

# Financial Stability Review **2025:I**



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem



# Overview

Risks facing the global financial system have risen, as rising barriers to trade and higher economic and trade policy uncertainty give rise to a weakening global growth outlook and uncertainties in financial markets.

A sharp repricing of risk assets and higher financial market volatility followed the series of tariff announcements.

While tensions have eased, and markets have continued to function well, underlying uncertainty remains high and market conditions remain fragile.

Stretched asset valuations, high leverage and declining non-bank liquidity could amplify market reactions.

The Irish economy appears more vulnerable to this current configuration of global risks due to our reliance on US MNEs and broader trade exposures.

Both households and firms have, in aggregate, strong current financial resilience but uncertainty may be weakening sentiment, and some sectors are potentially more exposed than others.

Borrowers' exposures to sensitive sectors creates a credit risk in the event of an adverse shock for bank; recent strong profits, robust solvency and liquidity positions support their ability to absorb higher NPLs.

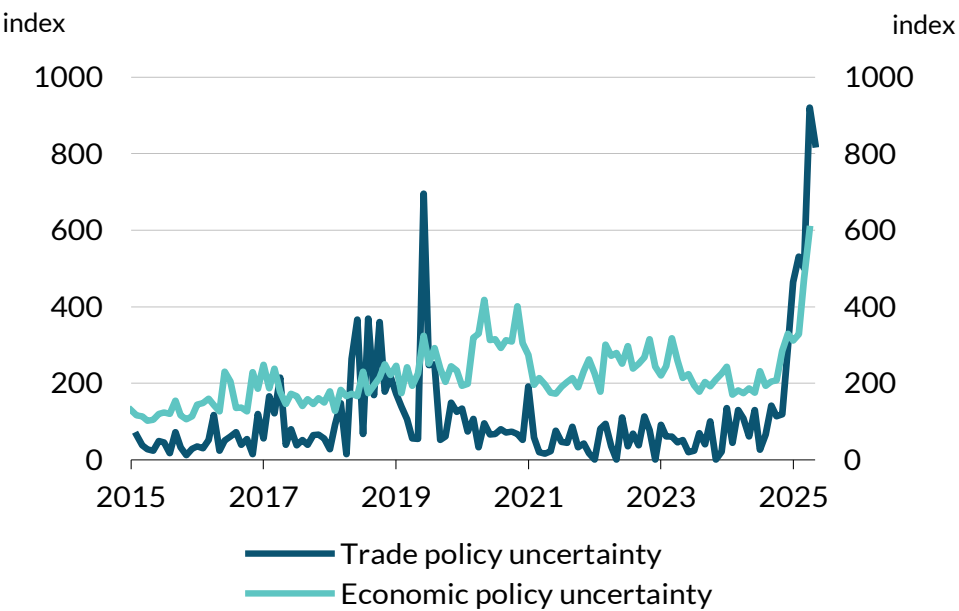
Shocks to global financial conditions could disrupt the supply of non-bank financing to the domestic property market, given the international funding models of these entities.

Prudent risk management is important, along with ensuring operational and financial resilience. The CCyB is being maintained at 1.5 per cent. Cyber and climate related risks continue to be potential sources of adverse shocks.

# Global financial stability risks have increased as trade and economic policy uncertainty give rise to a weakening global growth outlook and uncertainties in financial markets

## The global environment is in a state of elevated uncertainty

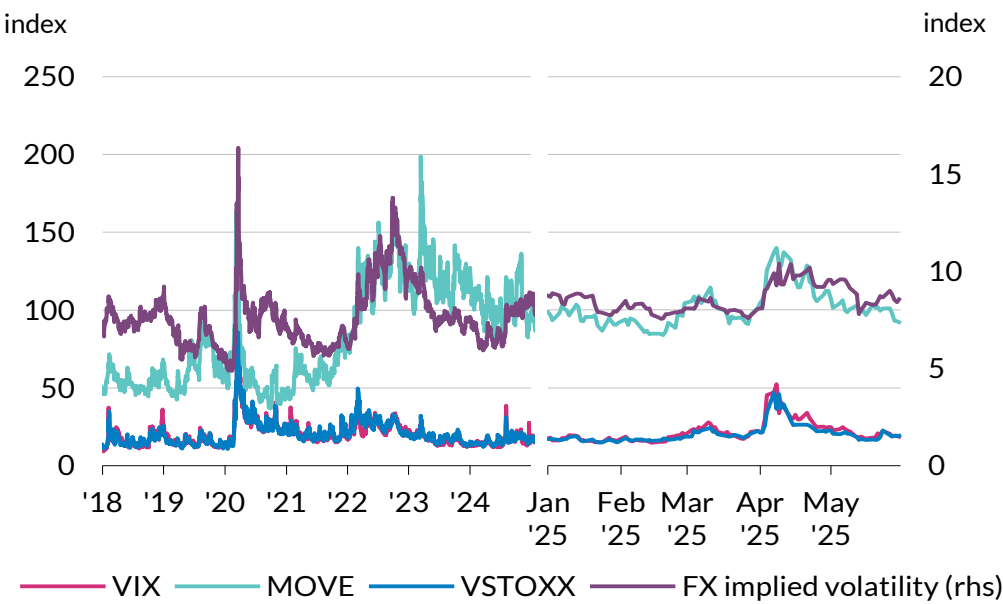
Trade Policy Uncertainty, Global Economic Policy Uncertainty indices



Source: PolicyUncertainty.com, Caldara et al.  
Notes: The Global Economic Policy Uncertainty Index is current price GDP weighted. Last observation 1 May 2025.

## US policy announcements led to significant volatility in financial markets

VIX, VSTOXX, MOVE, FX Implied Volatility indices

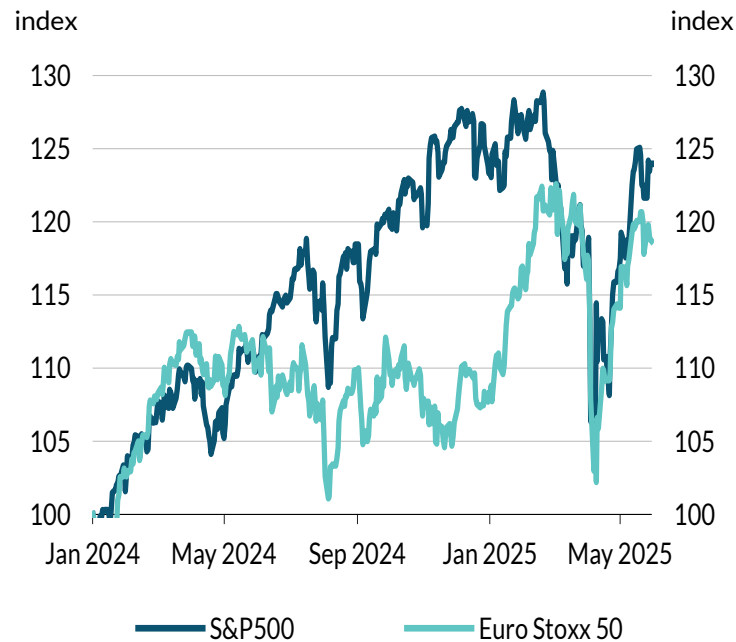


Source: Bloomberg.  
Notes: The VIX index measures 30-day expected equity market volatility of the US stock market while the VSTOXX index measures 30-day equity market volatility based on the EuroStoxx 50 index. The MOVE index measures expected bond market volatility by tracking US Treasury options. Deutsche Bank FX Volatility Index measures the implied volatility of currency markets. Last observation 30 May 2025.

# A sharp repricing of risk assets and tightening in financial market conditions followed the series of tariff announcements

Equity valuations initially declined sharply (but recovered and remain high)

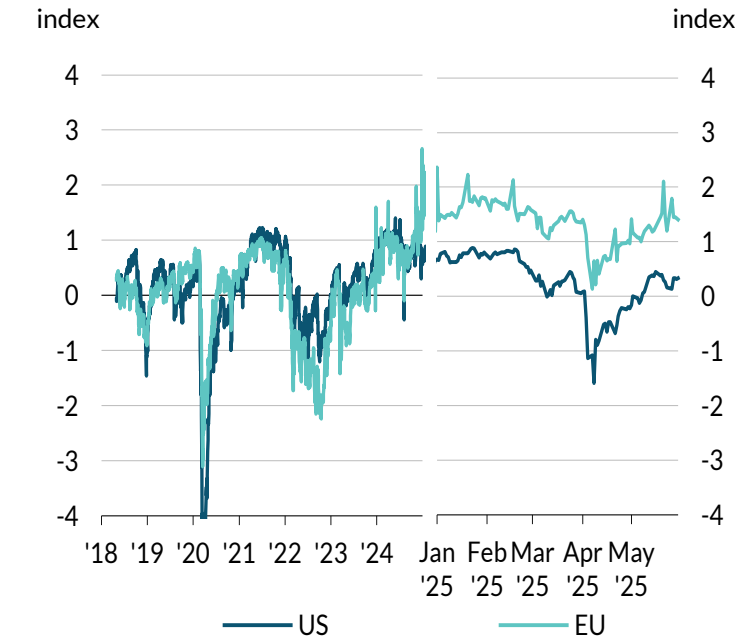
S&P500 and Euro Stoxx 50



Source: Bloomberg  
Notes: 1st Jan 2024 = 100. Last observation 30 May 2025.

Financial conditions tightened amidst elevated uncertainty and volatility

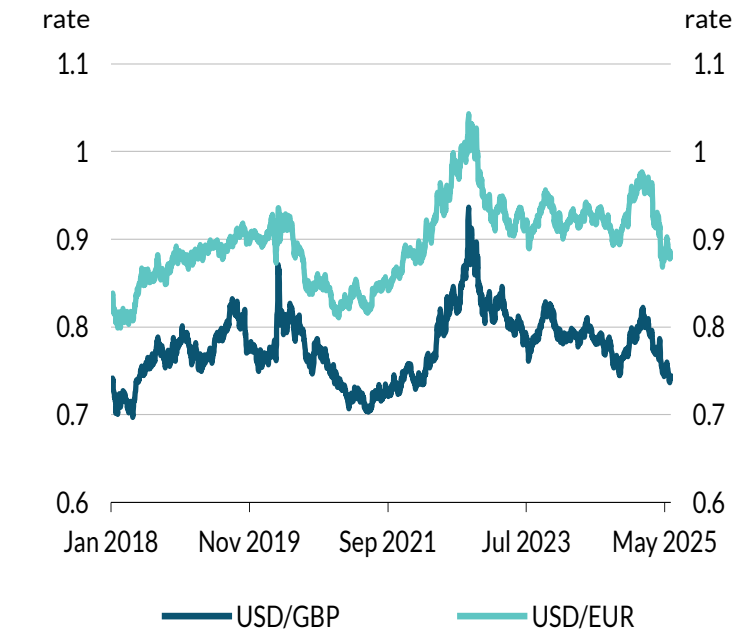
Financial conditions indices



Source: Bloomberg  
Notes: In the Bloomberg Financial Conditions Index, a positive value indicates accommodative financial conditions, while a negative value indicates tighter financial conditions relative to pre-crisis norms.

The dollar weakened against other major currencies

USD foreign exchange rates

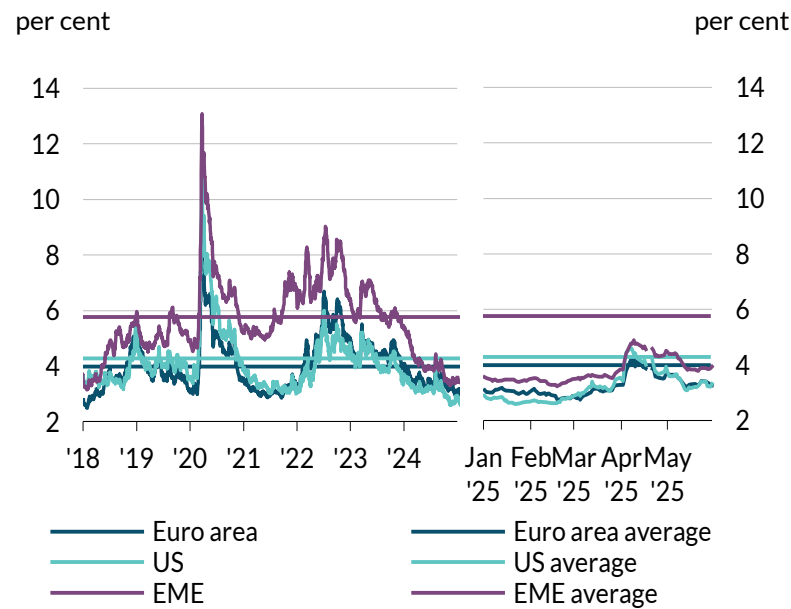


Source: Bloomberg  
Notes: Last observation 30 May

# Stretched valuations, under-pricing of risk and vulnerabilities in the non-bank financial sector could amplify market reactions

## In corporate bond markets there is evidence of compressed risk pricing (low spreads)

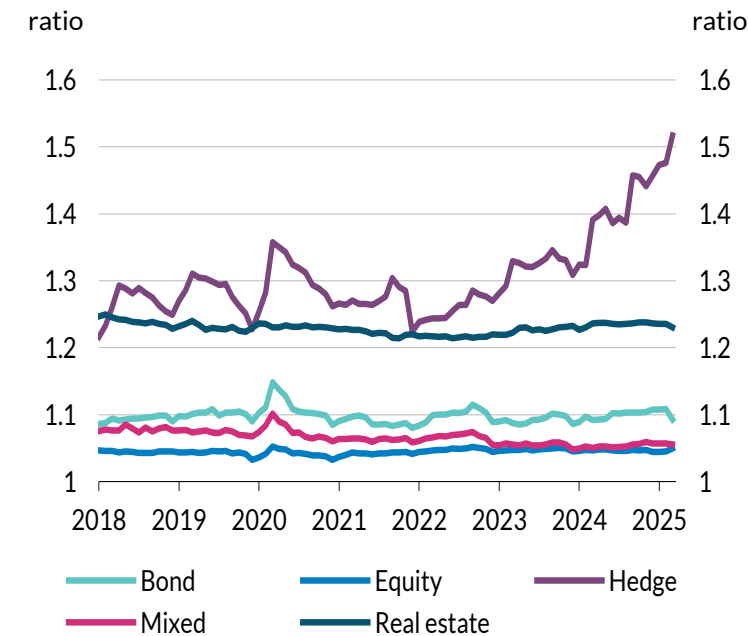
High-yield corporate bond spreads



Source: Ice Data Indices via Federal Reserve Bank of St Louis.  
 Notes: The ICE BofA Option-Adjusted Spreads (OASs) are the calculated spreads between a computed OAS index of all bonds in a given rating category and a spot sovereign curve. Dashed lines indicate historic averages since April 2015. EME refers to emerging market economies. Last observation 30 May 2025

## Leverage is high in parts of the NBFI sector and has increased in euro area hedge funds

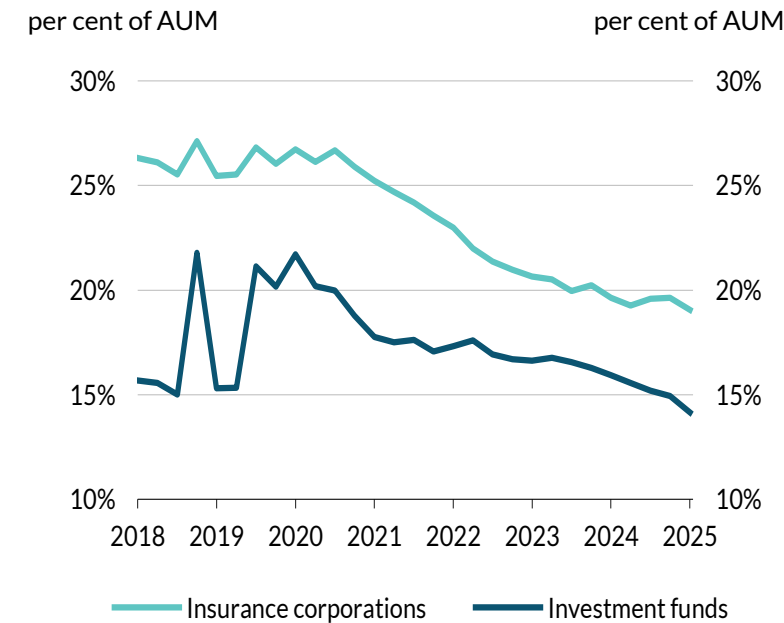
Total assets over net asset value of euro area investment funds, by cohort



Source: ECB (IVF, SHSS, CSDB) and Central Bank calculations.

## Liquid assets holdings have declined for both euro area investment funds and insurance corporations

Liquid assets as share of total assets

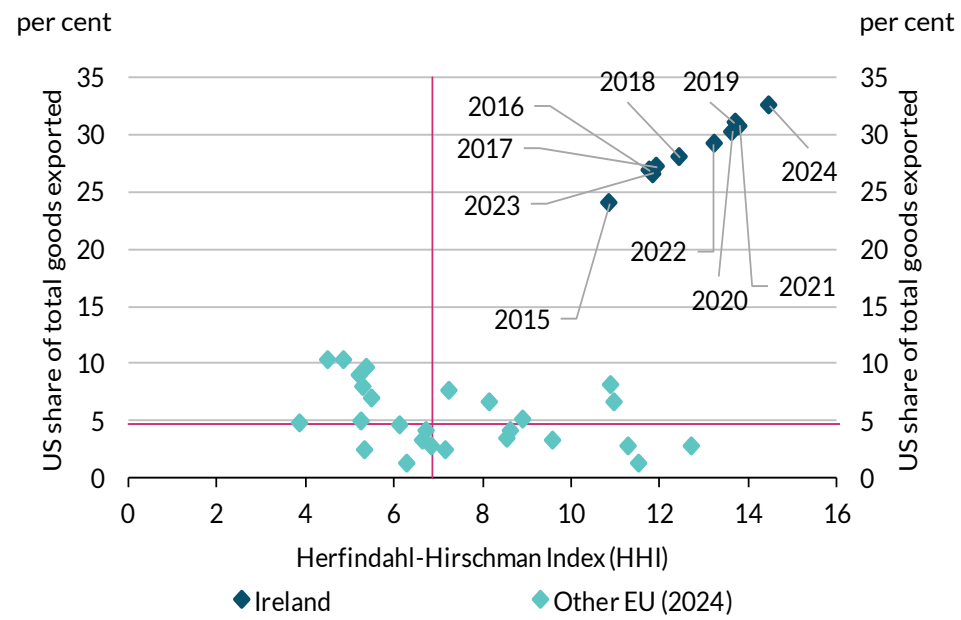


Source: ECB (IVF, SHSS, CSDB) and Central Bank calculations.  
 Notes: Liquid assets are defined as cash and cash equivalents plus HQLA Level 1 assets.

# The Irish economy appears more vulnerable to this current configuration of global risks

## Ireland's exports are concentrated in a small number of counterparties – in particular the US

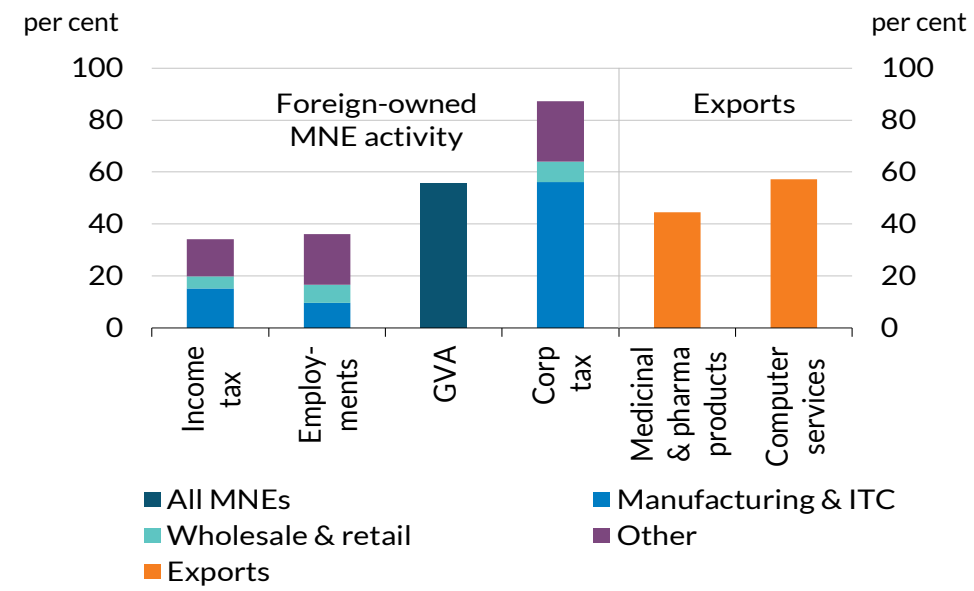
Share of total goods exported to the US and degree of concentration across all export partners



Source: Eurostat and Central Bank of Ireland calculations.  
Notes: Pink lines denote the median values across the EU.

## High degree of reliance on international MNEs, notably US MNEs in pharma and computer services

Share of MNE contribution to various measures of activity and the importance of certain sectors for Irish exports

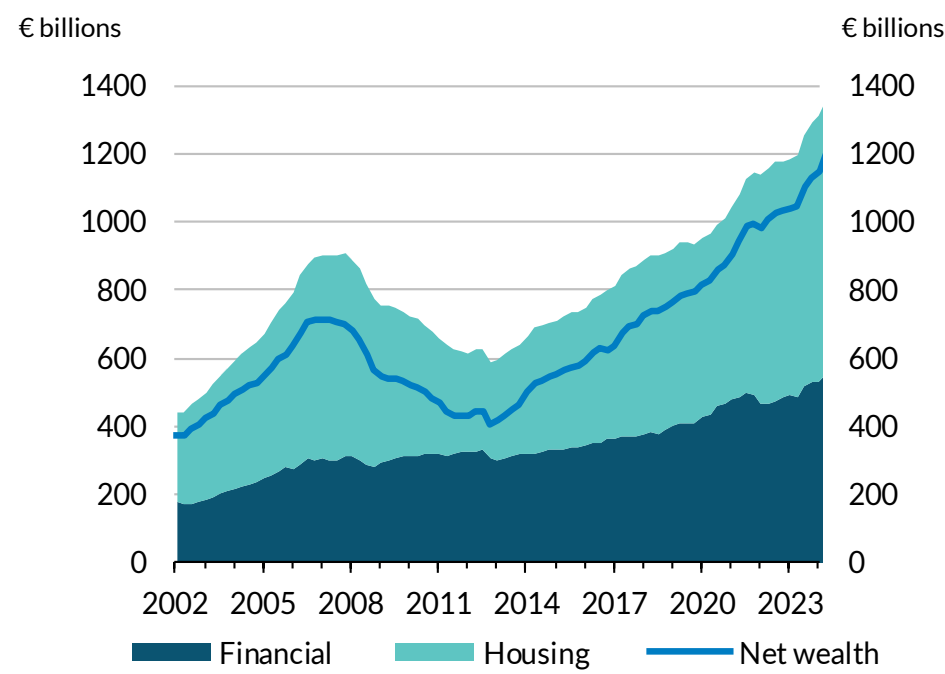


Source: CSO, Eurostat, The Revenue Commissioners and Central Bank of Ireland calculations.  
Notes: Data for MNE activity are for 2023. Except for Gross Value Added (GVA) which relates to 2022. GVA relates to non-EU owned MNE's GVA as a percentage of economy wide total. Medicinal and pharma products are expressed as a percentage of total goods exports. Computer services exports are expressed as a percentage of total service exports. Goods exported and Services exported are for 2024 and 2023, respectively.

# Transmission to the domestic financial system could come through higher credit risk and/or the impact of a tightening of financing conditions on the non-bank sector

## Household net wealth has grown substantially since the post-GFC recession

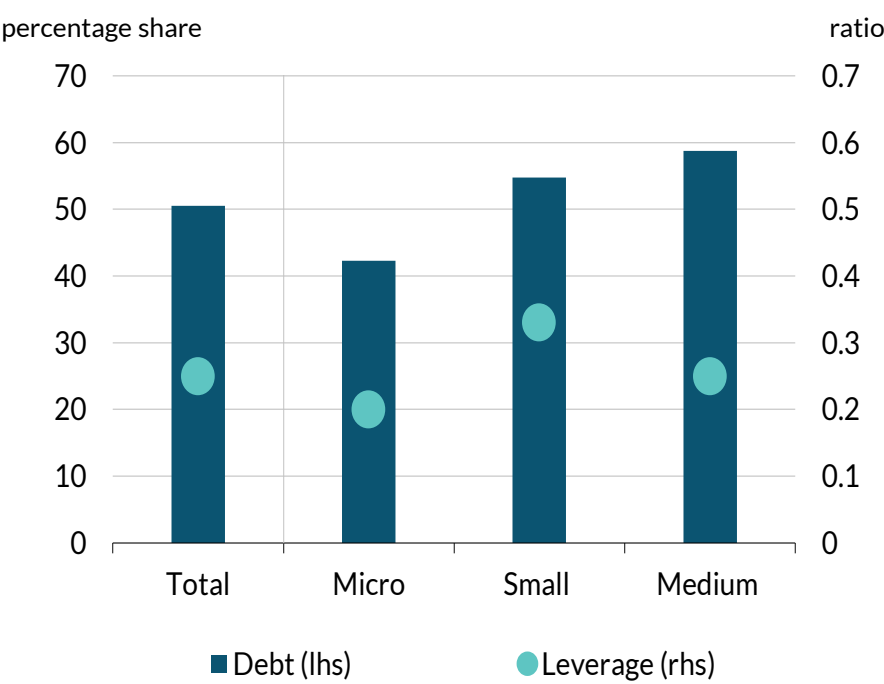
Household assets and net wealth



Source: Central Bank of Ireland.  
Notes: Financial and housing assets of the household and non-profit institutions serving the household sector. Net wealth is defined as housing and financial assets minus financial liabilities.

## Overall indebtedness among SMEs remain low and half of them carry no debt

Share of SMEs with debt by size grouping and median leverage ratio



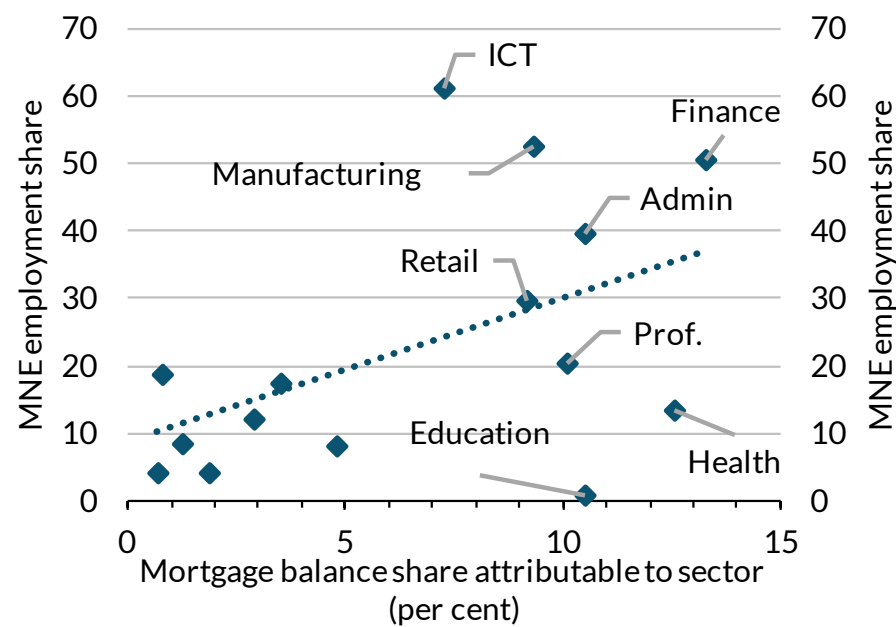
Source: Credit Demand Survey.  
Notes: Share of SMEs with financial debts and the median leverage ratio (financial debts over total assets) of SMEs by size grouping in 2024.



# Uncertainty may be weakening sentiment, and some sectors are potentially more exposed than others to potential shocks

## Some economic sectors have a high share of MNE employment and account for a high share of mortgage borrower employment

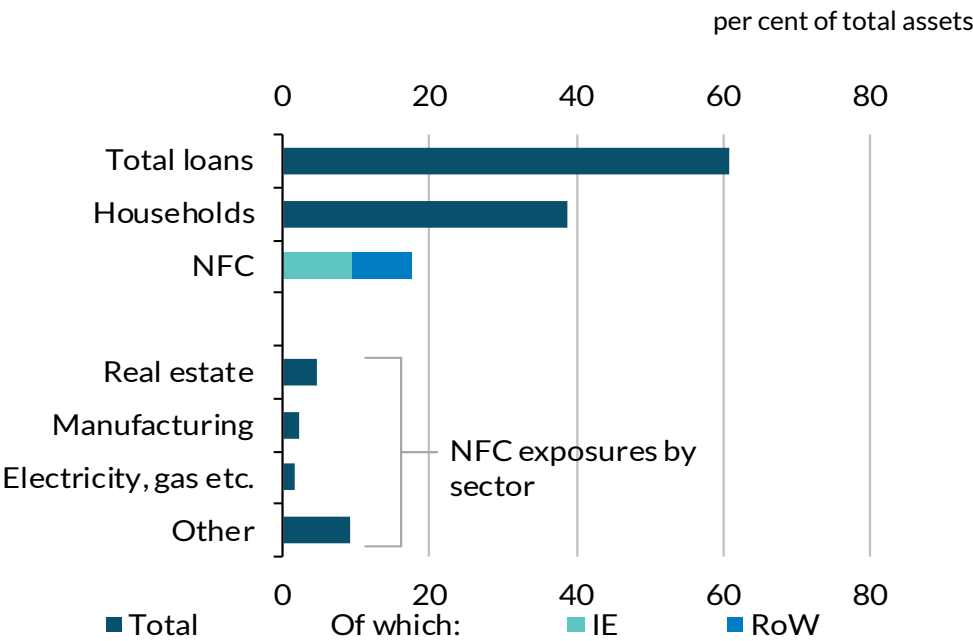
Share of mortgage loans owed by sector of employment and MNE share of employment per cent



Source: CSO.  
Notes: The estimated share of residential mortgage loans owed by employees across sectors and the within-sector share of employment associated with MNEs.

## Just under half of NFC loan exposures are to non-IE borrowers

Breakdown of domestic banks' loan exposures



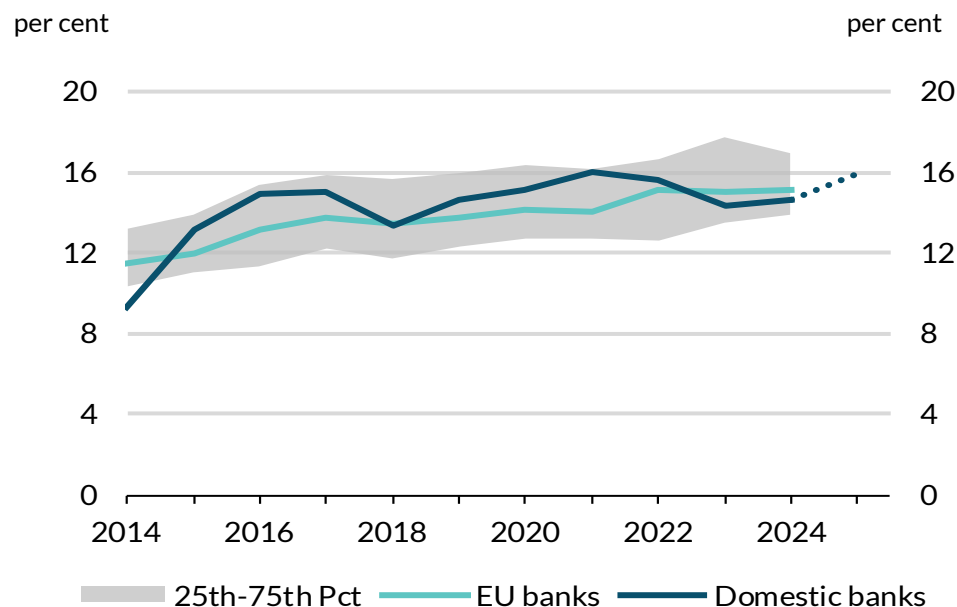
Source: Central Bank of Ireland.  
Notes: All data expressed as a percentage of total assets. Data as at 2024Q4.



# The domestic banking system remains resilient, with robust solvency and liquidity positions

## Capital position of domestic banks are above regulatory requirements

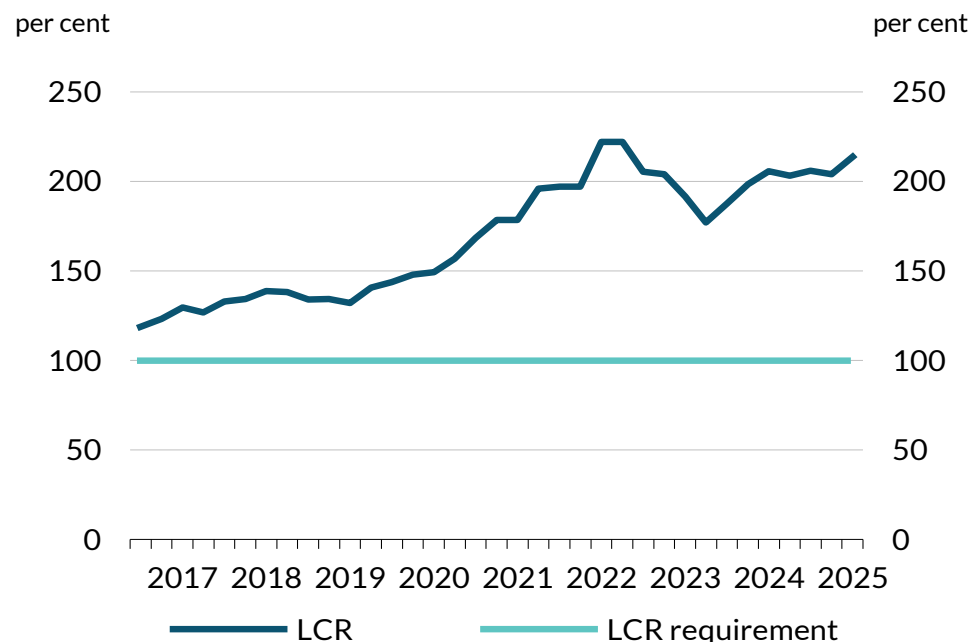
CET 1 capital as a percentage of RWA



Source: Central Bank of Ireland, Moody's Analytics BankFocus.  
Note: The Domestic banks value is the median fully-loaded CET1 ratio for AIB, BOI, and PTSB, respectively. Supervisory data are used for the period up to 2024Q4. For the period 2025Q1 data from interim statements are used and denoted by the dotted line. EU banks sample consists of median CET1 for EU significant Institutions. Last observation 2025Q1.

## Bank liquidity positions remain positive and above requirements

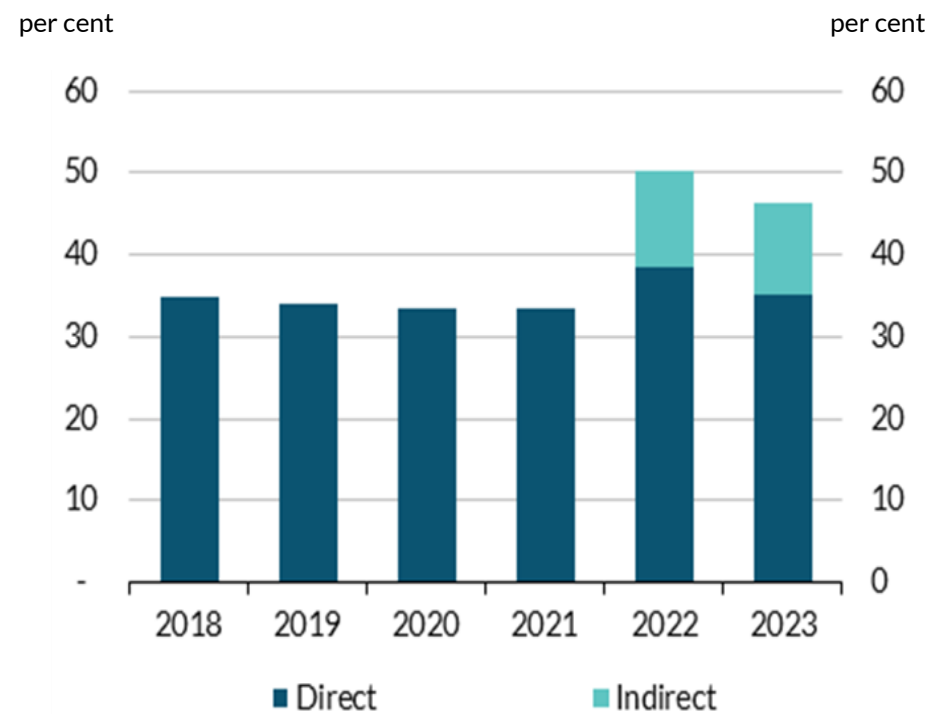
Liquidity coverage ratio



Source: Central Bank of Ireland.  
Notes: Last observation 2025Q1

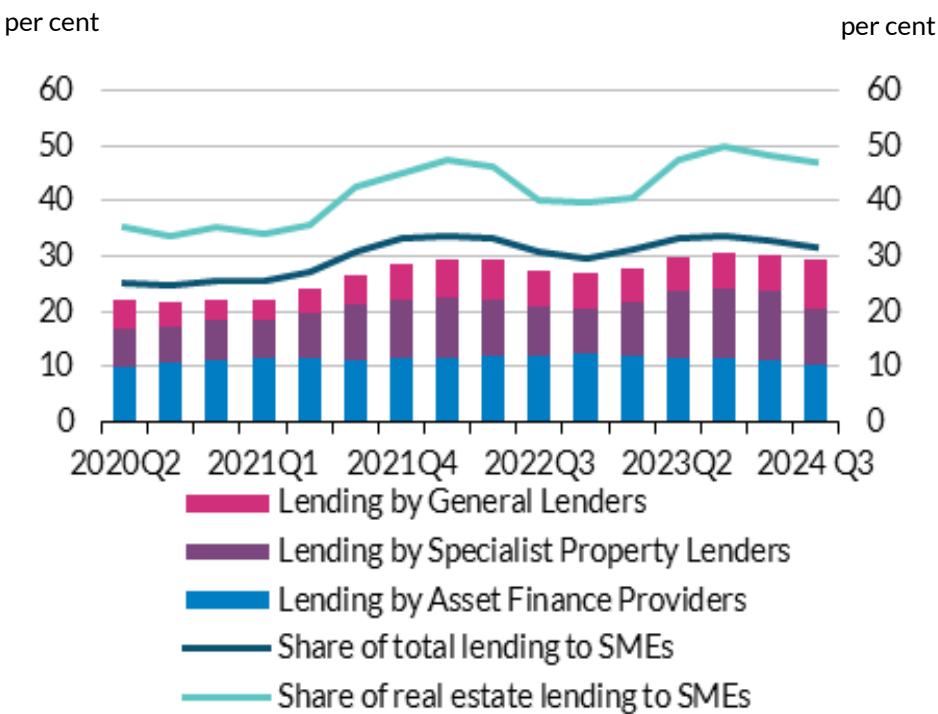
# Non banks and property funds have an increasing role in financing the domestic economy but are sensitive to international financing conditions

## Property funds have become key participant in CRE market



Source: MMIF, IPF, Cushman and Wakefield and Central Bank of Ireland calculations  
Notes: MMIF data up to 2021. IPF Return used for 2022 and 2023 and includes an breakdown by direct and indirect holdings.

## Non-bank share of lending to SMEs remained relatively stable in 2024

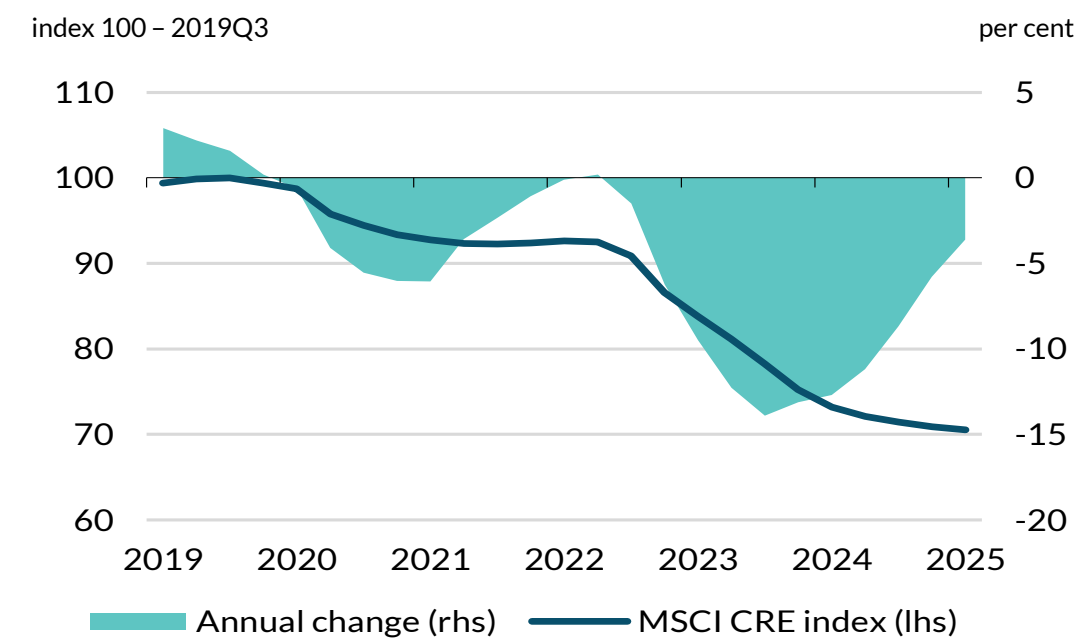


Source: CCR and Central Bank of Ireland Credit and Banking Statistics  
Note: All series are four-quarter moving averages. The share of total lending to SMEs is the share of new loan agreements from non-bank lenders relative to the sum of gross non-bank loan agreements and bank gross new lending. Real estate SMEs include SMEs in real estate activity and construction. Lending by General Lenders, Specialist Property Lenders and Asset Finance Providers all refer to the share of total new lending to SMEs accounted for by each lender category. These are experimental series.

# While evidence of a bottoming-out of CRE downturn mounts, downside risks remain in focus

Capital values continue to adjust, though the rate of decline has slowed markedly in recent quarters

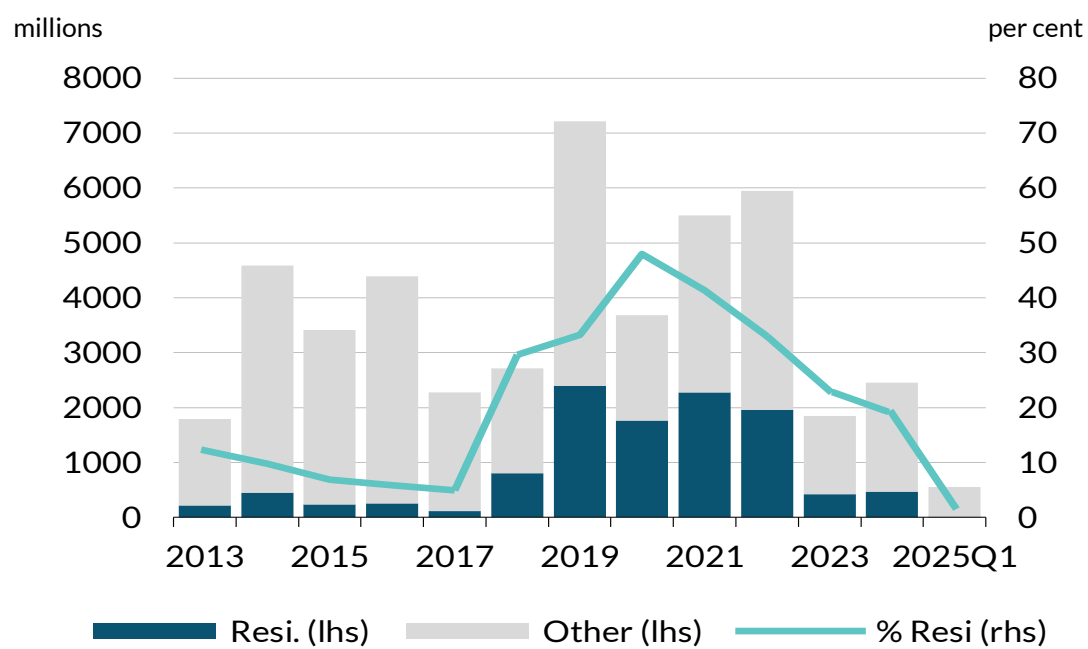
MSCI CRE index and annual percentage change



Source: MSCI.  
Note: Latest observation 2025Q1.

Investor demand has declined, particularly for residential real estate

Residential element of CRE investment volumes



Source: CBRE Research.  
Note: "Other" includes investment in office, retail, industrial and mixed sectors. Annual data, with the exception of latest observation, which covers 2025Q1 only.

# Financial Stability Review **2025:I**

Risks to the global financial system have intensified amid a sharp increase in trade and economic policy uncertainty, resulting in weaker global growth and higher market volatility



**Ireland exposed to trade tensions given reliance on trade and US FDI**



**Financial positions of Irish households, SMEs and banks are resilient in aggregate**



**Vulnerabilities to global financial markets persist in NBFIs**



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See our Financial Stability Review 2025:I at [centralbank.ie/FSR](https://centralbank.ie/FSR)