro-financial cycle.

# Abbreviations

Country and currency abbreviations follow the [European Union standards](#).

<b>AI</b>	Artificial intelligence	<b>PTSB</b>	Permanent TSB
<b>AIB</b>	Allied Irish Bank	<b>RRE</b>	Residential real estate
<b>AUM</b>	Assets under management	<b>SCSI</b>	Society of Chartered Surveyors Ireland
<b>BIS</b>	Bank of International Settlements	<b>SME</b>	Small and medium enterprise
<b>BOI</b>	Bank of Ireland	<b>WEO</b>	World economic outlook
<b>BPFI</b>	Banking & Payments Federation Ireland		
<b>CBRE</b>	Coldwell Banker Richard Ellis Group		
<b>CCyB</b>	Countercyclical capital buffer		
<b>CET1</b>	Common equity tier 1		
<b>CLO</b>	Collateralised loan obligation		
<b>CRE</b>	Commercial real estate		
<b>CSO</b>	Central Statistics Office		
<b>DORA</b>	Digital Operational Resilience Act		
<b>EA</b>	Euro area		
<b>EBA</b>	European Banking Authority		
<b>ECB</b>	European Central Bank		
<b>EIOPA</b>	European Insurance and Occupational Pensions Authority		
<b>ESRI</b>	Economic and Social Research Institute		
<b>EU</b>	European Union		
<b>FDI</b>	Foreign direct investment		
<b>FSB</b>	Financial Stability Board		
<b>FSR</b>	Financial Stability Review		
<b>FTB</b>	First-Time Buyer		
<b>GDP</b>	Gross domestic product		
<b>GFC</b>	Global Financial Crisis		
<b>GGB</b>	General government balance		
<b>GNI</b>	Gross national income		
<b>GVA</b>	Gross value added		
<b>HICP</b>	Harmonised index of consumer prices		
<b>IMF</b>	International Monetary Fund		
<b>IT</b>	Information technology		
<b>LSEG</b>	London Stock Exchange Group		
<b>LTV</b>	Loan-to-value ratio		
<b>MDD</b>	Modified domestic demand		
<b>MMF</b>	Money market fund		
<b>MNE</b>	Multi-national enterprise		
<b>MSCI</b>	Morgan Stanley Capital International		
<b>NBFI</b>	Non-bank financial intermediary		
<b>NBL</b>	Non-bank lender		
<b>NCSC</b>	National Cyber Security Centre		
<b>NFC</b>	Non-financial corporation		
<b>NPL</b>	Non-performing loan		
<b>PDH</b>	Principal dwelling house		

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