

Financial Stability Review 2026:1



Main messages of the Financial Stability Review

Risks facing the domestic financial system from the global environment have intensified with the Middle East war.

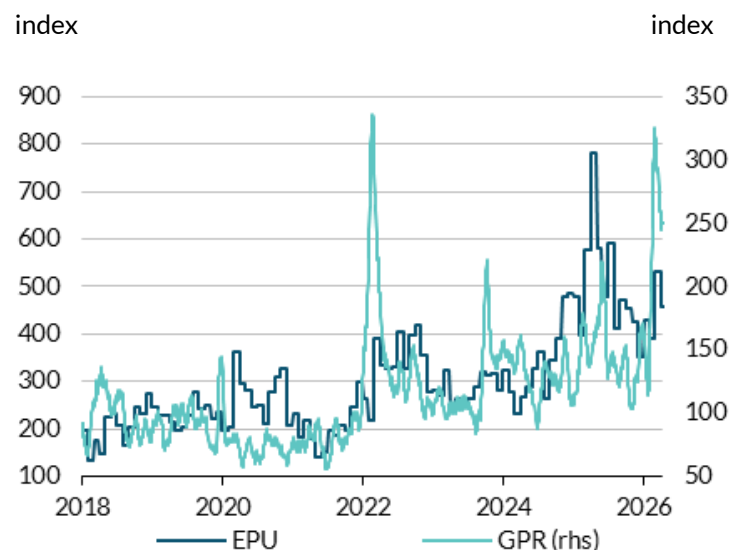
Domestic financial system resilient but vulnerable to elevated external risks.

- **Global energy shock** has increased inflation and will reduce growth. A prolonged war could trigger other vulnerabilities.
 - High **valuations in financial markets** at risk of adjustment, particularly in the AI sector.
 - Vulnerabilities in **US private credit markets**, with focus on exposures to AI / sectors at risk of AI disruption.
 - Financial **vulnerabilities in parts of the global non-bank sector** could amplify market stresses.
- **Cyber risks continue to intensify** amid increasing geopolitical tensions and rapid developments in AI.
- **Resilience of the Irish financial sector remains strong:** moderate private sector leverage, low NPLs, strong banking capital; limited *direct* exposures to Middle East, private credit, and AI related market shocks.
 - Weaker growth and higher inflation would reduce borrower resilience and debt-servicing capacity. Effects will vary across households and firms.
 - Tentative signs of stabilization in real estate markets but inward capital investment remains weak and higher input costs will feed through to construction costs.
- Highlights importance of **maintaining financial system resilience**, including to cyber and wider operational risks, and implementing sustainable fiscal policy.

The war is an unexpected stagflationary shock amid an already fragile geo-economic backdrop

Geopolitical and economic policy uncertainty have spiked upwards once again

Geopolitical Risk Index and European Economic Policy Uncertainty Index

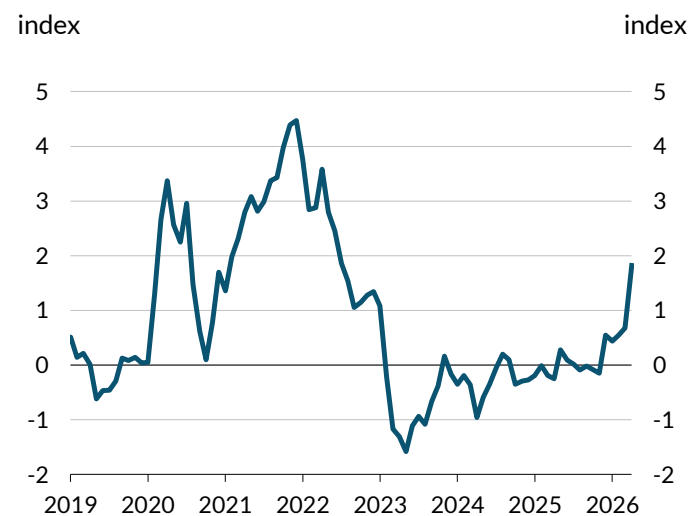


Source: Baker, Bloom and Davis, Caldara and Iacoviello via Bloomberg.

Notes: Global GPR Index is a 30-day moving average with last observation as of 8 May. European Composite EPU Index is monthly with last observation as of April.

Supply chain pressures are re-emerging, increasing the risks of more second-round effects

Global supply chain pressure index

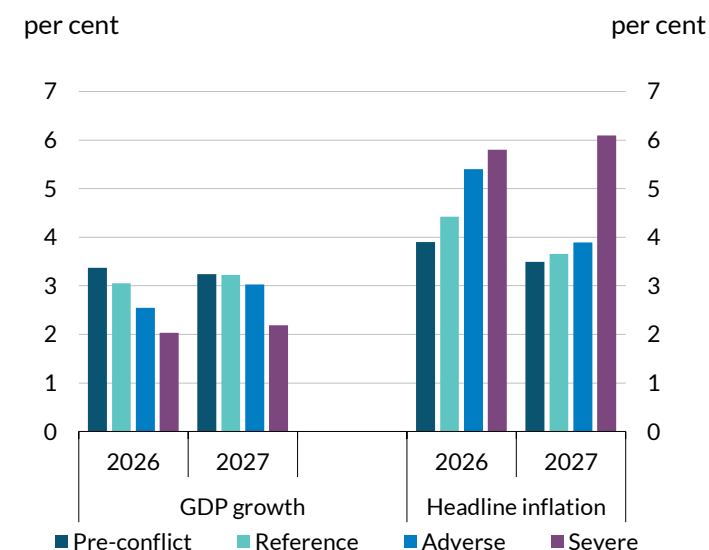


Source: Federal Reserve Bank of New York via Bloomberg.

Notes: Last observation April.

Lower growth and higher inflation, depending on the intensity and duration of the war

Global GDP growth and inflation forecasts for 2026 and 2027



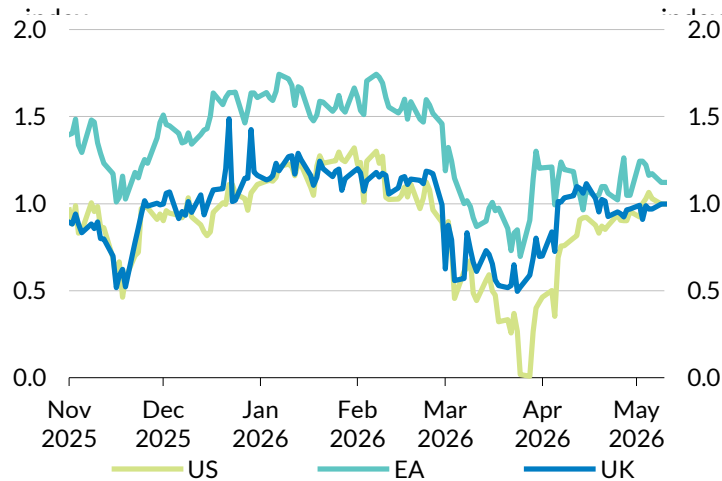
Source: IMF.

Notes: Pre-conflict and reference WEO forecasts are constructed from individual country projections before and after the outbreak of the Middle East conflict. The adverse and severe scenarios assume increasingly severe and protracted impacts on oil and gas prices, inflation expectations and financial conditions.

The global financial stability outlook will depend on the interaction of the adverse supply shock with financial market conditions

An initial sharp tightening of financial conditions in March has subsequently eased

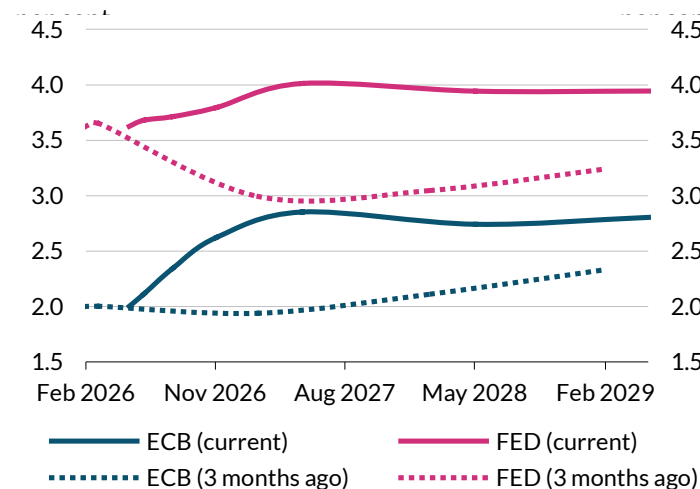
Financial conditions indices



Source: Bloomberg.
Notes: A positive value indicates accommodative financial conditions, while a negative value indicates tighter financial conditions relative to pre-crisis norms. Last observation 12 May.

Markets expect higher interest rates are needed to keep inflation expectations anchored

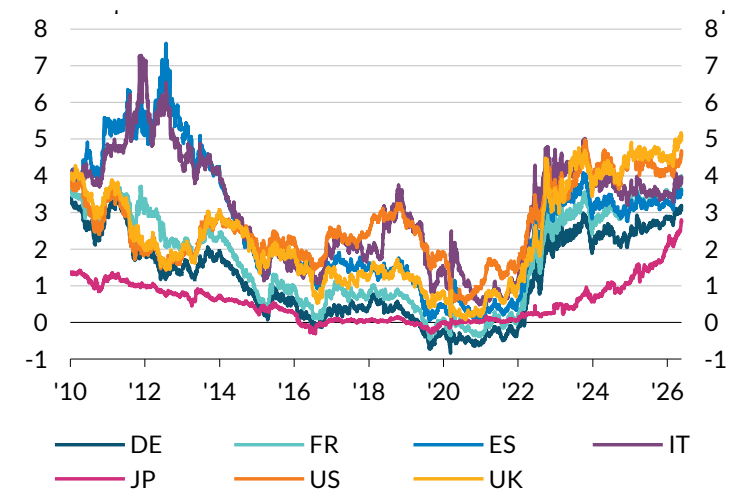
Market implied policy rates



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

Higher inflation expectations are already feeding through to sovereign bond markets

10-year sovereign yields

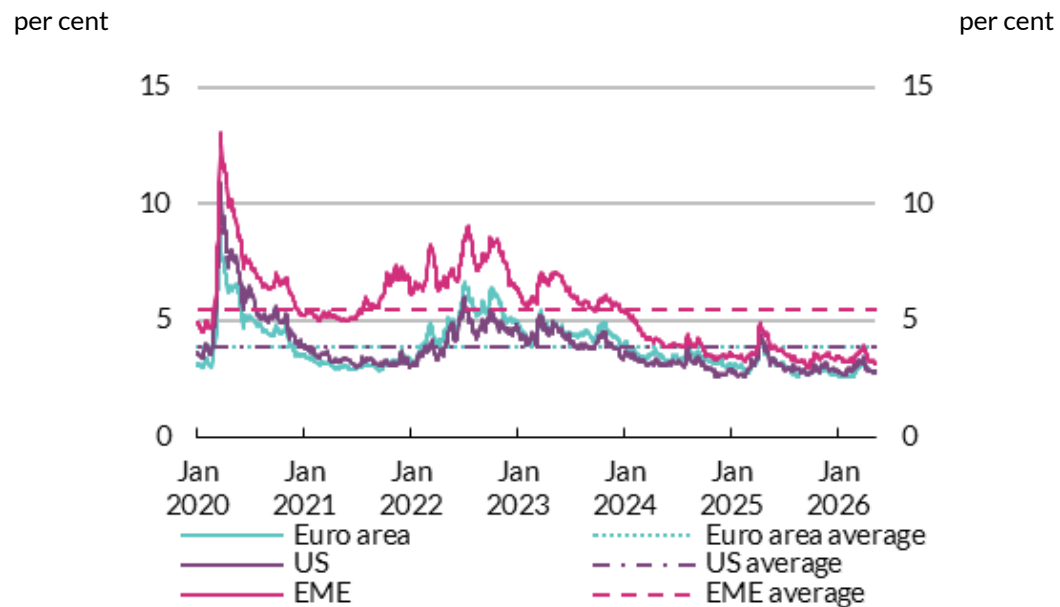


Source: IMF.
Notes: Pre-conflict and reference WEO forecasts are constructed from individual country projections before and after the outbreak of the Middle East conflict. The adverse and severe scenarios assume increasingly severe and protracted impacts on oil and gas prices, inflation expectations and financial conditions.

Tighter financing conditions and repricing of risk could derail financial market sentiment

Low corporate spreads could be exposed by a rate hiking cycle and/or repricing of risk

High-yield corporate bond spreads



Source: Ice Data Indices via Federal Reserve Bank of St Louis.
 Notes: Dashed lines indicate historic averages since October 2019. EME refers to emerging market economies. Last observation 8 May.

Equity market valuations are at historically elevated levels and appear stretched

Shiller Price Earnings Ratio of S&P500

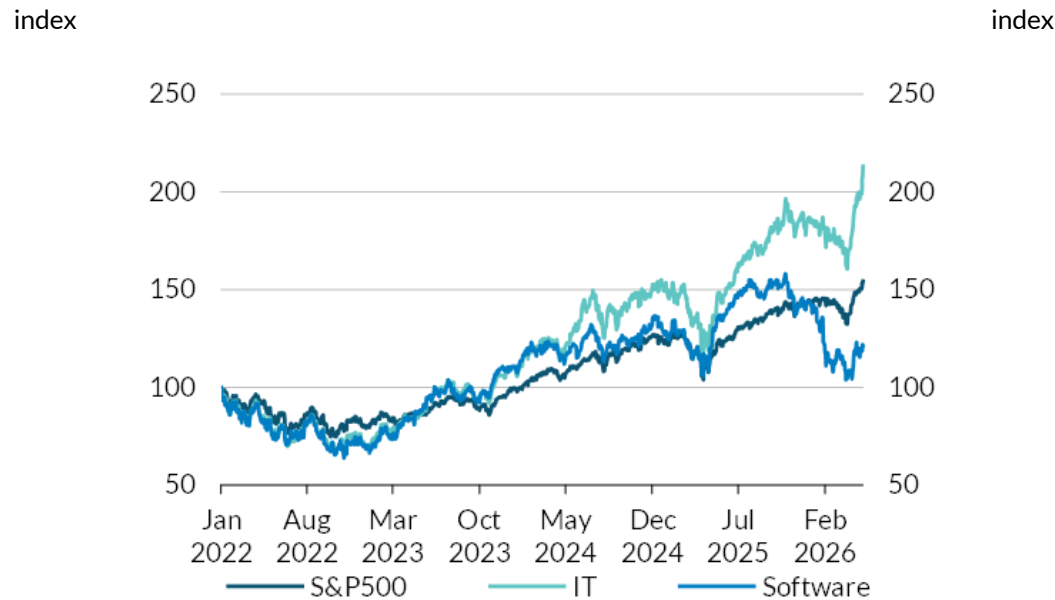


Source: Robert J. Shiller.
 Notes: The Shiller PE Ratio is also known as the Cyclically Adjusted Price Earnings (CAPE) Ratio. Last observation May 2026.

AI-related risks relate to performance of the sector relative to expectations, increasing debt finance, and disruption to other sectors

Software is underperforming relative to IT and the wider S&P 500

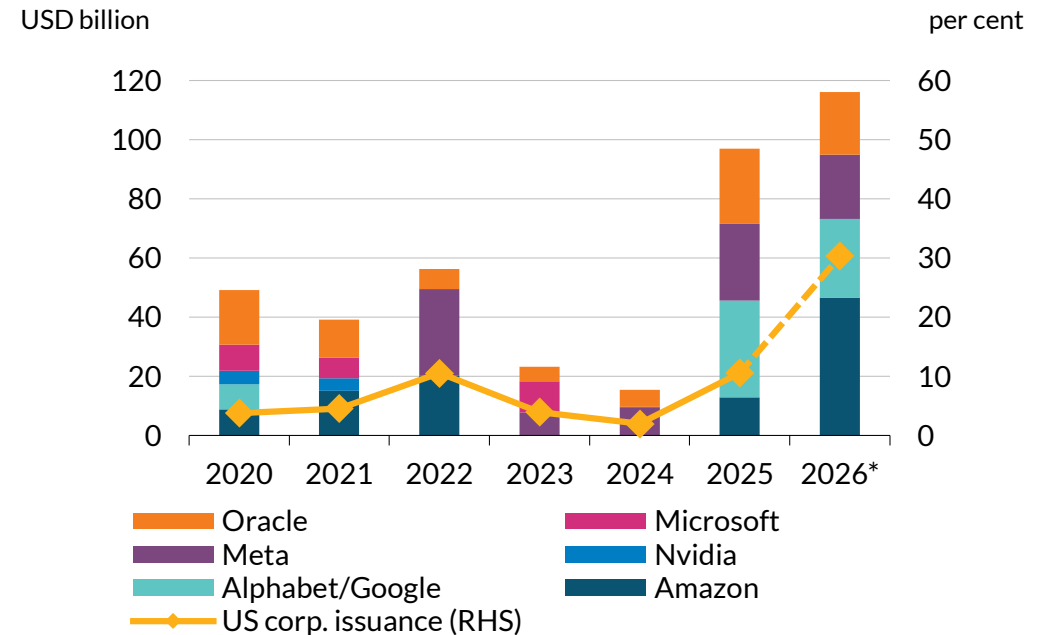
S&P500 with Information Technology and Software sectors



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

AI is becoming increasingly debt-financed

Debt issued by major AI companies at face value

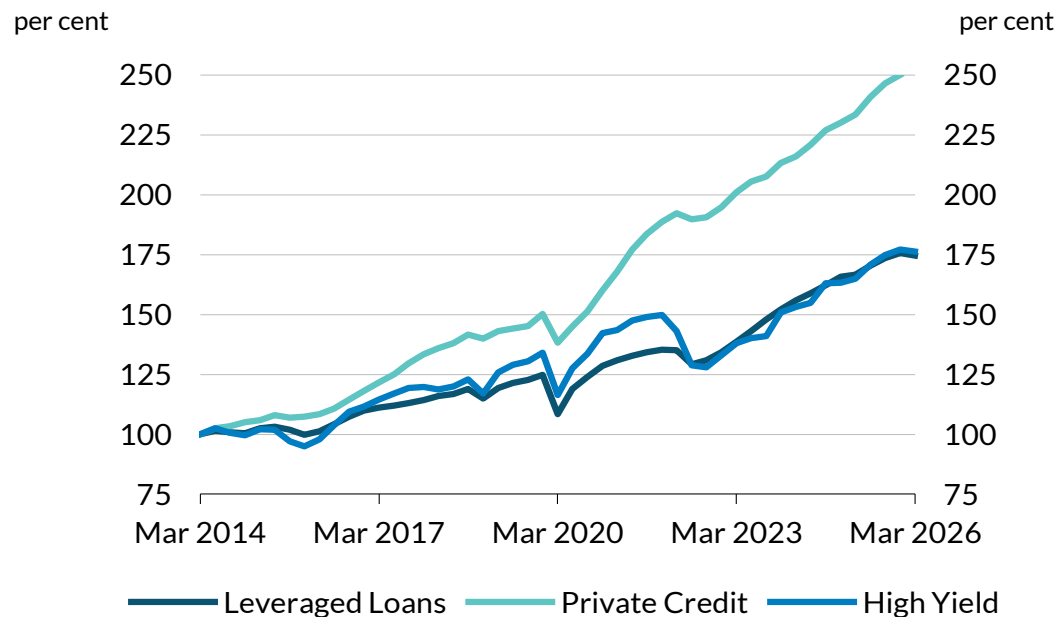


Source: CSDB, Federal Reserve Board via Haver Analytics, and staff calculations.
Notes: Share of US corporate issuance on the RHS axis. Figures relate to the face values of tradable debt securities only. Based on known issuances until 8 May 2026. US Corp. Issuance figure for 2026 is the total for Q1.

Private credit's opacity, leverage structures and interlinkages are creating vulnerabilities that risk amplifying stress

Performance is predicated on better returns

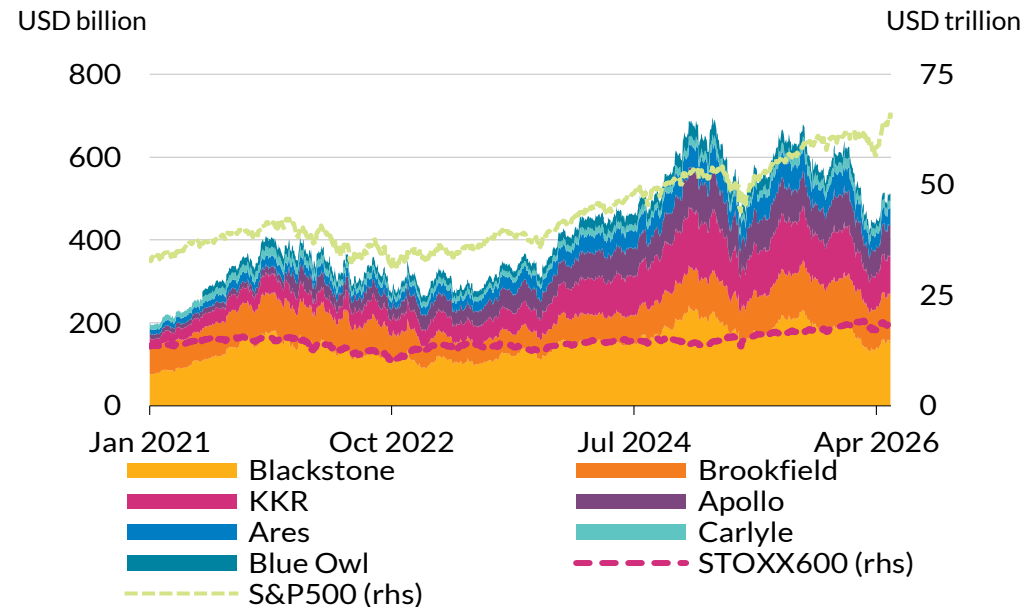
Private credit returns



Source: Bloomberg, Commerzbank Research.
 Note: Indexed total return indices, in %. High Yield: ICE Bank of America High yield index. Leveraged Loans: Morningstar's Broadly Syndicated Loan LSTA US Leveraged Loan Index. Private Credit: Hamilton Lane Private Credit Index. Last observation is Q1-2026, except for Private Credit, whose last observation is Q4-2025.

Private market investor sentiment declined recently after years of expansion

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



Source: Bloomberg.
 Notes: Last observation 8 May.

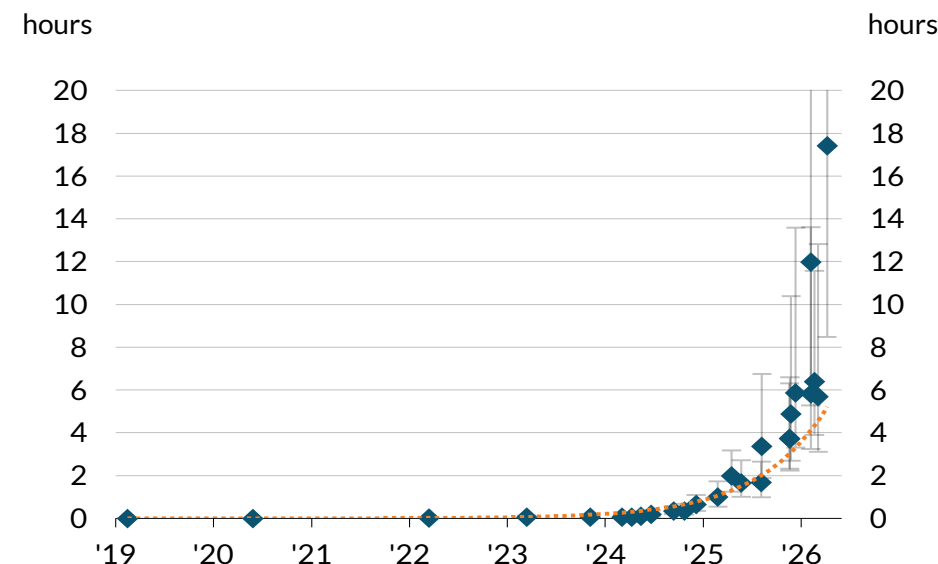
Rapid AI developments are raising concerns over the facilitation of cyber attacks

- Cyber risks continue to intensify amid increasing geopolitical tensions and rapid developments in AI.
- AI-enabled cyber threats are systemic, borderless and can spread rapidly across sectors, particularly through common third-party providers.
- Conversely, leading AI laboratories have released agentic tools to detect vulnerabilities, highlighting that AI itself is both an evolving threat and a vital defence mechanism.
- The evolving cybersecurity threat landscape necessitates continued bolstering of operational resilience capabilities by the financial system to prevent a disruption to core financial services.

FSR also contains an 'In Focus' piece on the domestic financial stability implications of developments in AI financing

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



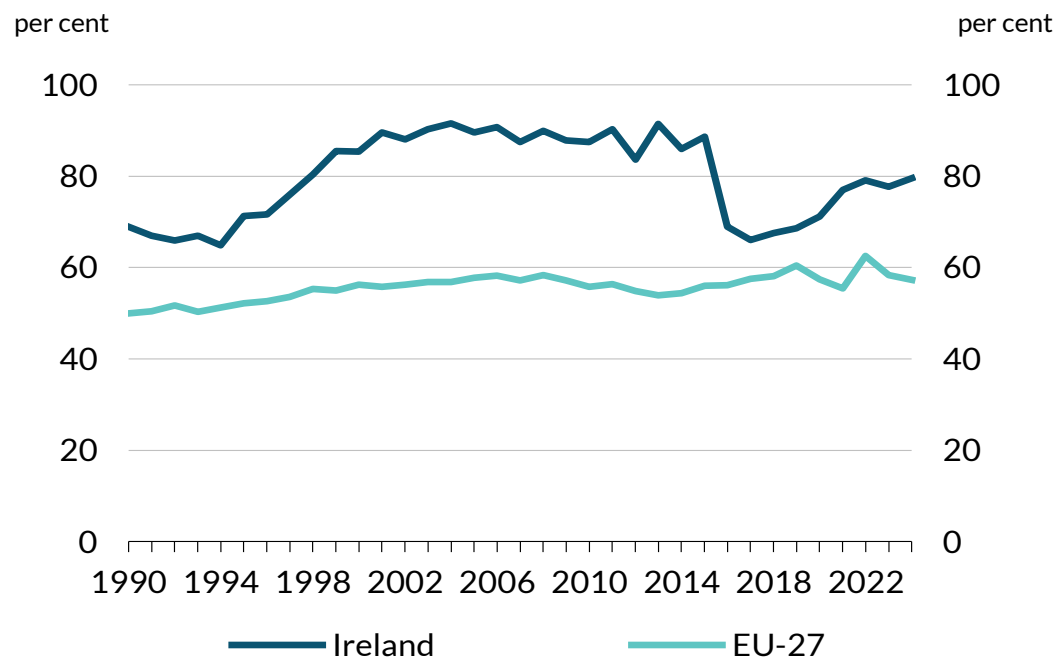
Source: Model Evaluation & Threat Research (METR).

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. Trend is shown using an orange dashed line.

The domestic outlook remains sensitive to developments in international energy markets

Ireland has higher energy imports dependency than its EU counterparts

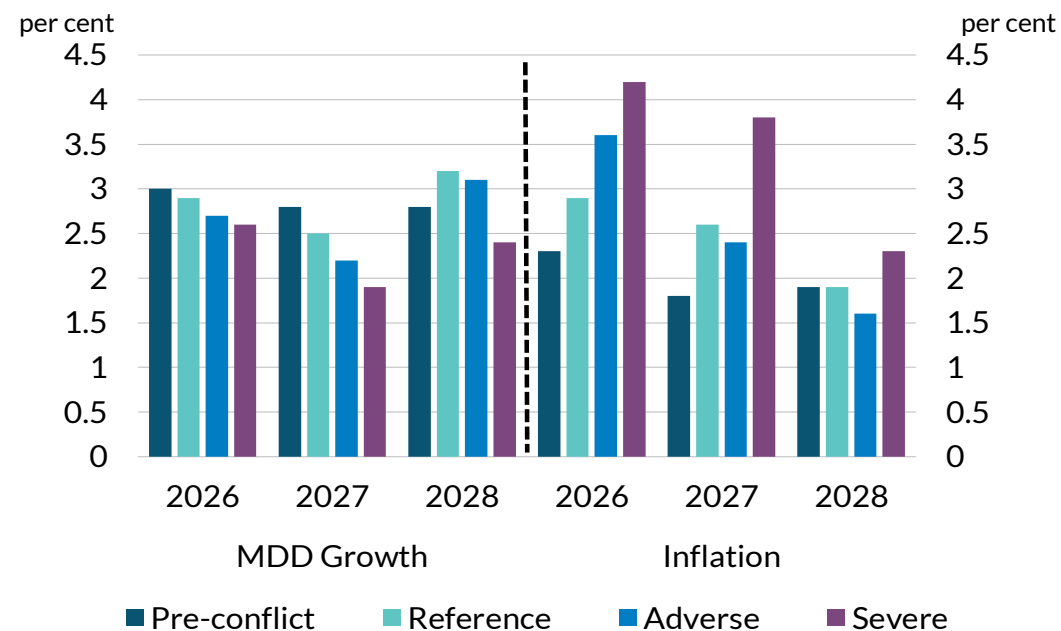
Energy import dependency



Source: Eurostat.
Notes: Latest data 2024.

Energy price scenarios imply higher inflation and lower growth than the baseline

Evolution of inflation and growth forecasts

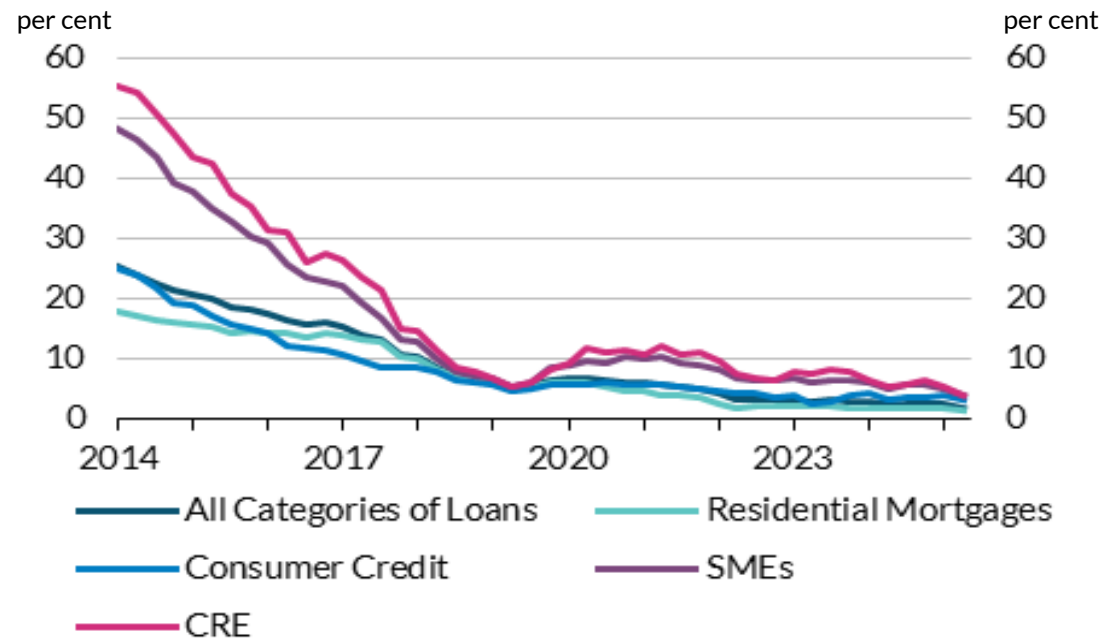


Source: Central Bank of Ireland calculations.
Notes: Data are the Central Bank's forecast for Irish Inflation and MDD as reported in the 2026Q1 Quarterly Bulletin. Pre-conflict scenario refers to baseline forecasts in the 2025Q4 Quarterly Bulletin.

The domestic financial system is starting from a position of resilience, supported by ongoing economic growth

Non-performing loans at domestic banks remain low across all loan categories

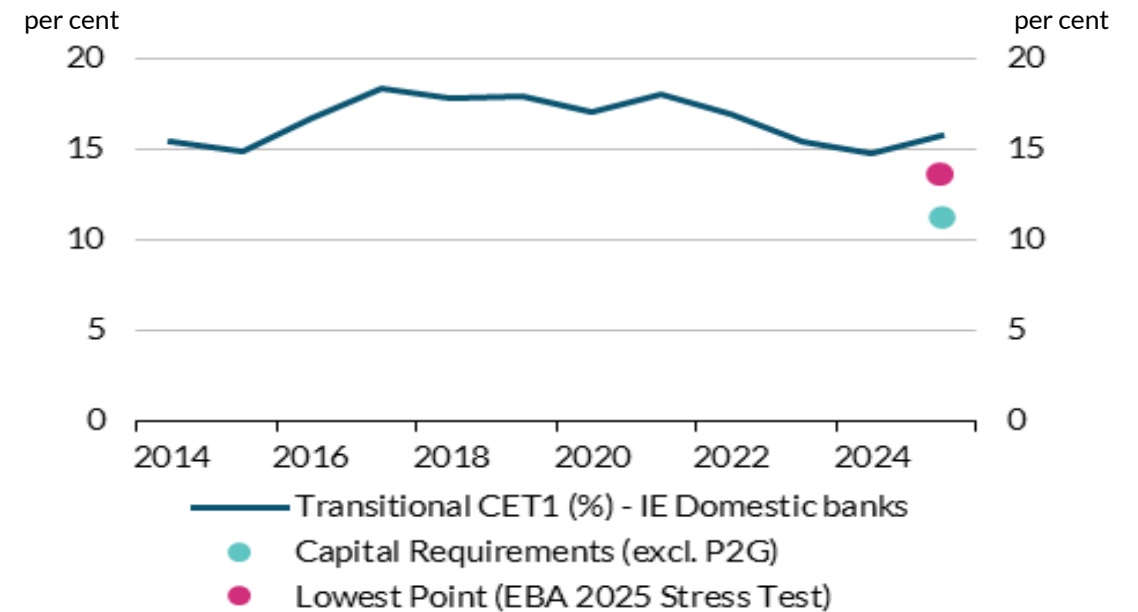
NPL ratios by loan type



Source: FINREP, Central Bank of Ireland calculations.
Notes: Last observation December 2025.

Irish banks have capital to absorb losses that may arise from the current stress period

Transitional CET1 capital ratio and requirements for IE banks

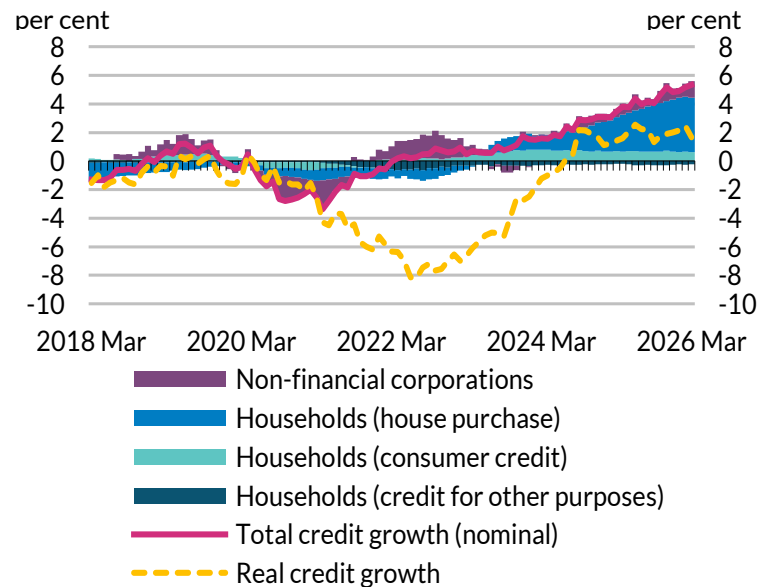


Source: Central Bank of Ireland.
Notes: The green dot shows IE banks' capital requirements (excluding P2G) at December 2025. The pink dot shows the lowest point for IE banks under the EBA 2025 adverse stress test to illustrate that IE banks still have capital buffers for absorbing adverse shocks.

Credit growth is increasing, driven by First Time Home Buyers, but in line with domestic demand

Aggregate credit growth is increasing but not out of line with domestic demand growth

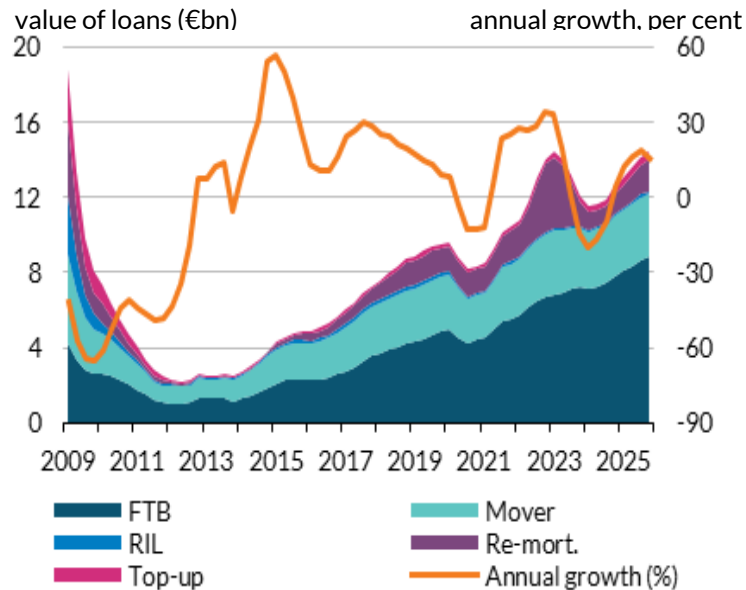
Contribution by loan type to annual growth of total bank credit



Source: CBI Credit and Banking statistics and CSO.
Note: Credit calculations based on data from Tables A.1 and A.6. Last observation March 2026.

FTBs remain the chief driver of mortgage lending growth

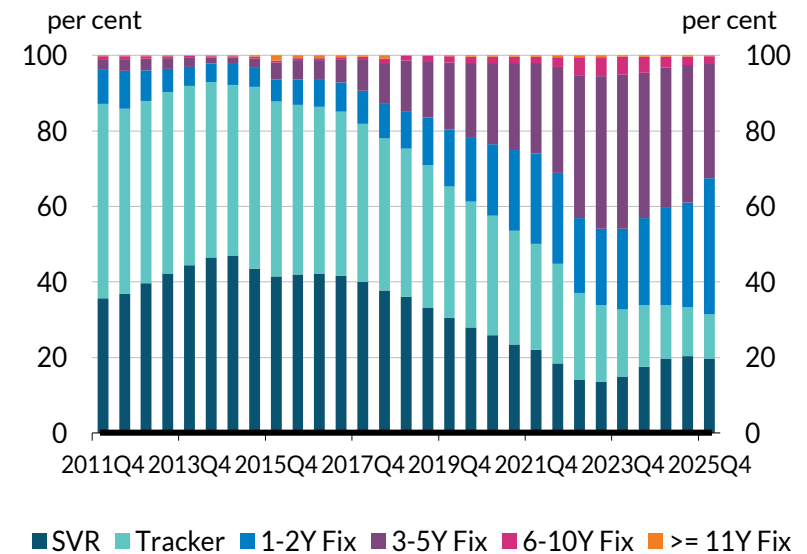
Value of annual mortgage drawdowns by buyer type



Source: BPI and Central Bank of Ireland.
Notes: Rolling 4 quarter totals. Last observations 2025Q4.

Many mortgaged households face fixed rate expirations within the next three 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.

The housing market has been showing signs of stabilisation but construction activity could be impacted by rising costs

The rate of residential property price growth continues to ease

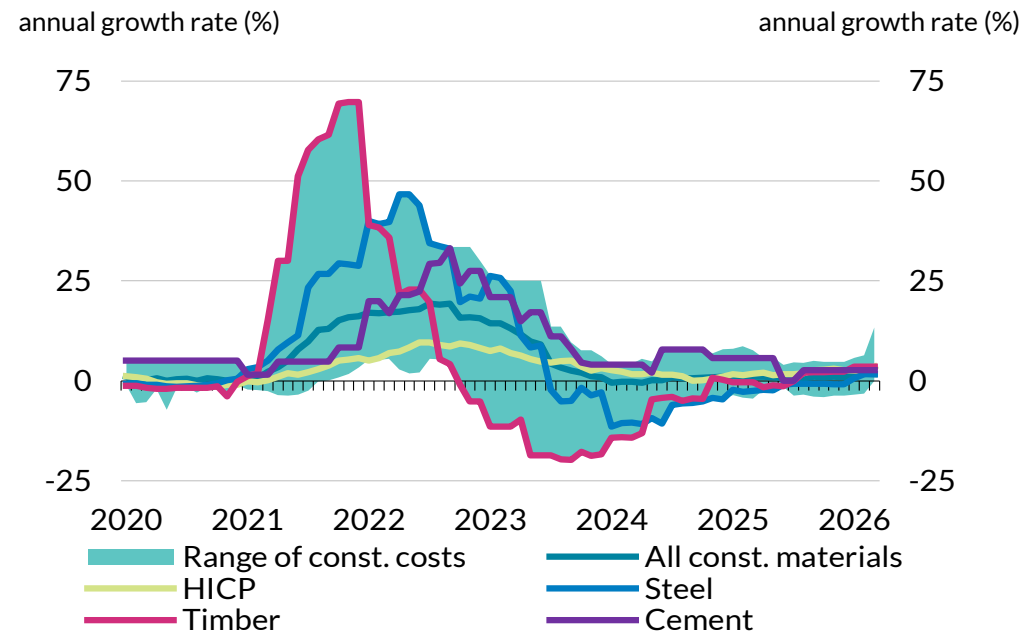
Residential property price growth: annual and quarterly



Source: CSO.
Notes: Last observation February 2026

Higher input prices could feed through to construction costs as seen during 2021/2022

Annual growth rate in Wholesale Price Index Building and Construction Materials and HICP

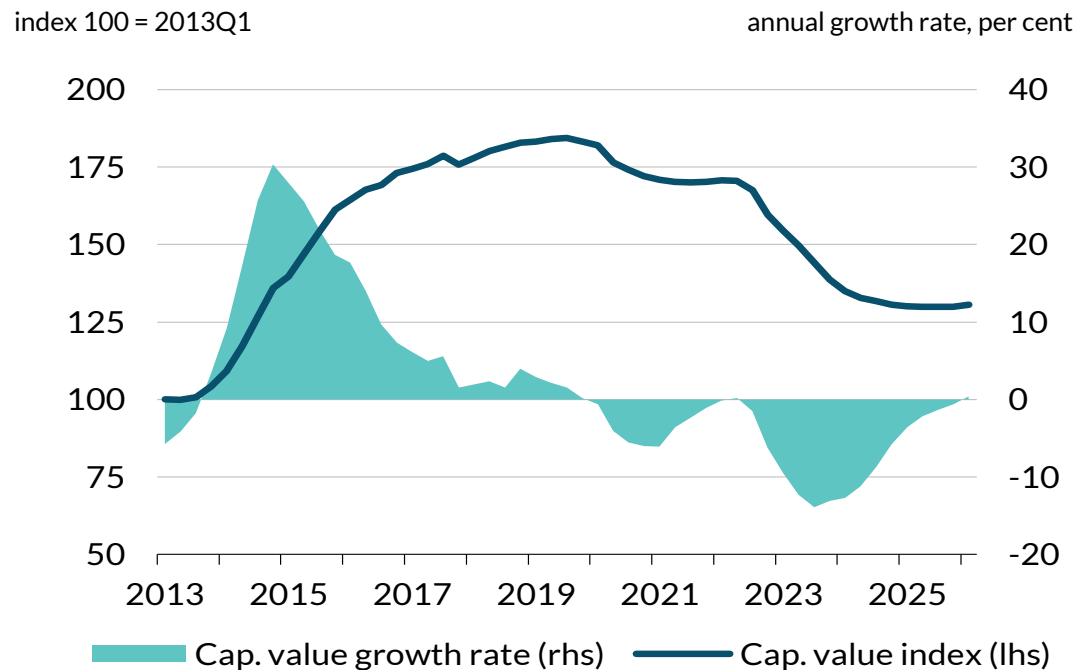


Source: CSO and Central Bank of Ireland.
Notes: Last observation March 2026.

A cautious recovery in the domestic CRE market has been underway but inward investment remains relatively weak

Irish CRE prices have stabilised, with positive annual growth recorded this year

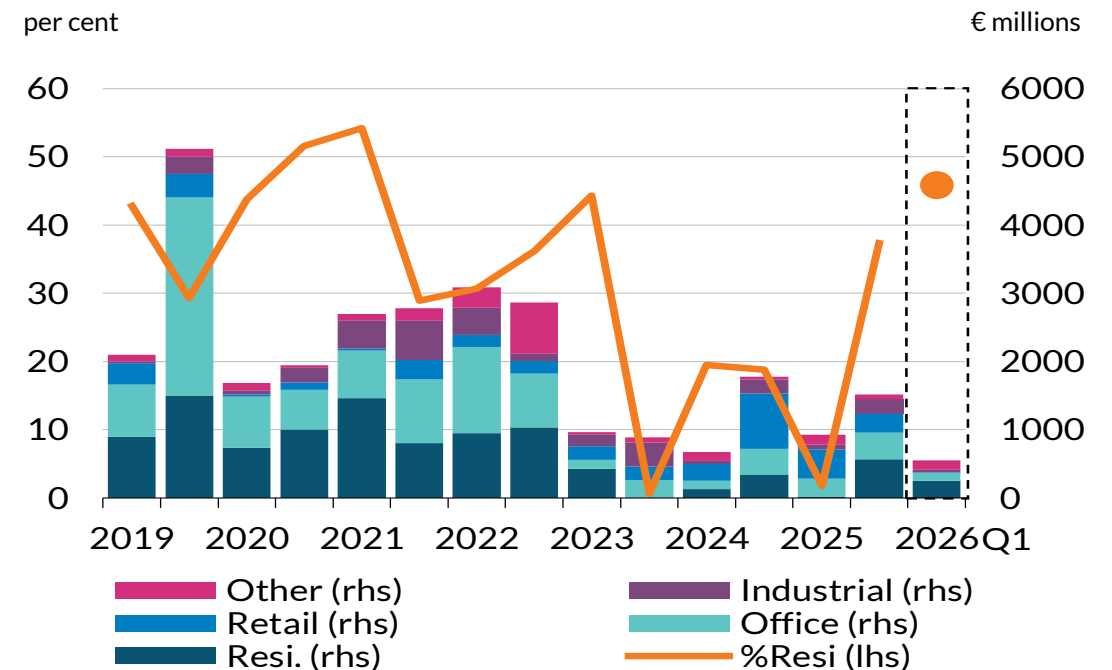
CRE capital value index and annual growth rate



Source: MSCI.
Notes: Last observation 2026Q1.

Investment in CRE remains weak, but signs of a pick up over the past year, particularly for residential

Breakdown of CRE investment expenditure

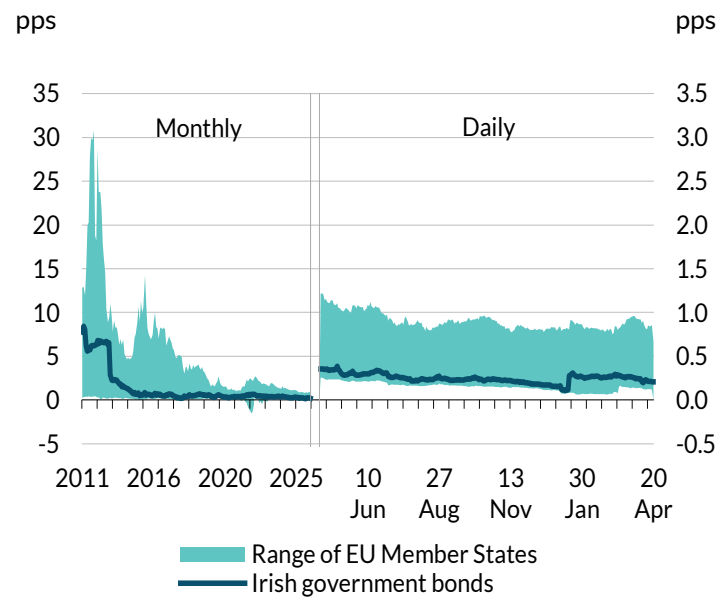


Source: CBRE.
Notes: Each bar presents a breakdown of CRE investment on a 6-monthly basis, i.e. the first and second halves of the year, apart from 2026 data which account for CRE investment during the opening 3 months of the year only. Last observation 2026Q1.

The headline fiscal position remains favourable, but underlying vulnerabilities are increasing

Irish sovereign spreads indicate confidence in Ireland's debt and financing position

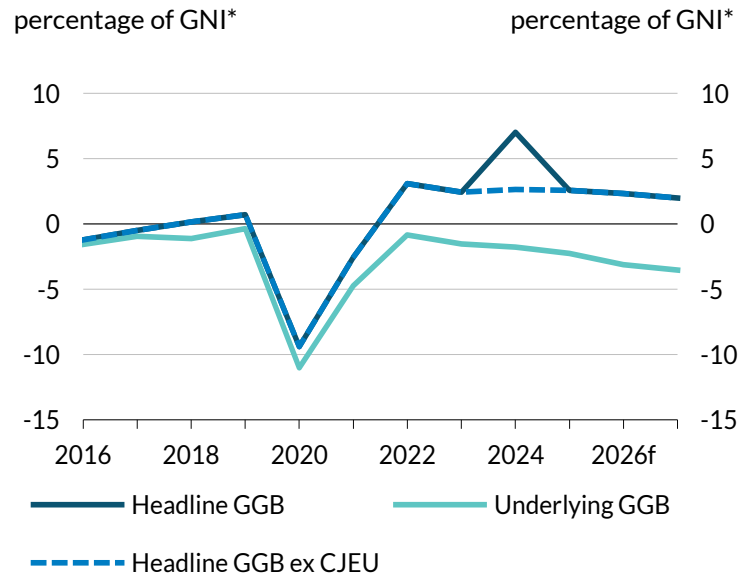
Irish and selected EU bond spreads over German Bunds



Source: Bloomberg.
 Notes: Data are for a time-varying range of 16 EU Member States. Left panel shows month end values for the period June 2010 to May 2026. The right panel shows daily data for the last year. Last observation 25 May 2026.

Underlying budget balance is projected to remain in deficit

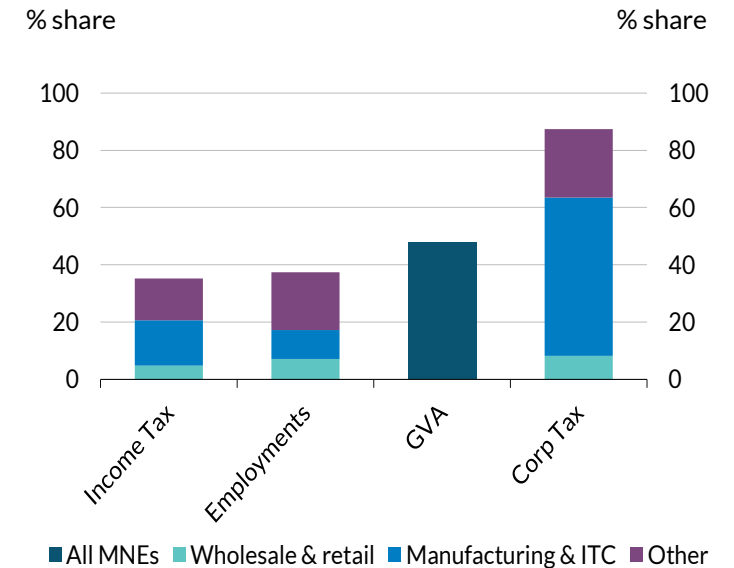
General Government Balance forecast



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. Forecast taken from [Quarterly Bulletin No. 1 2026](#).

Government tax receipts are reliant on MNEs

Foreign MNE share of tax receipts and employment



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 MNE's GVA as a percentage of economy wide total.