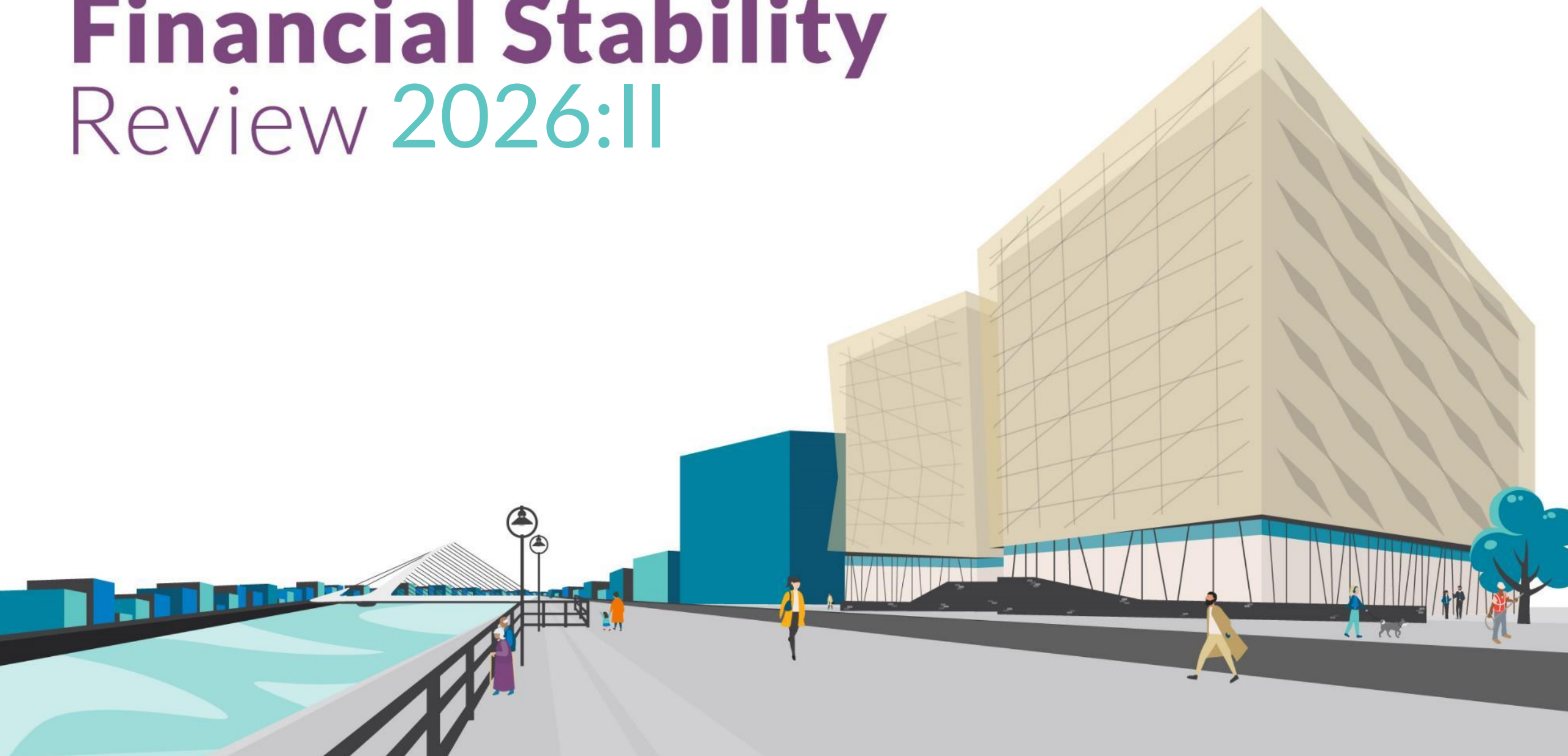
Financial Stability Review 2026:II



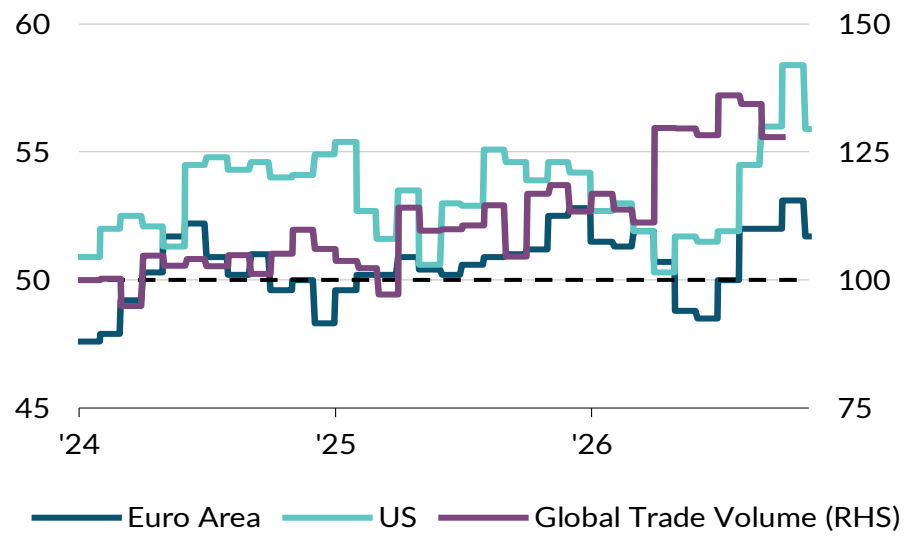
Main messages of the Financial Stability Review

- Risks stemming from developments in the rest of the world have increased and remain elevated, amid increasing AI-driven debt financing, rising sovereign risk and ongoing geopolitical tensions.
- AI-related investment is increasingly driving global growth while an acceleration in debt financing by hyperscalers via complex and circular funding structures has sharpened concerns about links to the financial system.
- The significant rise in global interest rates has been driven by higher inflation and rising levels of government debt. Countries with fiscal imbalances and higher debt have been most vulnerable.
- With NBFIs' increasing exposures to US technology firms as well as sovereign debt, a shock in one market segment could spread across the financial system. The potential for one shock, such as a re-assessment of the AI narrative, to trigger and amplify multiple risks simultaneously remains high.
- The development of frontier AI models has led to a step change in cyber risk by making it easier to identify and exploit system vulnerabilities and increasing autonomous cyber-attack capabilities. The effects of climate change are becoming more apparent with direct implications for the financial system including insurance
- Domestic risks are structurally intertwined with global developments. The State's fiscal position, external trade dynamics and investment are all heavily influenced by a handful of large multinational enterprises.
- While the resilience of domestic households, businesses and the financial system is strong, with limited direct exposures and significant buffers available to absorb a shock, this resilience could be tested by simultaneous shocks to AI sentiment, energy prices, and fiscal revenues and broader second round effects.
- Mortgage lending is driving overall credit growth, but affordability remains a key issue in the domestic residential market despite a recent softening in house price inflation. The Commercial Real Estate market has improved but remains vulnerable to global financial conditions and sectoral changes in demand.
- The Central Bank's macroprudential policies aim to promote resilience and are proportionate to the risks faced by the financial system.

AI investments are driving global growth while an increase in debt financing has sharpened concerns about links to the financial system

Surprising resilience in global trade and economic growth

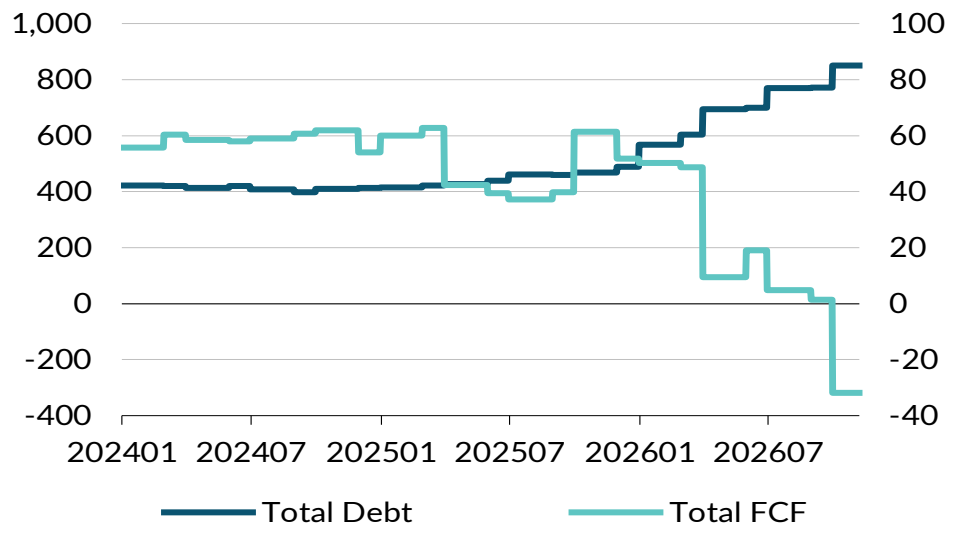
Composite PMI and trade volume



Source: Bloomberg, WTO via Haver Analytics.
Note: PMI values above 50 indicate expansion, values below 50 indicate contraction. Last PMI observation is 6 November 2026. Last trade observation is September 2026.

Elevated and rising AI debt alongside a sharp drop in US hyperscalers' free cash flows

AI-exposed companies debt issuances (left axis) and Free Cash Flows (right axis)

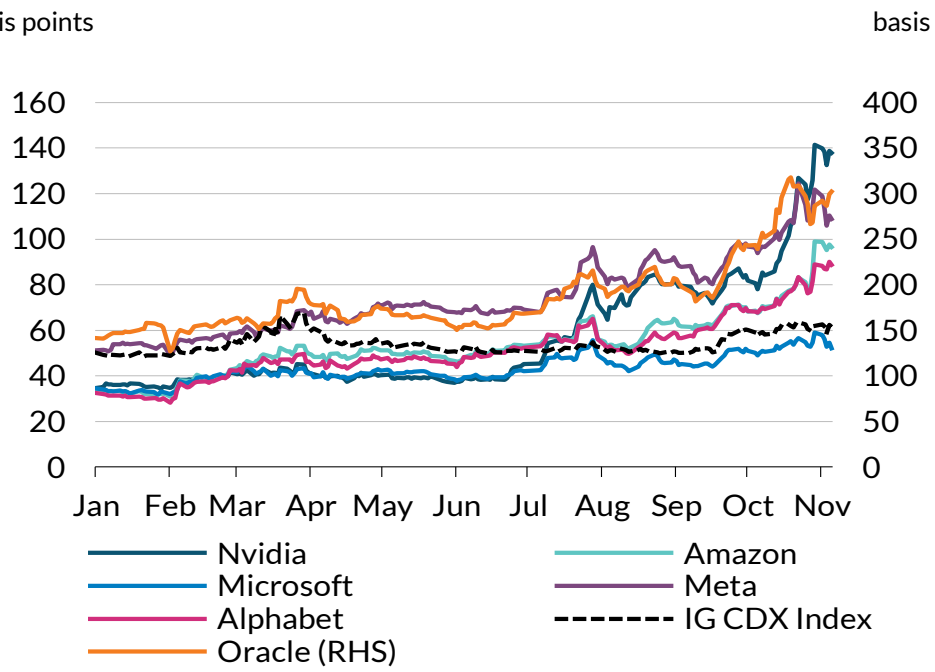


Source: Bloomberg.
Notes: AI-exposed companies include Oracle, Amazon, Microsoft, Google, and Meta. Last observation is 6 November 2026.

Evidence is emerging of reduced risk appetite across corporate bond markets

Insuring against defaults of AI companies is becoming more expensive

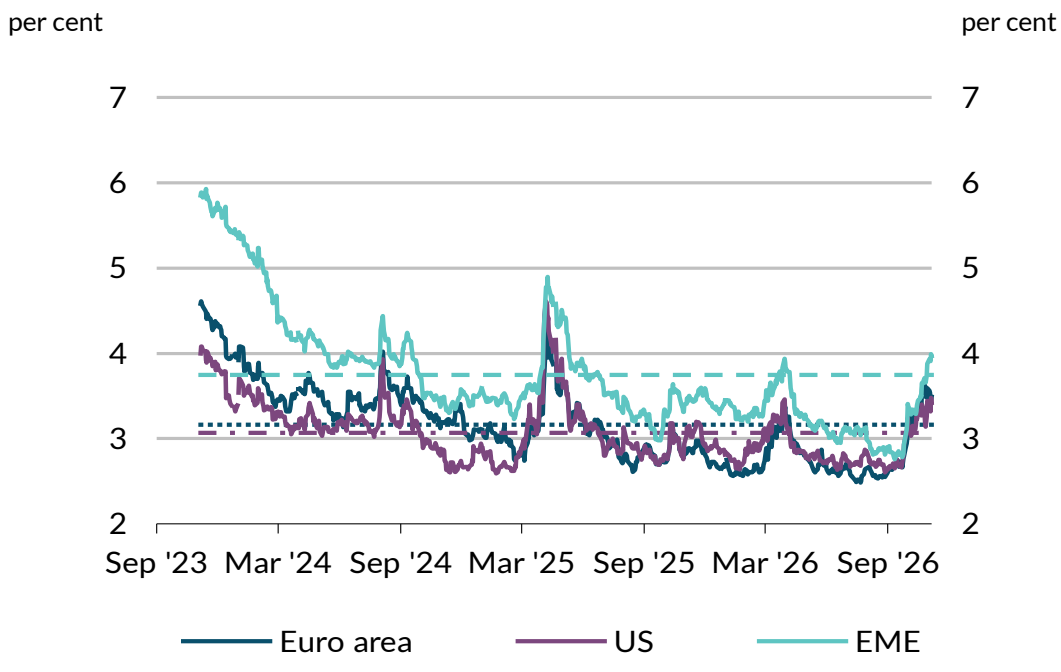
5-Year CDS Spreads of AI Companies



Source: LSEG and Bloomberg.
Notes: IG CDX Index refers to the CDX North American Investment Grade (CDX.NA.IG) index, a benchmark credit default swap (CDS) index managed by the S&P Dow Jones Indices. Last observation is 6 November.

Uptick in corporate bond spreads from recent historic lows, particularly in *high yield segments*

High yield corporate bond spreads

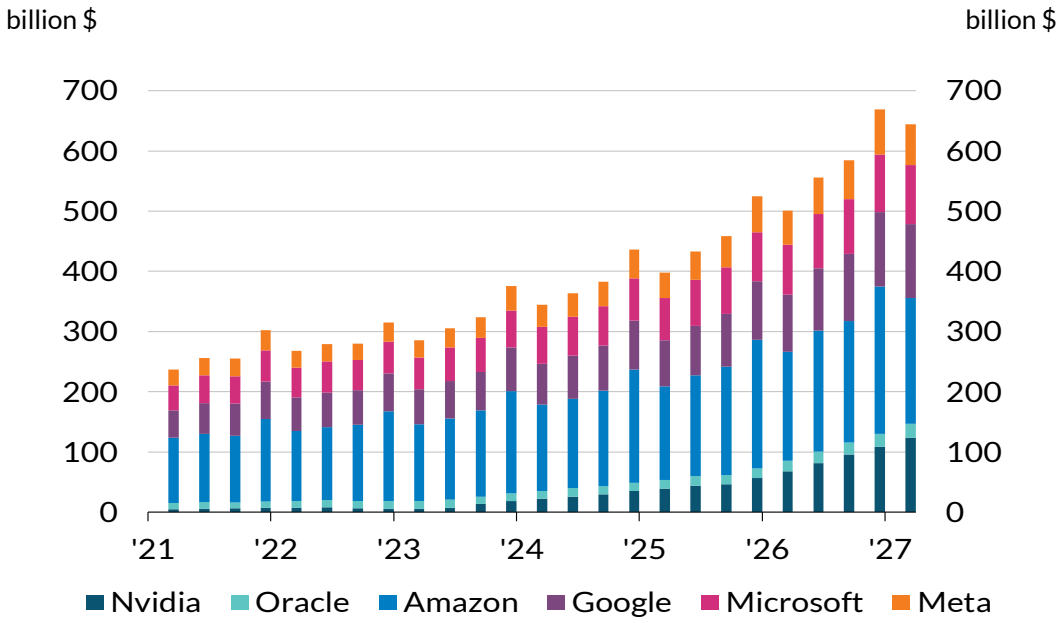


Source: Ice Data Indices via Federal Reserve Bank of St Louis.
Notes: The ICE BofA Option-Adjusted Spreads (OASs) are the calculated spreads between a computed OAS index of all bonds in a given rating category and a spot sovereign curve. Dashed lines indicate historic averages since 06 November 2023. Last observation is 6 November 2026.

Expectations of continued high earnings growth in AI have driven equity valuations

Hyperscalers' earnings are increasing, often surpassing expectations

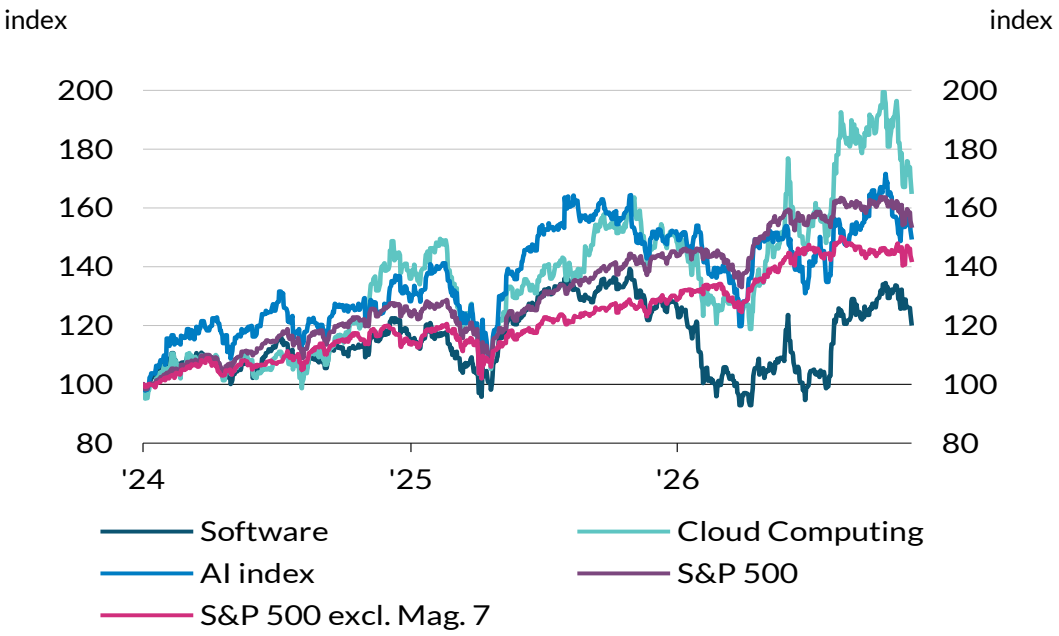
Hyperscalers' recorded and consensus revenue



Source: Bloomberg.
Notes: Values post June 2026 are consensus estimates.

AI and other technology valuations have shown considerable volatility and differences across sub-sectors

Software, cloud computing and AI index equity



Source: Bloomberg.
Notes: The equity indices are all normalized to 100 as of January 1, 2024. The AI index is a market cap weighted average of Oracle, Amazon, Microsoft, Google and Meta. Last observation is 17 November 2026.

The significant rise in global interest rates has been driven by higher inflation and rising levels of government debt.

Higher energy prices and long-term interest rates since start of conflict in Middle East

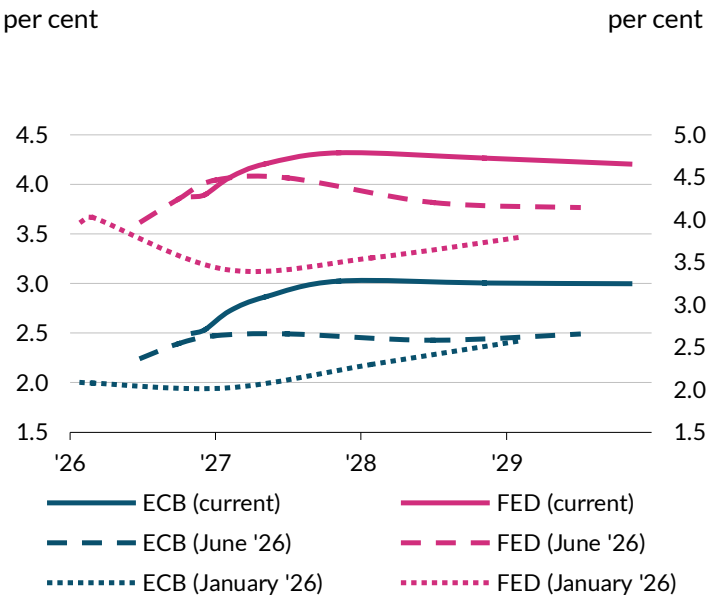
Brent crude price and 10-year Treasury yields



Source: Bloomberg.
Notes: The start of Middle East war refers to 2 March 2026, the first trading day after the start of the war on 28 February 2026. Fed hike 25 bp refer to 16 September 2026.

Market interest rate expectations are now notably higher for longer

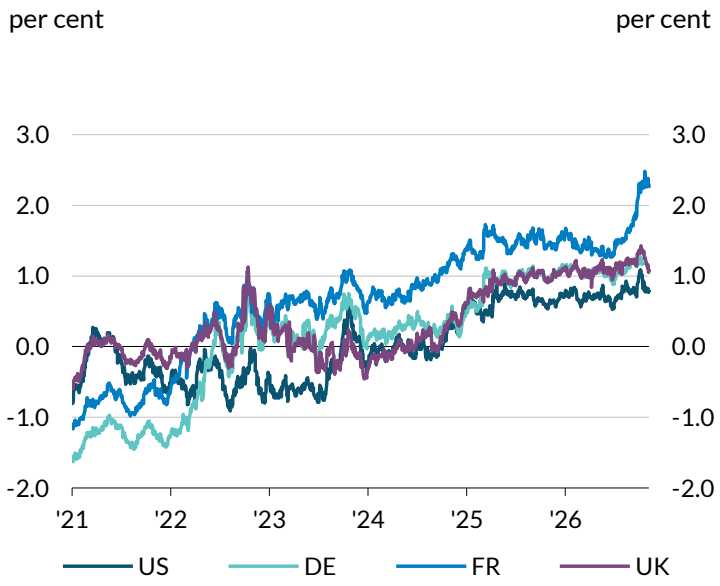
Market implied policy rates



Source: Bloomberg and staff calculations.
Notes: Current refers to 6 November 2026.

Investors are looking for higher returns for holding longer term debt

ACM 10-year term premia

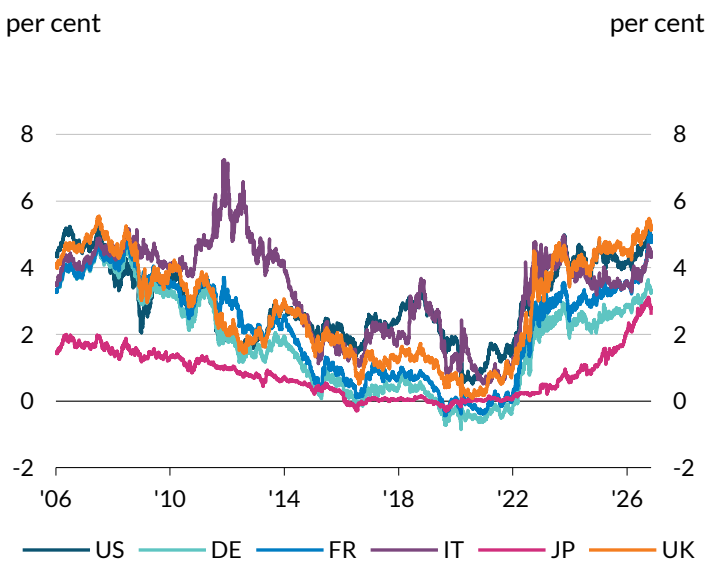


Source: Bloomberg.
Notes: Adrian, Crump, and Moench (ACM) term premia estimates by Bloomberg Economics. Last observation is 6 November 2026.

Sovereign bond yield increases have been broad based; although countries with fiscal imbalances and higher debt levels have been most vulnerable

Long term yields are increasing due to higher inflation and rising levels of debt

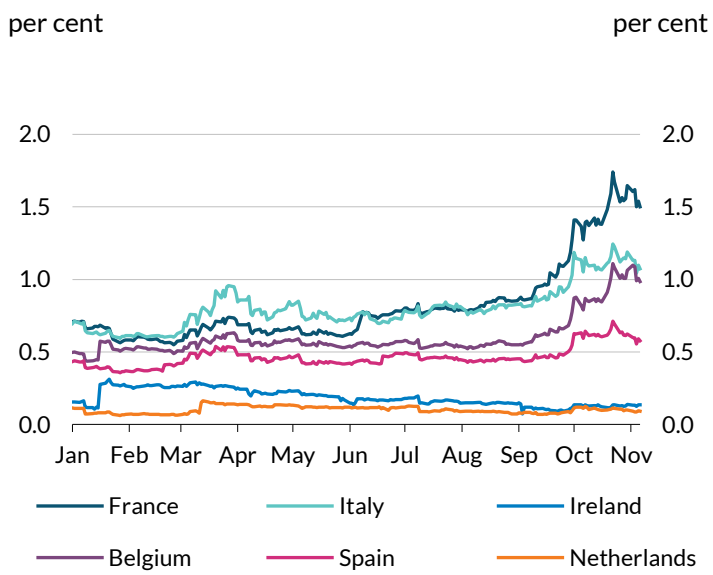
10-year yields across countries



Source: Bloomberg.
Notes: Last observation is 6 November 2026.

Sovereign bond spreads are widening, notably in the euro area

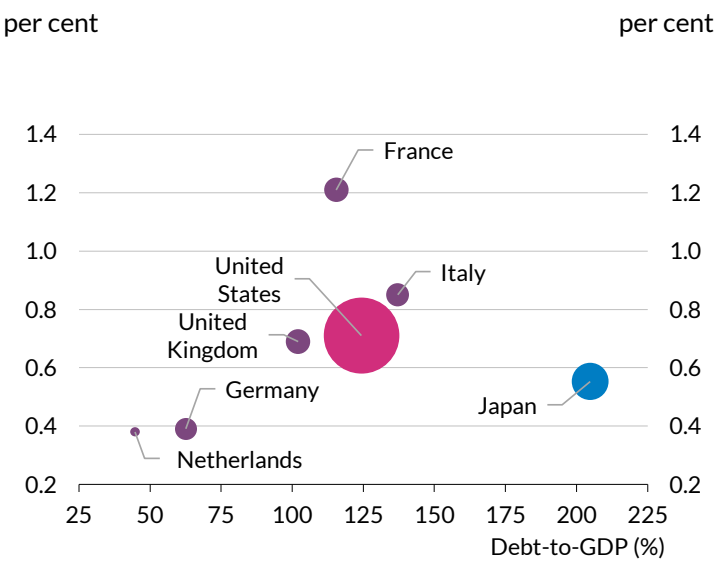
10-year sovereign spreads over Germany



Source: Bloomberg.
Notes: Last observation is 6 November.

More indebted countries have seen yields increase more strongly

Relation between debt-to-GDP and YTD 10-year yield increase

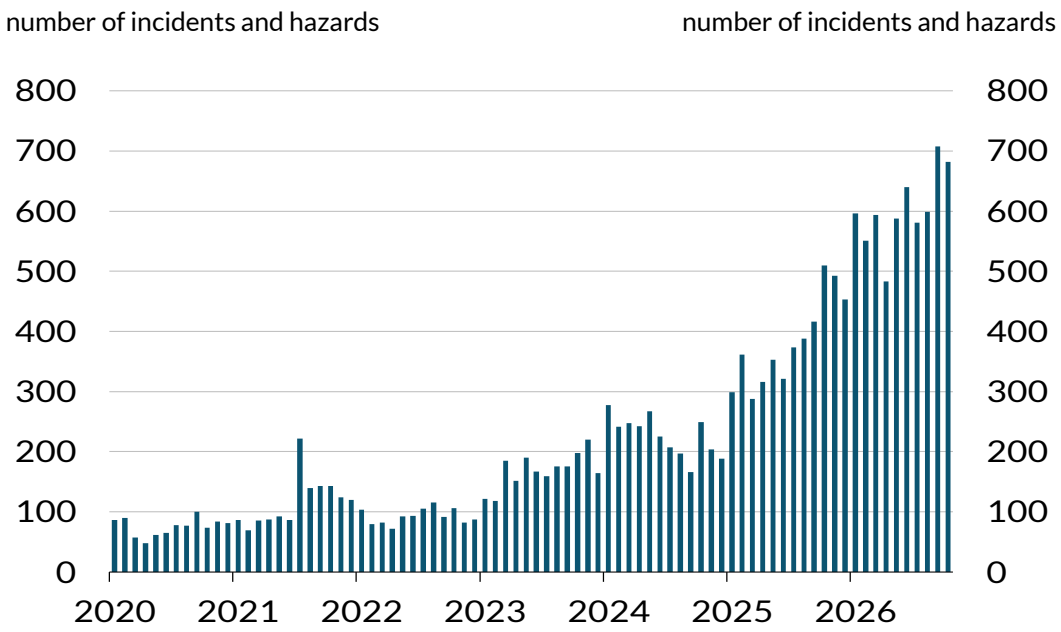


Source: IMF and LSEG via Haver Analytics.
Notes: Latest yield observation is 6 November 2026. Outstanding debt amounts represented by bubble size. Outstanding debt amount and debt-to-GDP ratio as of end-2025.

AI has resulted in a step change in cyber risk increasing the potential for and speed of cyber-attacks.

Advancing AI capabilities have led to increasing AI-related incidents

AI-related incidents and hazards over time



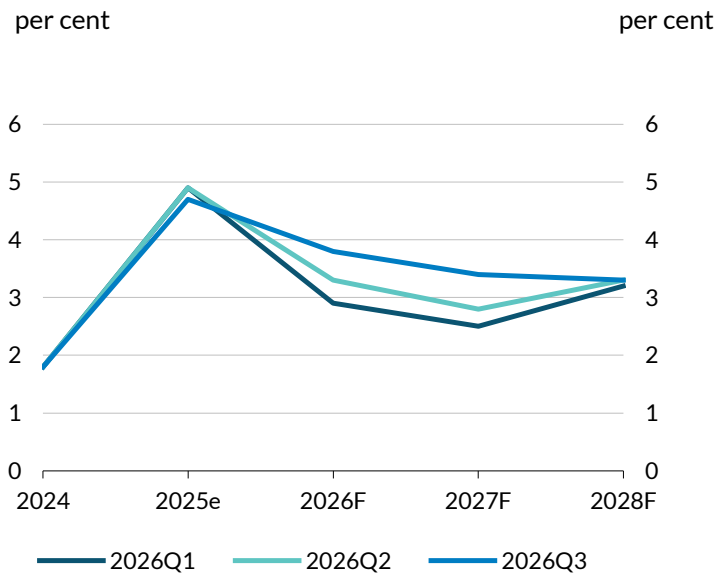
Source: OECD.
Notes: An AI incident is defined as an event in which the development, use or malfunction of an AI system results in harm to health, critical infrastructure, human/labour/intellectual property rights, properties, communities or the environment. An AI hazard is defined as an event in which such harm is plausible but has not yet occurred. Last observation is October 2026.

- Developments in Frontier AI models reduce the time, cost and expertise needed to identify and exploit system vulnerabilities.
- Potential for significant increase in the speed, scale and scope of offensive cyber-attacks
- Systemic cyber incidents could disrupt critical infrastructure, markets or institutions

Reliance of tax revenues and exports on a small number of MNEs leaves Ireland's growth outlook exposed to an AI-related shock

The growth outlook has strengthened as the year has progressed

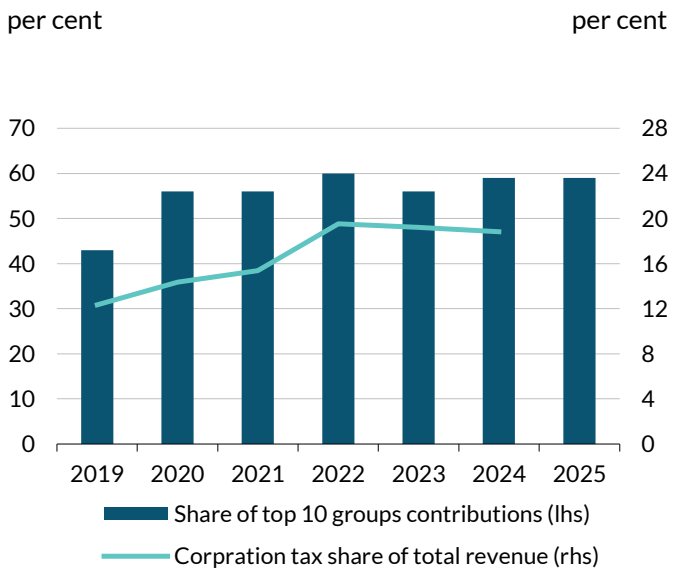
Evolution of MDD forecast



Source: Central bank of Ireland, Quarterly Bulletin.

Corporation tax concentration is increasing with MNEs accounting for a larger share of total government revenues.

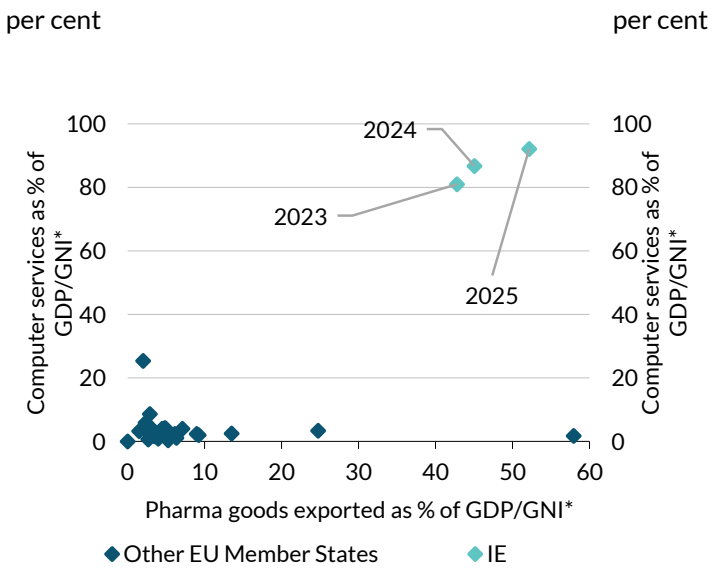
Corporation tax share of total government revenue and top 10 groups contribution to total corporation tax receipts



Source: Revenue Commissioners and CSO.

Irish exports are particularly reliant on a small number of (MNE-dominated) sectors

Selected goods and services exports as a percentage of GDP/GNI*

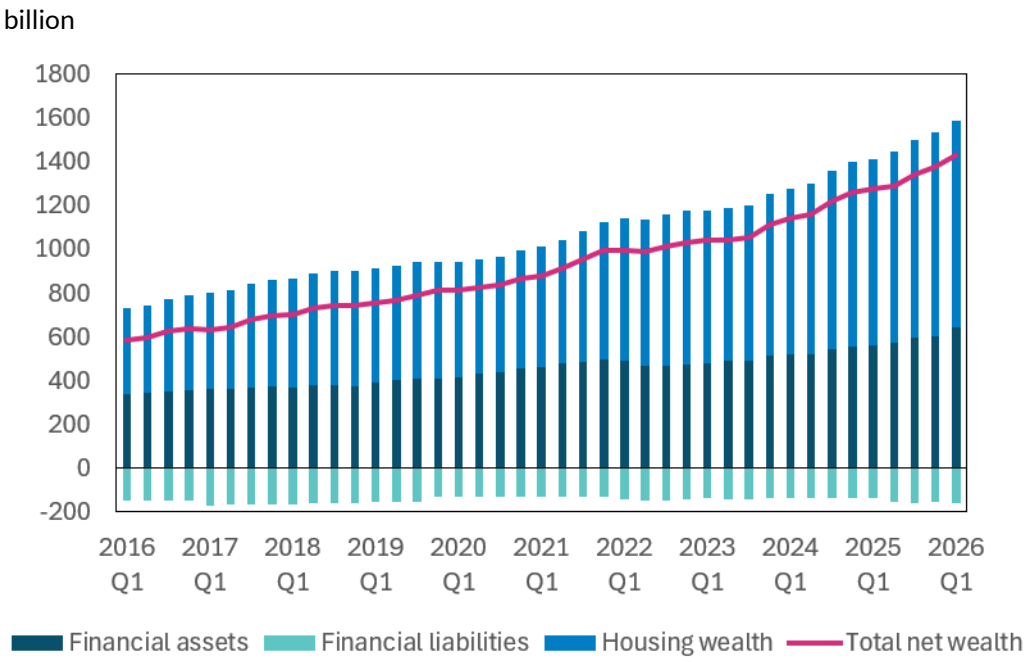


Source: Eurostat and CSO.
Notes: Cross country data relates to 2025.

Household resilience remains strong with improvements in net worth and high savings over recent years

Net wealth of Irish households has more than doubled in the last decade

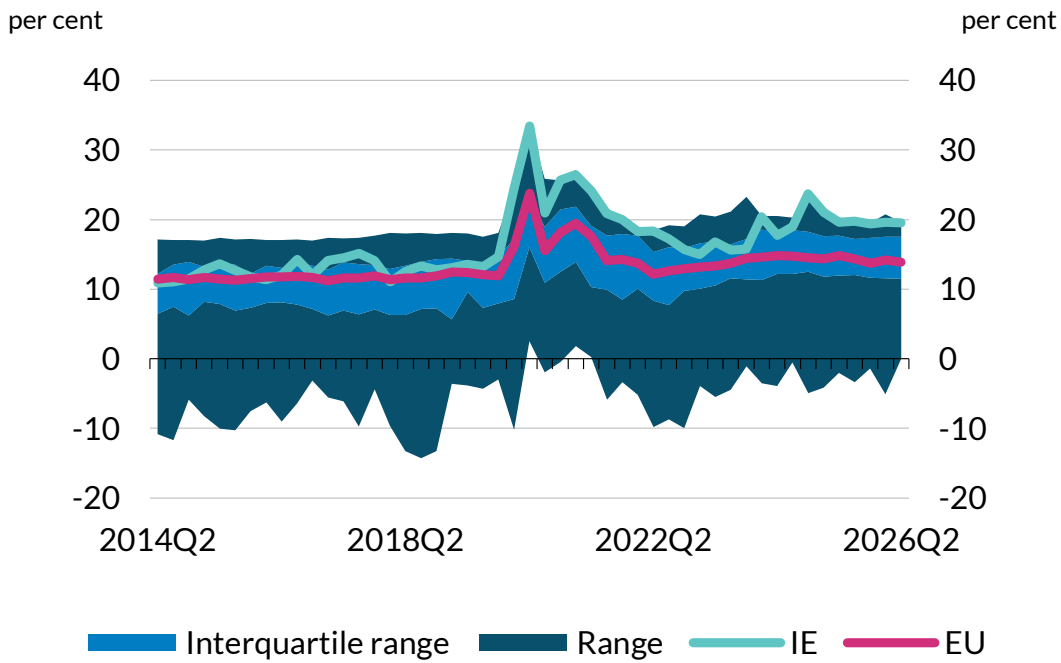
Total net wealth of Irish households



Source: QFA statistics and Central Bank of Ireland.

Irish households have consistently had among the highest savings rates in the EU

Households savings rate across the EU

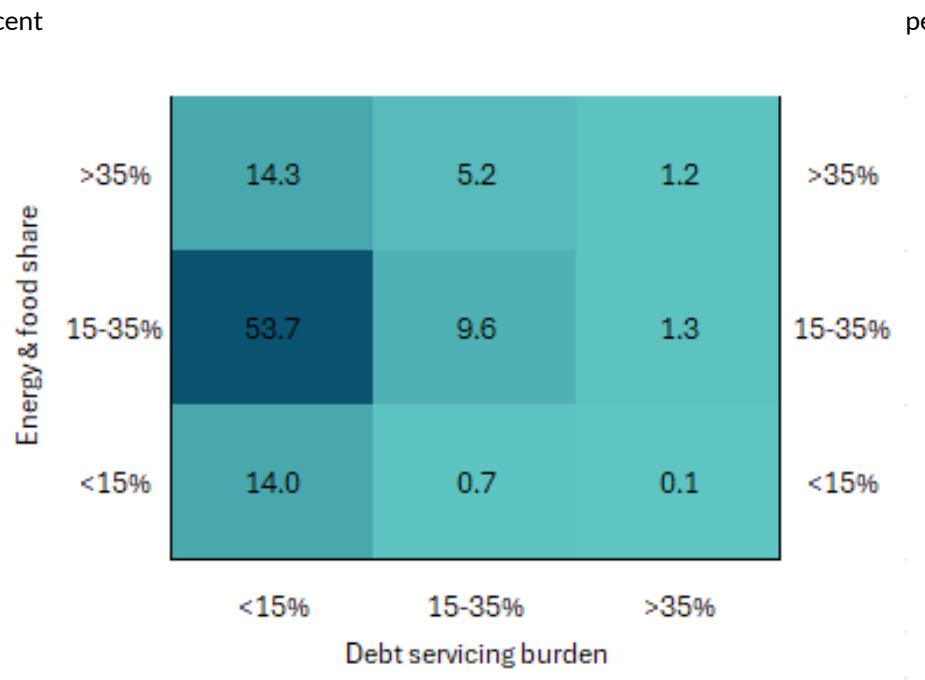


Source: Eurostat.

Households overall have healthy debt-servicing ability but higher energy prices and interest rate pressures may expose pockets of vulnerability

Relatively few mortgaged households have both high debt service burdens and stretched energy and food expenditures

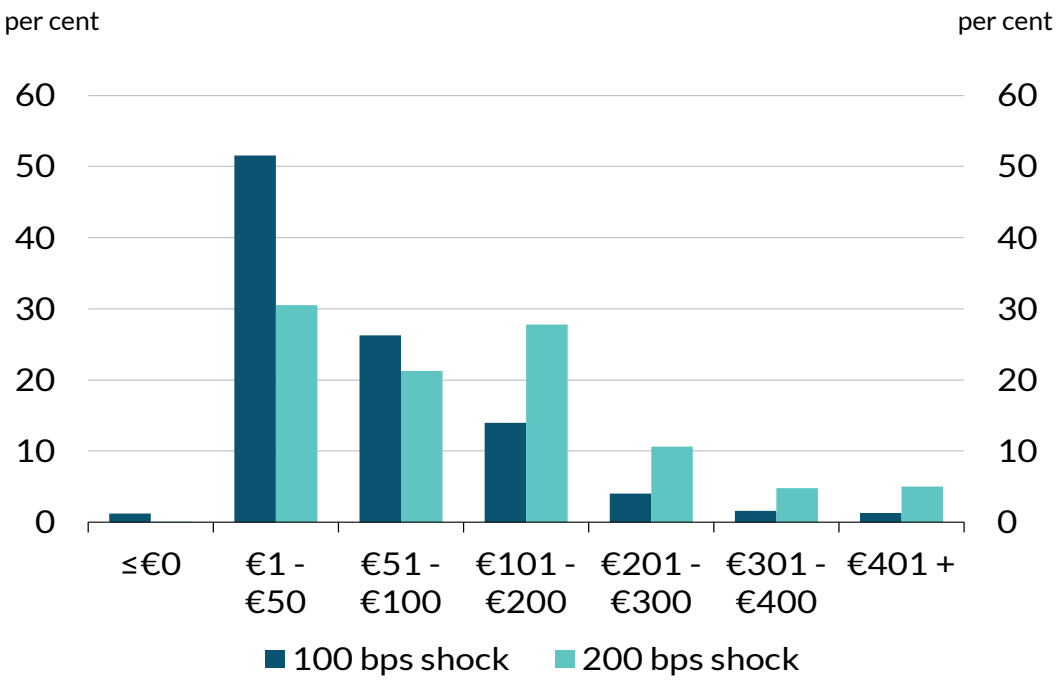
Share of mortgaged households by debt servicing burden and energy/food spending as a share of net income



Source: Household Finance and Consumption Survey.
Notes: The heatmap shows the distribution of mortgaged households across nine categories based on their debt servicing burden (debt payment as a share of net income) and energy/food spending share of net income.

The impact of rising interest rates on mortgage repayments is expected to be manageable for most households

Expected monthly instalment changes (in euro) for fixed-rate mortgages rolling off and current SVR/tracker mortgages under two interest rate shock scenarios

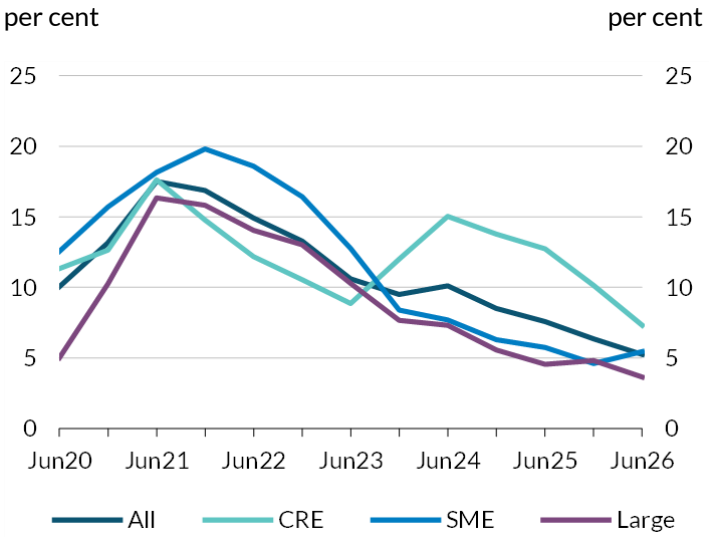


Source: Central Bank of Ireland, Loan-Level Data.
Notes: The chart shows the distribution of projected changes in euro amounts of monthly mortgage instalments for fixed-rate loans due to roll off their fixed-rate period in the next 12 months and current SVR and tracker rate mortgages.

Irish NFC borrowers continue to display strong loan performance indicators, although a significant share of loans are exposed to interest rate changes

Loan performance indicators are trending downwards and are at historically low levels

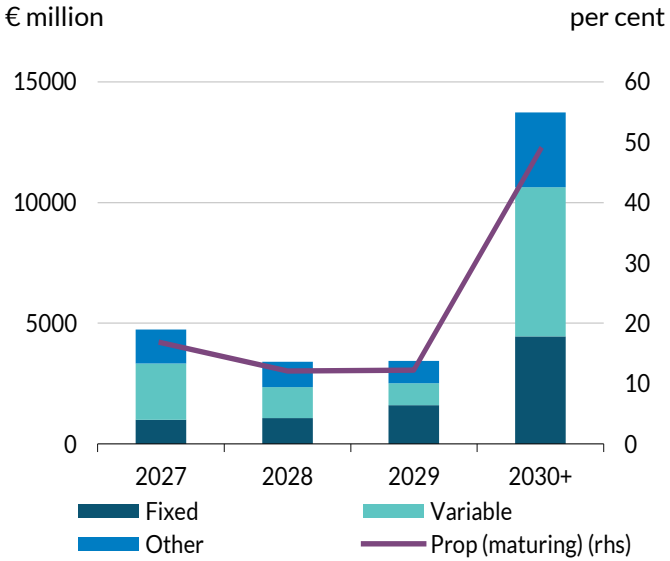
Weighted share NFC loan balances in weaker loan performance states by borrower cohort



Source: Central Bank of Ireland.
Notes: The weighted share of domestic bank Irish NFC loan balances in arrears, forbearance, or non-performing status in each six months by cohort. Last observation June 2026.

The loan maturity schedule facing firms is gradual over the coming years, though variable interest rates are common

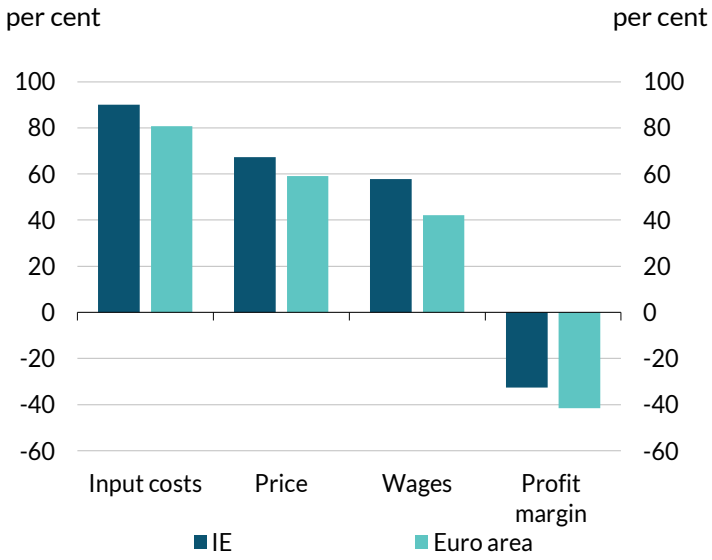
Outstanding NFC loan balances by interest rate type and maturity year



Source: Central Bank of Ireland.
Notes: Outstanding NFC loan balances owed to domestic banks by interest rate type and year of maturity. Prop(maturing) refers to the share of total outstanding balances maturing in each period. Other refers to loans where the interest rate type is unspecified or mixed.

Input cost inflation could compress SME profit margins

Net balance of firms expecting increases in key business indicators

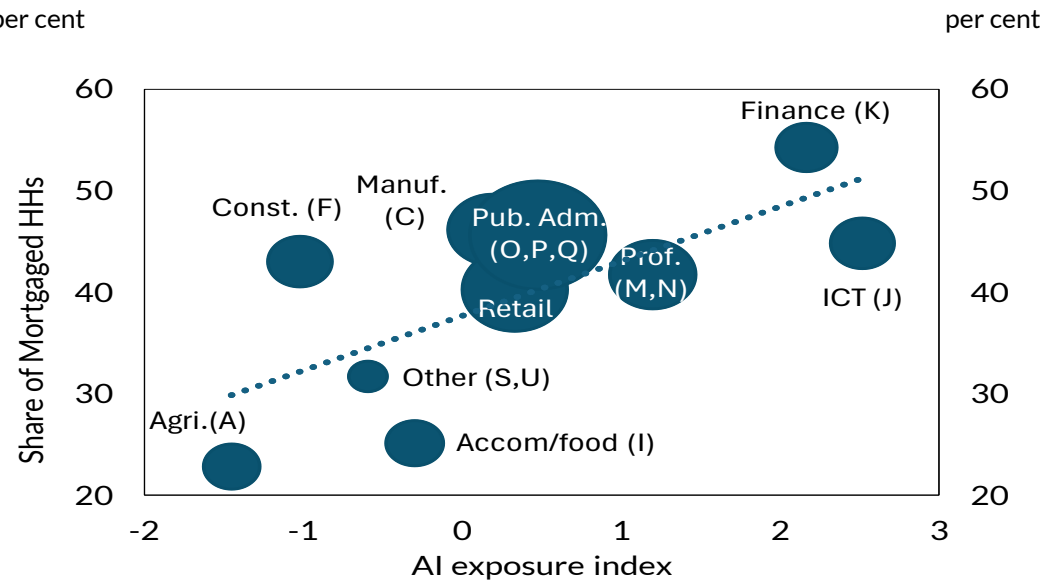


Source: ECB SAFE (2026Q2).
Notes: Net balance of firms expecting increases (share expecting 'up' minus share expecting 'down') in key business indicators over the next twelve months. IE refers to Ireland and ea refers to euro area.

The rollout of AI has the potential to generate business and labour market disruption for exposed firms and households.

Certain sectors such as IT and Finance have both a high share of mortgage borrowers and AI exposures

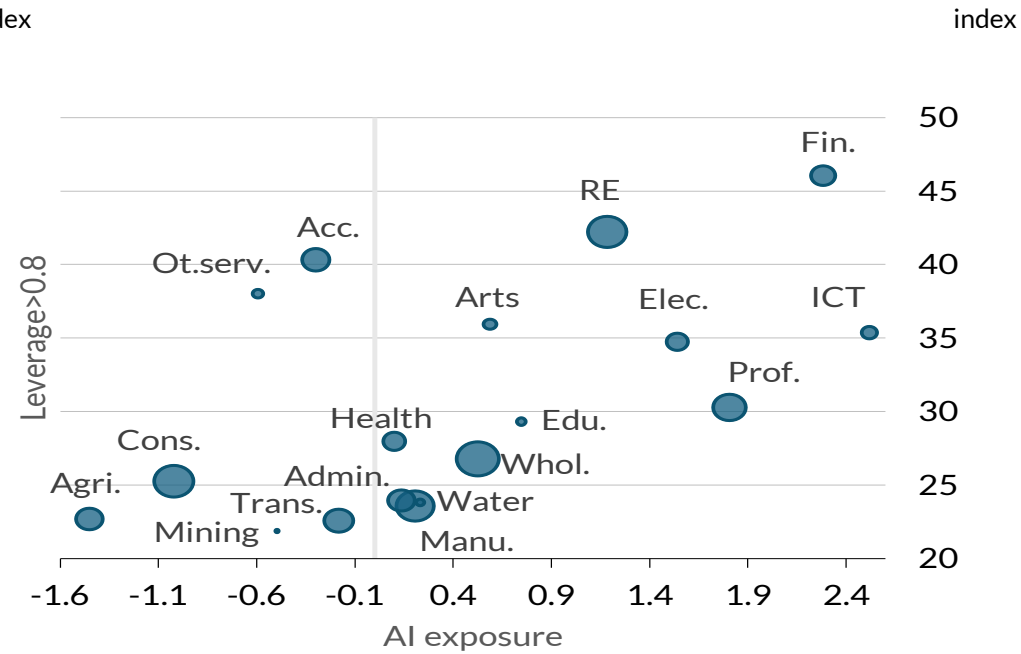
Share of mortgaged households and AI exposure index across economic sectors



Source: Yale Budget Lab, CSO and Riva (forthcoming).
Notes: The chart displays the relationship between occupational AI exposure and mortgage holdings across NACE1 sectors. AI exposure is measured using the Budget Lab's PCA-weighted composite score, which combines six underlying measures of occupational exposure to artificial intelligence and large language models. Bubble size represents the number of mortgaged households where the household reference person is employed in that NACE sector.

The AI exposed sectors also tend to have a high share of corporate borrowers with significant leverage

AI exposure, share of firms with leverage ratios exceeding 0.8, and total debt by sector

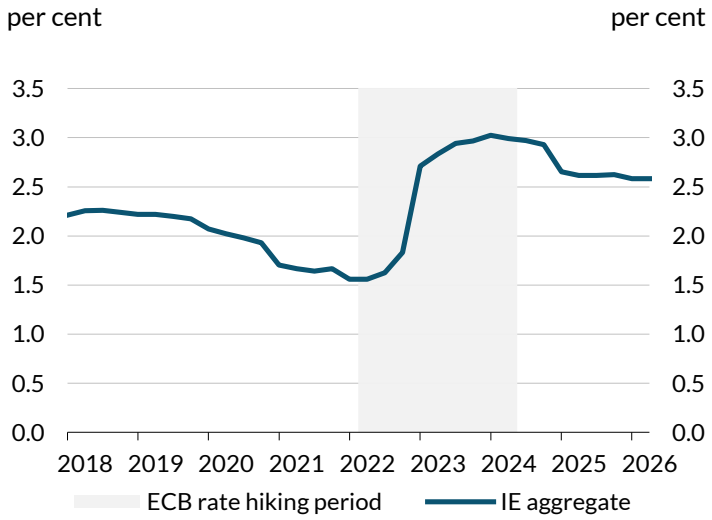


Source: AnaCredit, Yale Budget Lab, Dun & Bradstreet and Riva (forthcoming).
Notes: Bubble size represents total debt outstanding in each sector in € millions. Leverage ratio defined as total liabilities to total assets. AI exposure is measured using the Budget Lab's PCA-weighted composite score, which combines six underlying measures of occupational exposure to artificial intelligence and large language models.

Banks' profitability remains robust and they continue to have strong capacity to absorb shocks, including to a deterioration in sovereign bond yields

Domestic bank profitability remains healthy and net interest margins generally increase when interest rates increase

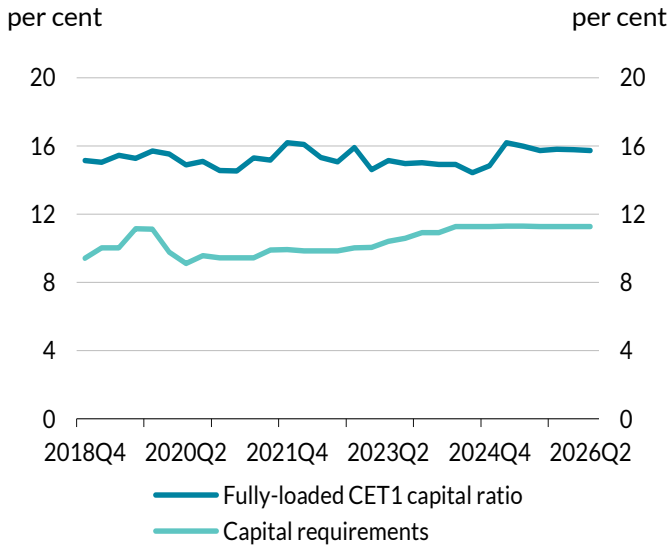
Aggregate net interest margin for Irish domestic banks



Source: Central Bank of Ireland.
Notes: Net interest margin of the three domestic banks. The shaded region highlights the previous ECB rate increasing period of July 2022 to July 2024 which saw increases in NIMs for banks.

Irish banks maintain a buffer above minimum capital requirements that would help them absorb shocks

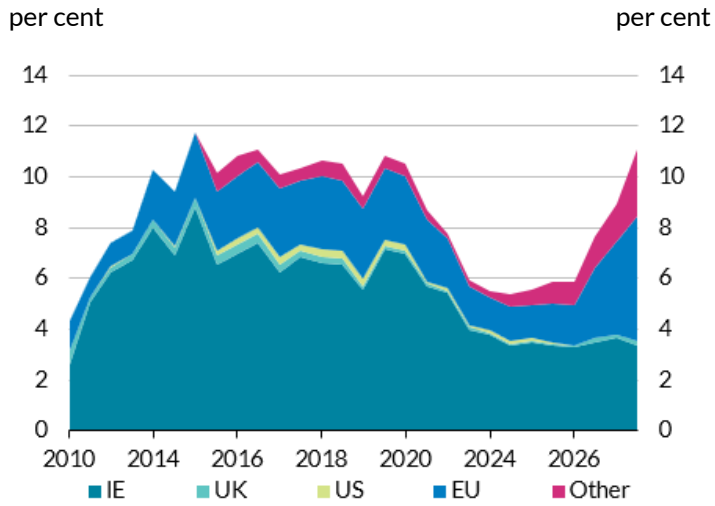
CET1 ratio and capital headroom of Irish banks



Source: Central Bank of Ireland.
Notes: Capital headroom is the difference between the minimum capital banks are required to have and their actual capital requirement. Capital requirements consist of pillar 1 and 2 requirements, capital conservation buffer, countercyclical capital buffer, and other systemically important institutions buffer.

Irish banks have increased their sovereign bond holdings in recent years, but exposures remain modest compared to other European banks

Domestic retail banks' holdings of sovereign bonds as a percentage of total assets



Source: Central Bank of Ireland.
Notes: Gross carrying amount of debt securities exposures of domestic Irish banks to general governments, scaled by total assets.

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Macroprudential Policy

The Central Bank's macroprudential policy framework has three broad pillars

Capital Buffers

Countercyclical capital buffer (CCyB) - CCyB rate is being maintained at 1.5 per cent. Buffer provides resilience against macro-financial risks.

Other Systemically Important Institutions (O-SII) buffer

No policy change.

Six institutions are designated as O-SIIs with corresponding institution-specific capital buffers being applied. Institution-specific O-SII buffer rates range between 0.5 and 1.5 per cent

Mortgage measures

Measures continue to operate in line with objective of ensuring sustainable lending standards.

LTI and LTV limits look to prevent the emergence of an unsustainable relationship between credit and house prices and ultimately support the resilience of borrowers, lenders and the broader economy.

Non-banks

Irish Property funds

Funds in scope of the measures are making progress towards meeting the 60 per cent leverage limit through equity inflows and a reduction in non-equity liabilities.

LDI funds

Irish-authorised GBP-denominated LDI funds continue to comply with the 'yield buffer' requirement