Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Central Bank of Ireland
Financial Stability Review 2025:I

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Notes

1. Unless otherwise stated, this document refers to data available on 30 May 2025.

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

Enquiries relating to this *Review* should be addressed to:
Macro-financial Division,
Central Bank of Ireland
PO Box 559,
Dublin 1,
Ireland
Email: mfdadmin@centralbank.ie

www.centralbank.ie

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. For this edition, due to recent market turbulence, a review of the resilience of the internationally-focused non-bank financial intermediation (NBFI) sector is also provided.

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 December 2024, the risks facing the global financial system have risen. Rising barriers to trade, and a sharp increase in economic and trade policy uncertainty, have led to a weaker growth outlook and higher market volatility. Ireland is particularly exposed to increasing trade tensions and any associated external macroeconomic shifts, due to its economic openness and high dependence on US FDI. As at early June 2025, domestic economic conditions remain positive, and the central scenario continues to be one of moderate growth, although forecasts have been recently revised downwards with higher downside risks. In this context, financial stability risks are best viewed through a forward-looking lens that recognises the possibility of more volatile external conditions. A re-emergence of financial market turbulence might lead to market losses and constrain firms and lenders dependent on market-based financing conditions. Also a deterioration in economic growth could raise credit risks of firms and households.

The domestic banking sector has built up substantial resilience over recent years, but may face greater exposure to credit or market losses, if some of these risks materialise. This underscores the importance of continued prudent risk management and maintaining, and where appropriate building, financial and operational resilience. Cyber and climate related risks continue to be important sources of possible adverse shocks and have the potential to amplify existing cyclical vulnerabilities. The non-bank financial intermediation (NBFI) sector – globally and in Ireland – managed liquidity demands arising from the financial market turmoil in April in an orderly manner. Structural vulnerabilities persist within parts of the NBFI sector, however, underscoring the importance of continued progress in strengthening the regulatory framework for the NBFI sector at a global and European level.

Risks facing the financial system have increased due to a weakening global growth and trade outlook. Since the *Review* in December 2024, short-term growth forecasts have been revised down globally, as elevated uncertainty following announced tariffs, and potential changes to international trade patterns, have weakened the global economic outlook. The eventual economic outcome will vary by country, depending on bilateral trade impacts and the performance of trading partners. Tail risks have also increased, with recessionary probabilities rising and the possibility of higher near-term inflation in the US. In addition, the sustainability of future US Government debt burdens has re-emerged as a focal point in markets.

Financial markets reacted strongly to reciprocal tariff announcements in April and remain vulnerable to further correction. The scale and scope of the trade policy announcements surprised markets, resulting in a spike in volatility in early April. Risky asset prices around the world fell sharply and, unusually, US Treasury yields rose, while the dollar depreciated. The subsequent 90-day tariff pause announcement and onset of trade negotiations calmed markets, leading to a recovery of losses in many segments. Economic policy uncertainty, however, remains elevated and market sentiment remains fragile. The re-emergence of the previous disconnect between measured market volatility and the high levels of policy uncertainty leaves markets particularly sensitive to data updates, policy announcements and corporate earnings reports.

The sharp increase in global market volatility in April led to higher liquidity demands amongst certain NBFIs – but, overall, markets continued to function in an orderly manner throughout that period. Certain cohorts of NBFI entities, including some segments of the investment fund sector domiciled in Ireland, experienced elevated redemptions and margin calls post 2 April. While the market sell-off was sharp, it was short lived and these funds were able to meet liquidity demands in an orderly manner. Nevertheless, structural vulnerabilities – such as liquidity mismatch and relatively high leverage – persist across some segments of the investment funds sector, making these fund cohorts more likely to amplify severe market stress.

Ireland's US FDI dependence and broader trade links leave it highly exposed to changes in the global trade environment. The domestic economy remains on a broadly stable, albeit slower, growth path. Persistent global uncertainty and shifting external macroeconomic conditions, particularly among key trading partners, create risks to the outlook in the short run. High overall US FDI reliance and economic/tax concentration in potentially affected sectors such as pharmaceuticals and ICT raise Ireland's vulnerability to tariffs and retaliatory measures with the timing of subsequent economic impacts uncertain. Further, global tax changes or global value chain reconfiguration plans among resident MNEs could affect business activity in Ireland over the medium term. In the near term, continued softening of consumer sentiment as a result of elevated uncertainty or a weaker growth outlook may weigh on economic activity. Engagement with industry contacts suggests that many large companies have, for now, paused new investment decisions, while higher exports by firms in sensitive sectors are indicative of some frontloading behaviour.

While vulnerable to global developments, borrowers and the domestic banking system have built resilience. In aggregate, households and firms have, over the past decade, built strong financial positions, providing a buffer to adverse shocks. Sustainable lending standards have supported the asset quality of the domestic banking system, although banks face potential increased credit risks due to the external macroeconomic environment. Bank profitability is expected to moderate due to lower interest rates, but current liquidity and capital positions are robust. The Central Bank has maintained its CCyB rate at 1.5 per cent in its Q2 2025 decision following assessment of the macro-financial environment and the financial position of the banking sector. Ensuring financial and operational resilience across the financial system (i.e., key lenders and infrastructure such as payments) remains a priority, as geopolitical risks remain high.

A deterioration in international financing conditions could affect domestic real estate investment and development, while the cost of borrowing by the Irish government is also exposed to changes in market sentiment. As non-bank lenders that are active in Irish real estate can be sensitive to global capital market developments, a persistent deterioration in global financial conditions would have implications for development financing and could exacerbate the recent falls in private capital for residential development. Further, while the Irish sovereign has a current strong funding position, Ireland's high US exposures combined with any perceived or realised negative economic impacts arising from future trade or tax announcements may raise future borrowing costs.

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, dírítear 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. Dírítear san fhoilseachán seo ar na codanna sin den earnáil airgeadais a chuireann seirbhísí ar fáil do theaghlaigh agus do ghnóthaí Éireannacha. Mar gheall ar an tsuaiteacht margaidh le déanaí, tá athbhreithniú san eagrán seo freisin ar athléimneacht na hearnála idirghabhála airgeadais neamhbhainc (NBFI) atá fócasaithe go hidirnáisiúnta.

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. Díríonn 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 mhí na Nollag 2024 i leith, tá méadú tagtha ar na rioscaí atá ag bagairt ar an gcóras airgeadais domhanda. Tá ionchas fáis níos laige ann, mar aon le luaineacht mhéadaithe margaidh, de thoradh constaicí méadaitheacha ar thrádáil agus méadú mór ar an éiginnteacht a bhaineann le beartas eacnamaíoch agus trádála. Tá Éire neamhchosanta ar theannas méadaitheach trádála agus ar aon aistrithe gaolmhara seachtracha maicreacnamaíocha mar gheall ar a hoscailteacht eacnamaíoch agus a spleáchas mór ar Infheistíocht Dhíreach Choigríche (FDI) ó na Stáit Aontaithe. Amhail ag tús mhí an Mheithimh 2025, tá dálaí eacnamaíocha intíre dearfach i gcónaí, agus léirítear fás measartha i gcónaí sa chás lárnach réamhaisnéise, ach rinneadh athbhreithniú anuas air le déanaí sa mhéid go gcuirtear rioscaí méadaithe ar an taobh thíos in iúl. Sa chomhthéacs seo, is fearr breathnú ar rioscaí cobhsaíochta airgeadais ar mhodh réamhbhreathnaitheach ina n-aithnítear an dóchúlacht go mbeidh dálaí seachtracha níos luainí i gceist. Féadfaidh go n-eascróidh caillteanais margaidh as aon athbhorradh ar shuaiteacht sa mhargadh airgeadais agus go gcuirfí laincis ar ghnólachtaí agus ar iasachtóirí atá spleách ar dhálaí maoiniúcháin margadhbhunaithe. Agus dá mbeadh meathlú ar an bhfás eacnamaíoch, d'fhéadfaí go méadófaí rioscaí creidmheasa do ghnólachtaí agus do theaghlaigh.

Tá athléimneacht shuntasach san earnáil baincéireachta intíre le blianta beaga anuas, ach d'fhéadfadh risíocht mhéadaithe a bheith aici ar chaillteanais chreidmheasa nó margaidh i gcás ina dtiocfadh roinnt de na rioscaí sin chun cinn. Léiríonn sé seo an tábhacht a bhaineann le bainistíocht stuama riosca agus le cothabháil na hathléimneachta airgeadais agus oibríochtúla, agus i gcás inar cuí, le bunú na hathléimneachta sin. Tá cibear-rioscaí agus rioscaí aeráide ina bhfoinsí tábhachtacha turraingí díobhálacha féideartha i gcónaí agus féadfaidh siad leochaileachtaí reatha timthriallacha a mhéadú. Bhí an earnáil idirghabhála airgeadais neamhbhainc (NBFI) - ar fud an domhain agus in Éirinn – in ann na héilimh leachtachta a d'éirigh as an tsuaiteacht sa mhargadh airgeadais i mí Aibreáin a bhainistiú ar mhodh ordúil. Tá leochaileachtaí struchtúracha ann i gcónaí i gcodanna d'earnáil NBFI, áfach, rud a léiríonn an tábhacht a bhaineann le dul chun cinn leanúnach maidir leis an gcreat rialála d'earnáil NBFI a neartú ar leibhéal domhanda agus Eorpach.

Tá méadú tagtha ar na rioscaí atá ag bagairt ar an gcóras airgeadais de bharr fás domhanda agus ionchas trádála níos laige. Ón *Athbhreithniú* i mí na Nollag 2024 i leith, tá athbhreithniú anuas déanta ar réamhaisnéisí gearrthéarmacha domhanda fáis, toisc go bhfuil an t-ionchas eacnamaíoch domhanda lagaithe ag an éiginnteacht mhéadaithe a d'éirigh as na taraifí a fógraíodh, agus ag athruithe ionchasacha ar phátrúin trádála idirnáisiúnta. Beidh toradh eacnamaíoch iarbhír éagsúil i gceist i ngach tír ar leith, ag brath ar na hiarmhairtí trádála déthaobhacha agus ar fheidhmíocht na bpáirtithe trádála. Tá méadú tagtha ar earr-rioscaí freisin, sa mhéid go bhfuil dóchúlachtaí ag méadú maidir le cúlú eacnamaíochta, mar aon leis an bhféidearthacht go mbeidh boilsciú gearrthéarmach níos airde ann sna Stáit Aontaithe. Ina theannta sin, tá inbhuanaitheacht ualaí fiachais na Stát Aontaithe amach anseo ag teacht chun cinn arís mar ábhar béime sna margaí.

Thug na margaí airgeadais freagairt láidir ar na fógraí i mí Aibreáin maidir le taraifí cómhalartacha agus tá siad leochaileach i gcónaí ar cheartuithe breise. Bhí scála agus raon na bhfógraí beartais trádála ina n-ábhar iontais do na margaí, rud ba chúis le hardú tobann ar luaineacht ag tús mhí Aibreáin. Tháinig laghdú mór ar phraghsanna sócmhainní rioscúla ar fud an domhain agus tháinig méadú ar na torthaí ar bhannaí ceannasacha na SA, fad a bhí dímheas ar an dollar, rud a bhí neamhghnách. Shocraigh na margaí síos nuair a fógraíodh go gcuirfí stop leis na taraifí go ceann 90 lá agus go gcuirfí tús le pléití trádála, rud ba chúis le haisghabháil caillteanas in go leor deighleog. Tá an éiginnteacht a bhaineann le beartas eacnamaíoch ard i gcónaí, áfach, agus tá meon an mhargaidh leochaileach i gcónaí. I bhfianaise go bhfuil an dínascadh roimhe seo idir luaineacht thomhaiste margaidh agus ardleibhéil éiginnteachta beartais ag teacht chun cinn arís, tá margaí an-íogair do nuashonruithe ar shonraí, d'fhógraí beartais agus do thuairiscí maidir le tuilleamh corparáideach.

Bhí éilimh leachtachta níos airde ag NBFIanna áirithe mar gheall ar an méadú mór ar an luaineacht margaidh dhomhanda i mí Aibreáin - ach, ar an iomlán, bhí na margaí ag feidhmiú ar mhodh ordúil i gcónaí le linn na tréimhse sin. Bhí fuascailtí agus glaonna ar éarlais ardaithe ag grúpaí áirithe d'eintitis NBFI tar éis an 2 Aibreán, lena n-áirítear ag deighleoga áirithe den earnáil cistí infheistíochta in Éirinn. Cé go raibh díol mór sa mhargadh, níor mhair sé i bhfad agus bhí na cistí seo in ann freastal ar na héilimh leachtachta ar mhodh ordúil. Mar sin féin, tá leochaileachtaí struchtúracha ann i gcónaí – amhail neamhréir leachtachta agus giaráil sách ard – ar fud deighleoga áirithe den earnáil cistí infheistíochta, rud a chiallaíonn gur dócha go méadóidh na grúpaí cistí seo dálaí diana anáis sa mhargadh.

Tá spleáchas na hÉireann ar FDI SA agus mar aon lena naisc níos leithne le SA neamhchosanta go mór ar athruithe sa timpeallacht trádála domhanda. Tá an geilleagar intíre ar chonair fáis atá sách cobhsaí i gcónaí, cé go bhfuil luas an fháis níos moille. Leis an éiginnteacht sheasmhach dhomhanda agus dálaí aistritheacha maicreacnamaíocha seachtracha, go háirithe i measc príomhpháirtithe trádála, cruthaítear rioscaí don ionchas sa ghearrthéarma. Leis an spleáchas ard foriomlán ar FDI SA agus comhchruinniú eacnamaíoch/cánach in earnálacha a bhféadfaí difear a dhéanamh dóibh amhail an earnáil cógaisíochta agus TCF, ardaítear leochaileacht na hÉireann ar tharaifí agus ar fhrithbhearta agus baineann éiginnteacht le huainiú na n-iarmhairtí eacnamaíocha ina dhiaidh sin. Sa bhreis air sin, d'fhéadfadh athruithe cánach domhanda nó pleananna athchumraíochta don slabhra luacha domhanda i measc FIN lonnaithe anseo difear a dhéanamh do ghníomhaíocht ghnó in Éirinn sa mheántéarma. Sa ghearrthéarma, d'fhéadfadh maolú ar sheintimint chustaiméirí de thoradh éiginnteacht ardaithe nó ionchas fáis níos laige cur isteach ar ghníomhaíocht eacnamaíoch. Tríd an rannpháirtíocht le teagmhálaithe ón tionscal, tugtar le tuiscint go bhfuil cinntí maidir le hinfheistíochtaí nua á gcur siar ag go leor cuideachtaí móra, fad a thaispeántar iompar tús-ualaithe le honnmhairí níos airde ag gnólachtaí in earnálacha leochaileacha.

Cé go bhfuil siad leochaileach d'fhorbairtí domhanda, tá iasachtaithe agus an córas baincéireachta intíre athléimneach. Ar an iomlán, tá staideanna láidre airgeadais bunaithe ag teaghlaigh agus gnólachtaí le deich mbliana anuas, rud a chuireann maolán ar fáil i leith turraingí díobhálacha. Tacaíonn caighdeáin iasachtaithe inbhuanaithe le cáilíocht sócmhainní an chórais baincéireachta intíre, ach tá rioscaí méadaithe creidmheasa ionchasacha ag bagairt ar na bainc mar gheall ar an timpeallacht mhaicreacnamaíoch sheachtrach. Meastar go dtiocfaidh maolú ar bhrabúsacht na mbanc mar gheall ar rátaí úis níos ísle, ach tá leachtacht agus staideanna caipitil reatha láidir. I R2 2025, chinn an Banc Ceannais ráta go gcoinneofaí ráta CCyB ag 1.5 faoin gcéad tar éis dó measúnú a dhéanamh ar an timpeallacht mhacrairgeadais agus ar staid airgeadais na hearnála baincéireachta. Is tosaíocht i gcónaí é athléimneacht airgeadais agus oibríochtúil a áirithiú ar fud an chórais airgeadais (i.e., príomhiasachtóirí agus príomhbhonneagar amhail íocaíochtaí), toisc go bhfuil rioscaí geopholaitiúla ard i gcónaí.

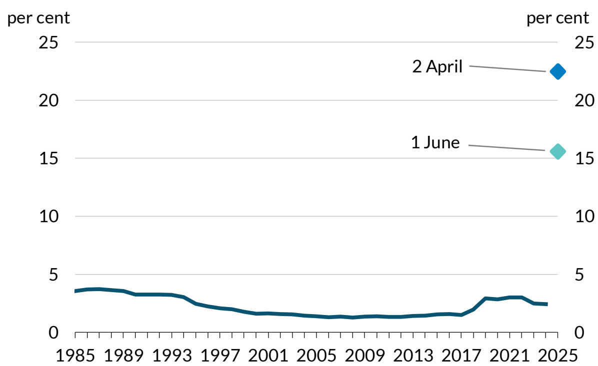
D'fhéadfadh meathlú ar dhálaí maoiniúcháin idirnáisiúnta difear a dhéanamh d'infheistíocht agus d'fhorbairt eastáit réadaigh intíre, fad atá costas an iasachtaithe ag rialtas na hÉireann neamhchosanta freisin ar athruithe ar mheon an mhargaidh. Ó tharla go bhféadfaidh iasachtóirí neamhbhainc atá gníomhach in eastát réadach na hÉireann a bheith íogair d'fhorbairtí sna margaí caipitil domhanda, bheadh impleachtaí ann do mhaoiniú forbraíochta dá mbeadh meathlú seasmhach ar dhálaí maoiniúcháin domhanda agus ghéarófaí na laghduithe atá feicthe le déanaí ar chaipiteal príobháideach le haghaidh forbairt chónaithe. Lena chois sin, cé go bhfuil staid maoiniúcháin láidir reatha ag an Stát, féadfaidh neamhchosaintí arda na hÉireann ar SA, i dteannta iarmhairtí diúltacha eacnamaíocha braite nó réadaithe a eascróidh as fógraí trádála nó cánach amach anseo, costais iasachtaithe a ardú sa todhchaí.

Global risk assessment

Since the last *Review*, risks to the global financial system have intensified with the emergence of a material shift in trade policy, a sharp increase in policy uncertainty, and an increase in market volatility. The announcement of higher than expected tariffs (Chart 1) on 2 April had a significant effect on global markets as investors weighed the implications of disruptions to trade flows and lower economic growth. Despite the subsequent partial reversal of many of the trade policies, the manner in which these tariffs are being implemented has led to significant uncertainty related to future US trade policy. This has coincided with elevated economic policy uncertainty more generally (Chart 2). This could lead to a slowing of investment and hiring plans and could impact the functioning – and future shape of – global supply chains. The effect of developments in global trade policy will vary significantly based on bilateral tariff rates and the sectoral composition of countries' exporting firms. Despite these uncertainties, market valuations appear to be only modestly affected, recovering quickly following the recent announcements in April.

Chart 1: It is unclear how US trade policy will develop as tariffs are implemented

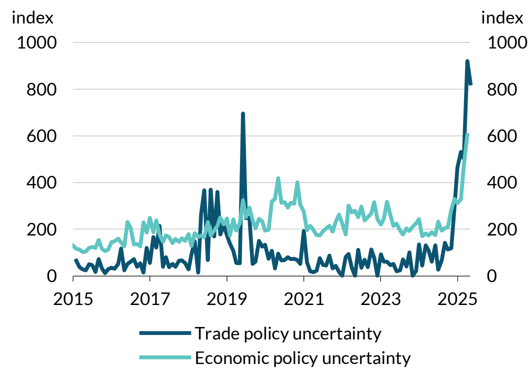
US average effective tariff rate



Source: The Budget Lab analysis.
Notes: Two figures are used for 2025, an estimate after tariff announcements on 2 April 2025 and an estimate using the set of tariffs as at 1 June 2025.

Chart 2: The global environment is in a state of elevated uncertainty

World Trade Uncertainty and 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.

The outlook for global economic growth has deteriorated, with the euro area vulnerable to a further escalation of trade tensions, due to its openness and lower growth prospects. Since 2024, expected economic growth for the next two years has fallen globally (Chart 3). As well as a deterioration in the baseline projections, tail risks have increased. The estimated probability of a US recession has increased from 25 per cent to 40 per cent at the start of May, although it is still lower than at the onset of COVID-19 or at the beginning of the Russia-Ukraine war (Chart 4). The euro area, starting from a baseline of lower growth forecasts and being a highly open economy, is exposed to further escalations in trade tensions.[1] While the latest ECB macroeconomic projections note that the conditions are currently in place for a strengthening of growth in the Euro Area, an escalation in trade tension would represent a significant negative demand shock with uneven effects across countries, depending on their exposure to the US among other factors.[2] Ongoing geopolitical conflicts such as the war in Ukraine and conflict in the Middle East add

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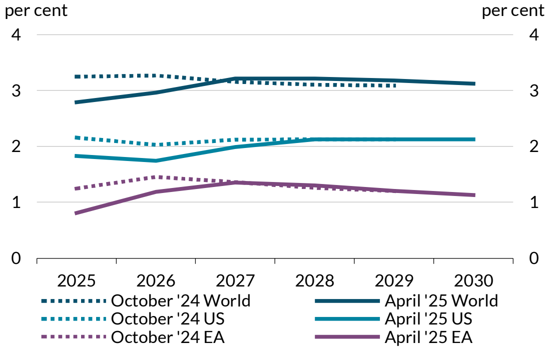
[1] For more see the ECB Financial Stability Review, May 2025: Box A -How spillovers from US developments differ across euro area equity sectors

[2] Eurosystem staff macroeconomic projections for the euro area, June 2025.

further downside risks to the global growth outlook, while also posing additional risks to energy prices and global supply chains.

Chart 3: GDP growth projections have declined but are expected to return to long term forecasts

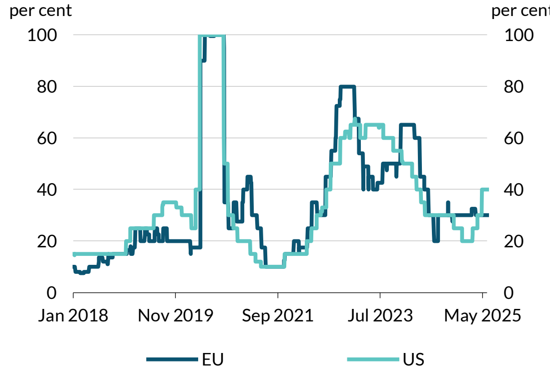
Evolution of GDP growth outlooks



Source: IMF World Economic Outlook, October 2024 and April 2025.

Chart 4: Forecasts reflect an increased likelihood of a US recession since tariff announcements

Recession probability 1 year ahead forecasts

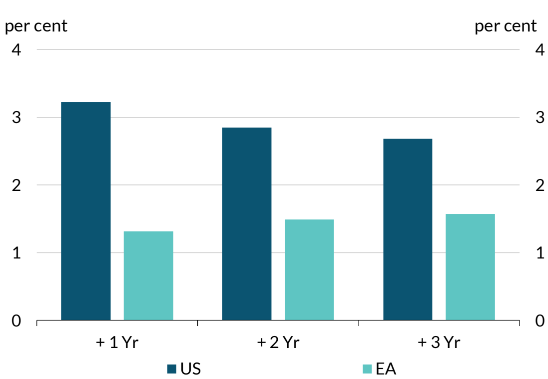


Source: Bloomberg.
Notes: Median values from Bloomberg surveys and forecasts submitted by various banks. Last observation 30 May 2025.

The effect of tariffs is expected to contribute to higher near-term inflation in the US, with market expectations of US interest rates for 2025 having risen since the last *Review*. Inflation has continued to fall in both the euro area and the US. However, between the January and April WEO publications, the IMF revised its 2025 inflation forecast for the US upwards by a percentage point.[3] This was a result of stubborn services and core inflation and the set of US tariffs announced in April. Market expectations for US inflation pointed to a gradual return to target in the medium term, but an escalating trade war could contribute to the emergence of stagflationary dynamics (Chart 5). Continued uncertainty around tariffs and the general economic outlook have shaped evolving expectations for interest rates. Further interest rate cuts by the Federal Reserve and the ECB are being priced in by the markets (Chart 6). The aforementioned inflationary threat from tariffs implies that, in the US, end-2025 rate expectations have increased since the last *Review* (from 3.8 to 4.0 per cent).

Chart 5: US inflation is expected to fall but remain above target for the next 3 years

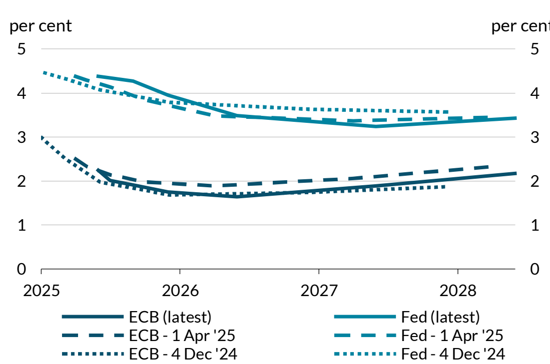
Inflation expectations



Source: Bloomberg.
Notes: 1-, 2- and 3-year ahead implied headline inflation expectations derived from zero coupon inflation swaps. Data as of 30 May 2025.

Chart 6: Market expectations of near-term interest rates in the US have increased since 2 April while they have fallen for the euro area

Market implied policy rates for the ECB and Fed



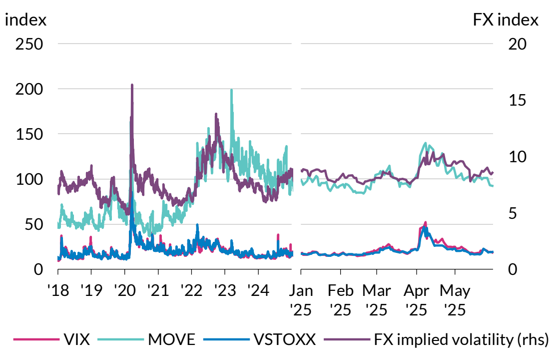
Source: Bloomberg and Central Bank of Ireland calculations.
Notes: Latest data show market expectations of policy rates as of 30 May 2025. The ECB rate refers to the deposit facility rate.

[3] IMF World Economic Update January 2025 Update, IMF World Economic Outlook April 2025

Recent US policy announcements have led to significant volatility in financial markets and atypical movements in US Treasury yields and the dollar. The US tariffs that were announced on 2 April were higher than markets expected, triggering increased levels of volatility and sharp repricing amid concerns that economic growth would slow (Chart 7). Market stress subsided on the back of the announcement of the tariff pause on 9 April. Market functioning remained resilient throughout this period of volatility (Chart 8). During this period there was a significant sell-off of riskier assets, while there was a simultaneous depreciation of the US dollar and a rise in US Treasury yields. The price of gold, in contrast, reached record highs. Developments in the US Treasury market may be at least partially attributed to technical factors such as investors raising liquidity while asset swaps and basis trades unwound. However, these developments may also represent a shift in investor perception of the risk characteristic of these assets, particularly in light of growing concerns about the sustainability of US government debt amid a deteriorating growth outlook.

Chart 7: Recent US policy announcements have led to significant volatility in financial markets

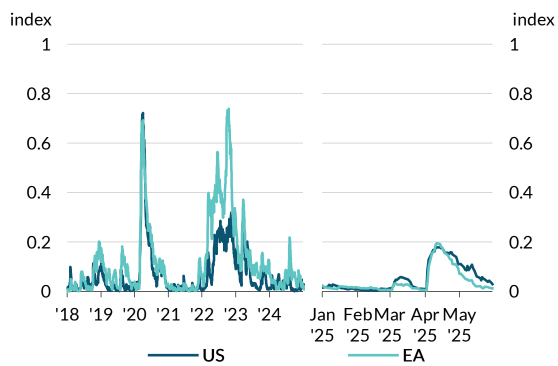
VIX, VSTOXX, MOVE, FX Implied Volatility indices



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.

Chart 8: Market stress rose in early April although not to heights experienced during other recent shocks

Composite Indicators of Systemic Stress



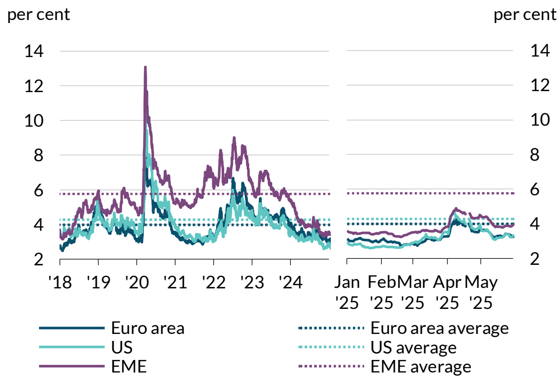
Source: ECB via Haver Analytics
Notes: 0 = no stress, 1 = high stress. Last observation 30 May 2025.

Corporate bond spreads widened in early April in response to the announcement of US tariffs, and have since fallen but not to pre-April levels. Corporate bond spreads rose in response to the April announcement, but have since fallen back somewhat, although not to previous levels (Chart 9). Corporate borrowers remain vulnerable to a further deterioration in sentiment either through increased uncertainty leading to a stronger risk-off sentiment or once the full effects of the changes in US policy become clear. Looking to the medium term, a large volume of corporate debt will mature in the coming years and potentially will need to be rolled over. If spreads increase, this will lead to less favourable lending conditions for these borrowers.

Early April saw a sharp increase in financial market volatility, with equity prices declining sharply before recovering. During the two trading days in April following the US trade policy announcement, the S&P 500 index and the Nasdaq declined by more than 10 per cent, posting some of the worst days since the onset of COVID-19. However, a pause on the implementation of announced tariffs meant that US and euro area equities rebounded, eventually recovering their losses over this period (Chart 10). These dramatic fluctuations demonstrate the large and immediate influence of tariff announcements on equity markets. Valuations and concentration risk continue to pose risks in some segments.[4] 'Magnificent 7' equities, which represent more than 30 per cent of S&P500 market capitalisation, are vulnerable to higher trade tensions and news related to advancements in rival AI technologies.

Chart 9: The developing trade outlook triggered increases in corporate bond spreads in April, which have since fallen somewhat

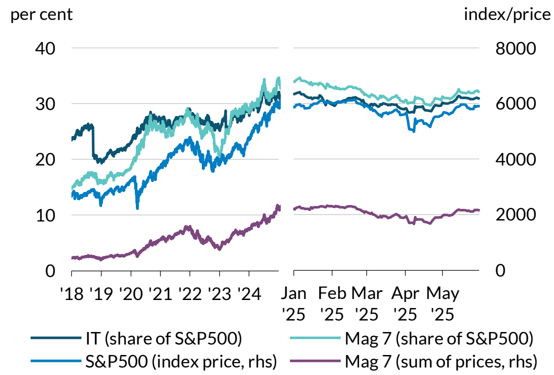
High-yield corporate bond spreads



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 historical averages since April 2015. EME refers to emerging market economies. Last observation 30 May 2025.

Chart 10: Magnificent 7 stocks responded negatively to the tariff announcements before recovering

Information Technology and Magnificent 7 market cap percentage share of S&P500, and S&P500 and Magnificent 7 prices



Source: Bloomberg.
Notes: Left hand side axis shows the Information Technology sector and Magnificent 7 market cap percentages of S&P500. Right hand side axis shows S&P500 price at index level and the sum of the individual Magnificent 7 stock prices. Last observation 30 May 2025.

The NBFI sector globally – and in Europe – managed higher liquidity demands during the April market turmoil, although existing vulnerabilities within the sector persist. After 2 April, net redemptions were observed from cohorts of investment funds with more illiquid assets. Elevated margin calls were also seen amongst (leveraged) hedge funds (*see more – In focus: The Irish NBFI sector during the April market volatility episode* and ECB FSR*)*. However, the level of liquidity demands exerted upon these funds was lower than during the onset of COVID-19 or during the start of Russia's invasion of Ukraine, and the cohorts were able to meet these additional liquidity demands. Nevertheless, underlying vulnerabilities related to liquidity mismatches and leverage persist in certain cohorts of investment funds. These funds may amplify a market shock, particularly if the shock was more pronounced or long lasting.

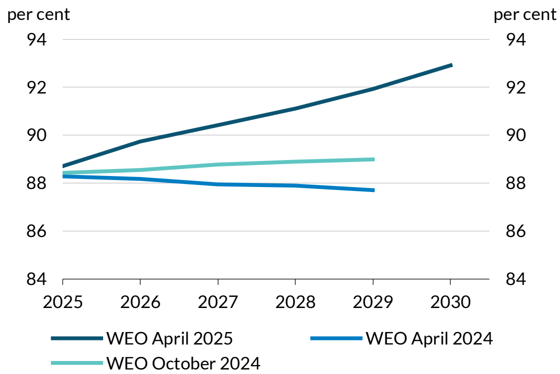
The shifting geopolitical environment has led EU governments to respond by spending more on security and infrastructure. Increased spending by EU governments can be a driver of growth, but increased debt ratios may lead to higher sovereign borrowing costs. Higher spending on security and infrastructure may support higher growth over the medium-term, particularly if it is allocated efficiently and in a manner that spurs increases in productivity.[5] However, spending plans have led to projections of the euro-area debt ratio being subject to significant upward revisions since the beginning of the year (Chart 11). This is happening in the context of higher sovereign yields, compared to the levels seen during the period of highly accommodative monetary policy before

[4] The Shiller Cyclically Adjusted Price-to-Earnings Ratio is a valuation measure that uses real earnings per share (EPS) over a 10-year period. Currently standing at 36 times earnings, it has reached 30 times earnings on four other occasions in the last 50 years.
[5] For a discussion of the potential impact of increased defence spending on EU growth see European Commission Spring 2025 Economic Forecast : The economic impact of higher defence spending.

the recent inflation shock (Chart 12). Increased debt ratios have the potential to further increase sovereign borrowing costs, which may pose a challenge for more indebted EU countries.

Chart 11: Euro area public debt forecasts have increased over the last 12 months

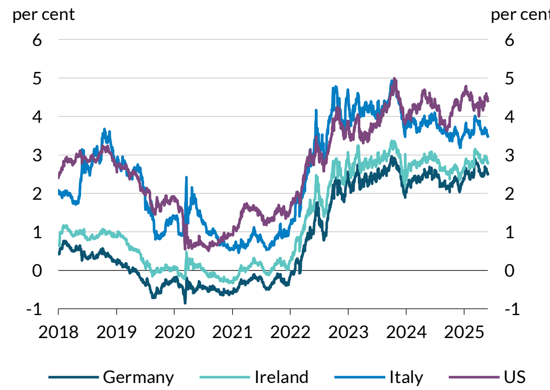
Projected EA gross debt as percentage of GDP



Source: Haver Analytics, IMF World Economic Outlook.

Chart 12: Sovereign borrowing costs are elevated amid rising debt levels and persistent deficits

10-year sovereign bond yields



Source: Bloomberg.
Notes: Last observation 30 May 2025.

Cyber risks have increased amid elevated geopolitical risk and technological developments. While cyber risks have not crystallised at a systemic level to date, the July 2024 CrowdStrike global IT outage illustrated that technology related events could cause significant disruption to the financial system. The increasing scale and interconnectedness of third party ICT service providers increases the likelihood of further significant IT outages due to issues in individual ICT firms. Additionally, elevated geopolitical tensions have coincided with a rise in cyber-attacks while rising trade tensions could prompt further such attacks.[6] Technological developments, such as breakthroughs in artificial intelligence, may also lead to an increase in the sophistication and severity of malicious attacks. Firms must therefore maintain high levels of digital operational resilience and preparedness to ensure that cyber-attacks do not impair their own functioning and that of the financial system overall.

Climate related risks continue to pose a threat to financial stability and have the potential to amplify existing cyclical vulnerabilities. Extreme weather events associated with climate change are occurring more frequently and are becoming more extreme in nature.[7] Recent examples of such events in Ireland, like storm Éowyn, have highlighted the disruptive nature and potential financial costs of the resultant damage.[8] Such severe climate events or a disorderly transition to a low carbon economy have the potential to cause destabilising effects on the financial system and real economy. One potential effect would be a disruption in commodity supply chains causing increases in energy prices and overall inflation. A key focus of central banks, regulatory authorities and industry must be to continue to strengthen the resilience of the financial system to climate-related risks, while at the same time the financial system has a crucial role to play in allocating capital to support the economy's broader climate transition to a net zero world.

[6] See Natalucci et al. (2024), Rising Cyber Threats Pose Serious Concerns for Financial Stability, IMF Blog
[7] See Carroll (2022) Climate Risks in the Financial System: An Overview of Channels, Impact and Heterogeneity, Financial Stability Notes Vol. 2022, No. 7, Central Bank of Ireland.
[8] See the University of Galway's research on tidal waves during storm Éowyn.

Domestic risk assessment

Against a backdrop of heightened policy uncertainty, downside risks to domestic growth have increased significantly. Despite a challenging international environment, the domestic economy has remained on a broadly stable path. Modified domestic demand continues to expand (2.7 per cent in 2024), supported by strong labour market performance and solid income growth. Overall, risks to the outlook have increased due to persistent global uncertainty and shifting external macroeconomic conditions. In this context, financial stability risks are best considered with a forward-looking perspective that includes the possibility of more volatile external conditions.

The effects of the current uncertain environment on the Irish economy have yet to materialise but potential changes in the international trade and investment environment may have a considerable impact on the Irish economy over a longer horizon. Activity statistics broadly point to a continuation of the domestic economic expansion, but it will take some time for the effects of the tariff announcements and uncertainty to register in official measures of economic activity. Moreover, the time horizon for the materialisation of the potential negative effects of policy uncertainty is also difficult to forecast. The recent surge of exports to the US may reflect attempts by firms to re-stock in anticipation of new tariffs. This suggests that frontloading of exports from Ireland has supported activity in the short term, though this is likely to unwind in future months. More broadly, structural changes to the economy induced by a new trade, investment, and international tax regime may have considerable impact on the Irish economy in the medium term.

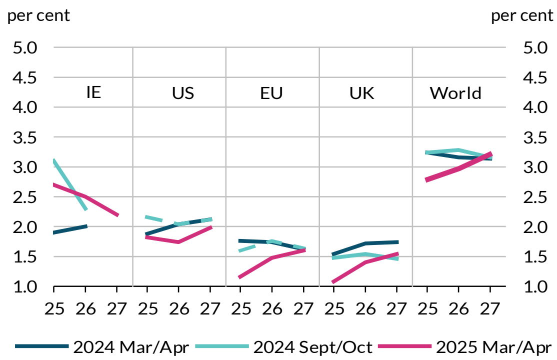
The announcement of US tariffs has resulted in downward revisions to growth for Ireland's key trading partners, which could curb future external demand. Recent projections from multilateral institutions and national authorities indicate softer economic performance in several of Ireland's main export destinations (Chart 13). In comparison with other EU Member States, Irish exports are relatively concentrated in a small number of countries, with the US accounting for almost a third of all goods exported from the State (Chart 14). In addition to the direct effects of higher tariffs on imports from the EU, there is considerable uncertainty around the economic outlook in the US, with tail risks increasing. This weaker external environment is expected to weigh on Irish export activity and MNE-related output. While domestic demand has so far remained resilient, a sustained weakening of external conditions could have second-round effects on employment, investment, and consumption.

The structure of the Irish economy has been built on international trade and its role in the global value chain, which now leaves it vulnerable to changes in the geo-economic environment. The small open economy structure of the Irish economy — highly integrated with global capital, trade, and labour flows — amplifies the effects of geopolitical and macroeconomic shifts abroad. Trade frictions, potentially evolving tax regimes, and regulatory divergence remain key external risks. The potential for further fragmentation in global supply chains or tightening in international financial conditions could have material implications for Irish firms and households, particularly those directly or indirectly reliant on external demand or international funding channels.

For an open economy like Ireland, the re-orientation of trade and investment flows and the re-alignment of supply chains presents near- and medium-term risks albeit with some potential for future opportunities. If new trade policies were to substantially reduce Irish exports to the US or bring about a possible relocation of some of the MNE-related future investment, this could affect the future productivity capacity of the economy. In the medium term, a reduction in the rate of FDI in critical export sectors would likely have important repercussions for employment, consumption, and the fiscal balance of the government. Conversely, the new trade relationships and export markets can provide enhanced opportunities for an outward-oriented economy like Ireland.

Chart 13: Irish growth continues, though downside risks to outlook given elevated uncertainty, US FDI exposures and potentially lower external demand

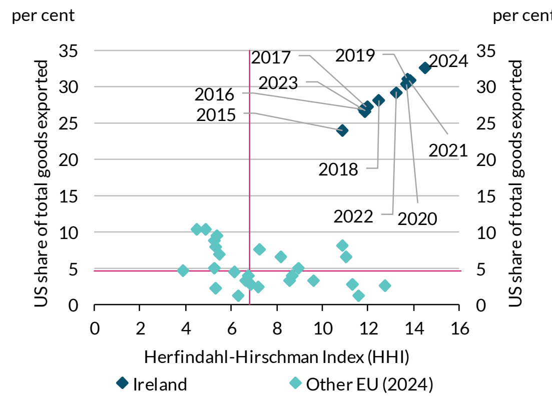
Evolution of growth forecasts



Source: Central Bank of Ireland calculations and IMF.
Notes: Data are the Central Bank's forecast for Irish MDD as reported in the Quarterly Bulletin and the IMF's forecast as published in the World Economic Outlook.

Chart 14: 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.

Concentration of FDI in pharmaceutical and ICT firms increases the potential impact of unexpected sector-specific shocks or international policy change. A small number of highly globalised sectors account for a disproportionate share of output, corporate tax receipts, and export earnings (Chart 15). This structural feature increases vulnerability to changes in sector-specific regulation, intellectual property treatment, or international tax policy. Any significant reallocation of future production or the capital stock of these firms could create volatility in headline economic figures and potentially disrupt employment in high-value sectors.

Beyond the impact on MNE activity, the uncertain outlook could also affect domestic businesses. Outside of the MNEs operating within the State, there are a range of indigenous large firms and SMEs in various segments of the economy, offering goods and services to both the domestic economy and international clients. SMEs play an important role in domestic employment and as bank borrowers. For these firms, 2024 figures showed that while profit margins varied across sectors, overall SME profits were comparable with 2023. Corporate balance sheets remained robust in aggregate, and the recent slowing in business insolvencies suggests a degree of resilience, with the exception of the CRE sector where receivership rates have increased.

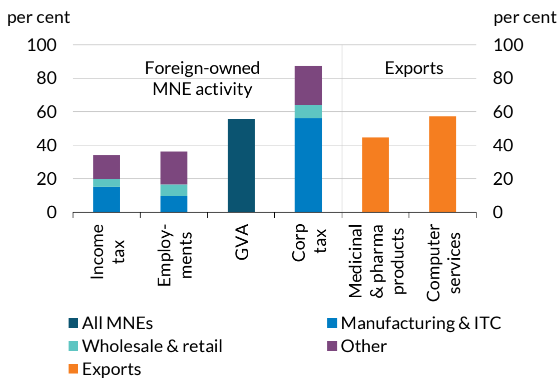
The relatively benign domestic environment that supported profitability in 2024 contrasts sharply with the current level of uncertainty and concerns surrounding international trade. A more pessimistic outlook for global growth and the imposition of tariffs may impact turnover and profitability of firms operating in foreign markets.[9] In addition, many indigenous firms provide services and supports to MNEs operating within Ireland. A shift in international trade policy, should it have implications for the activities of MNEs within the State, could have wider implications for Irish firms. Irish firms' business sentiment has softened in some sectors amid global uncertainty (Chart 16). This might prompt a more cautious investment approach by NFCs,

[9] Lower activity may have implications for future productivity, economic activity and employment.

affect potential hiring, and reduce wage growth, particularly in sectors exposed to international demand.[10] The Central Bank's own engagement with industry contacts suggests that many large companies have, for now, deferred new investment decisions.[11]

Chart 15: Reliance on MNE activity leaves Ireland susceptible to unfavourable trade policy developments

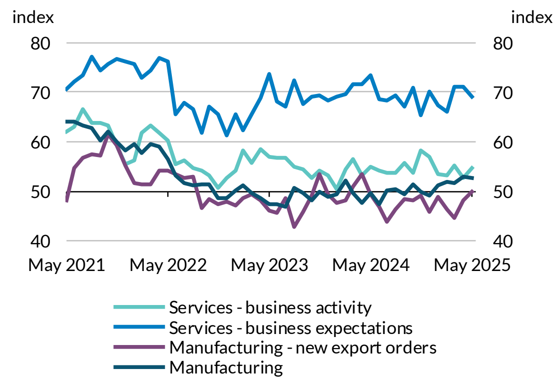
Share of MNE contribution to various measures of activity and the importance of certain sectors for Irish exports



Source: CSO, 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 pharmaceutical 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.

Chart 16: Ongoing uncertainty could slow investment decisions by firms, though impacts may vary

PMI indices



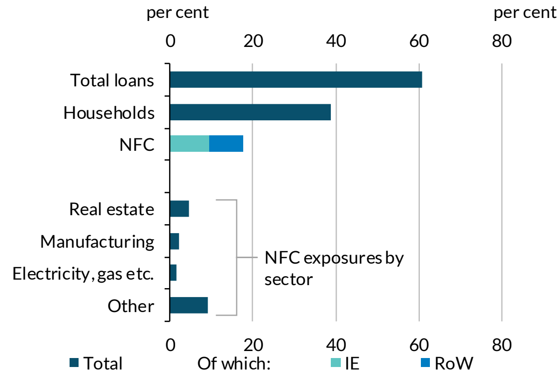
Source: AIB Ireland PMIs via LSEG.
Notes: A value above 50 represents an expansion while below 50 implies a contraction. Last observation May 2025 and relates to surveys conducted through April.

Challenging operating conditions for domestic firms have the potential to result in elevated credit risk across the financial system. The provision of credit to Irish firms is spread across a range of providers, though predominantly from banks and non-bank lenders.[12] In the domestic banking sector, almost 20 per cent of total assets relate to NFC borrowers (Chart 17).[13] These loan exposures are spread across a range of sectors. Within these, there are loans where credit quality concerns continue to persist; almost 22 per cent of corporate loans were classified as heightened risk (i.e., stage 2 under IFRS reporting requirements) in March 2025, with Irish CRE borrowers continuing to display weaker asset quality than other NFCs (for more, see *Domestic banking sector conditions*).[14] The importance of credit varies across sectors and size of firms. For example, approximately half of all SMEs carry no debt (Chart 18).

[10] The impact of uncertainty is not limited to internationally focused firms. Though the outlook for the domestic economy remains positive, household sentiment has softened, which might point to a potential weakening in demand and may result in more challenging domestic operating conditions for firms than previously experienced.
[11] See remarks by Central Bank Deputy Governor Madouros, May 2025.
[12] Central Bank of Ireland Frontier Statistics show that banks (49 per cent) and non-banks (38 per cent) account for the majority of Irish corporates and business lending, with the government sector accounting for almost 13 per cent.
[13] NFC exposures mainly relate to domestic counterparties. Exposures to the rest of the world mainly relate to EU and UK counterparties.
[14] Across the NFC book, credit risk is highest amongst SMEs, where some 26 per cent of loans are classified as stage 2.

Chart 17: NFC loans are a sizable exposure of the domestic banking sector, with the main exposure being to Ireland

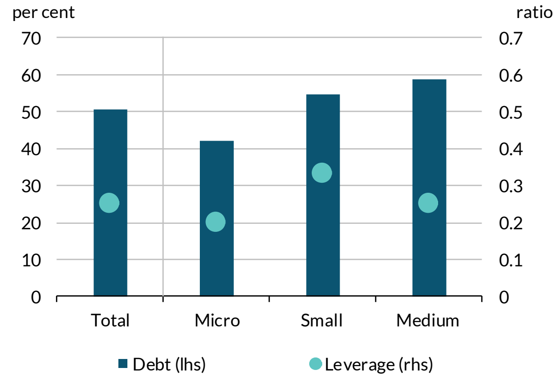
Breakdown of domestic banks' loan exposures



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

Chart 18: A material share of SMEs carries no financial 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.

Increased uncertainty may prompt even stronger household savings, slowing consumption and broader economic activity. The April consumer sentiment index, the first since the US administration announced reciprocal tariffs, reported the largest decline since the onset of the COVID-19 pandemic (Chart 19), followed by a modest improvement in sentiment in May. Uncertainty may prompt households to increase precautionary savings, thereby reducing consumption and/or affecting house purchase decisions. A large proportion of households are employed in MNE-dominated sectors or in the broader export-orientated sectors. An analysis of stock of mortgage credit shows a high proportion of lending to households in these exposed sectors (Chart 20).[15] While the debt service ratio for the household sector has remained stable over the past number of years, credit risk via the household sector represents a potential channel through which a trade shock may impact the domestic financial sector.

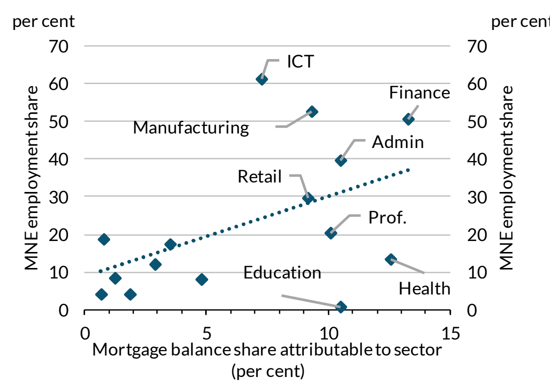
Chart 19: Households remain positive about the economy but there are signs of softening in the outlook

Consumer sentiment index

Source: Irish League of Credit Unions via LSEG.
Note: Last observation May 2025.

Chart 20: 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



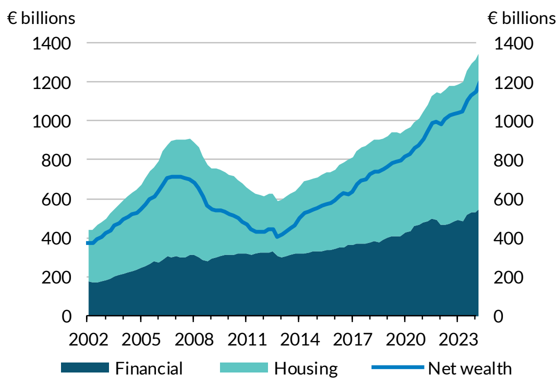
Source: CSO.
Notes: The estimated share of residential mortgage loans owed by employees across sectors and the within-sector share of employment associated with MNEs.

[15] The share of the labour market reliant on MNEs is likely much larger, given those indirectly exposed to MNEs via supporting roles and provision of services to the MNEs.

On aggregate, the household sector has significantly deleveraged since the GFC, but risks remain. In the last decade, households have accumulated substantial amounts of new assets (Chart 21). High savings rates, appreciation of housing asset value and a deleveraging of household balance sheets have raised net household wealth well above pre-GFC levels. However, despite the improved financial position, households are exposed to potential future increases in borrowing costs. Approximately 40 per cent of the outstanding mortgage book relates to lending conducted via variable rate products. Of the remaining share of mortgages, the majority are fixed for a period of less than five years. Importantly, the Central Bank of Ireland's mortgage measures continue to safeguard lending standards, supporting household resilience and mitigating the risk of credit-driven imbalances in the housing market (Chart 22).

Chart 21: Household net wealth has grown substantially since the post-GFC recession

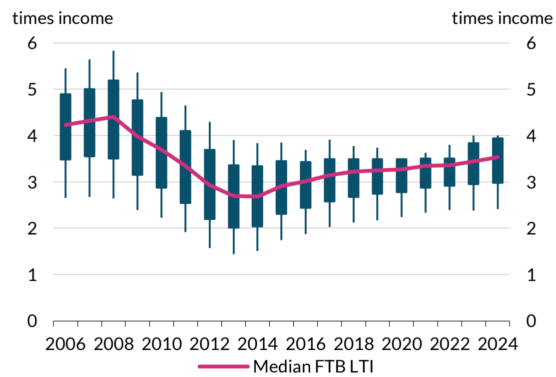
Household assets and net wealth



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.

Chart 22: FTB lending at higher LTI multiples continues to remain well below pre-crisis levels

Distributional statistics of mortgage lending LTI ratio



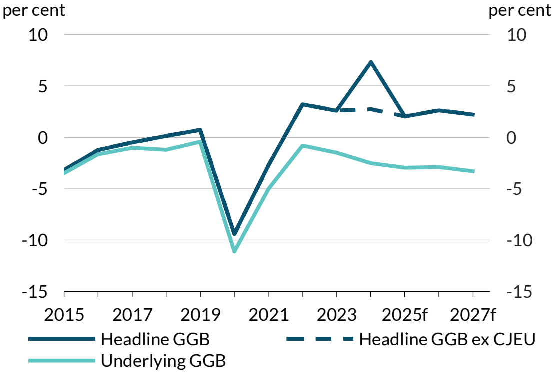
Source: Central Bank of Ireland.
Note: Chart shows the distribution of LTI, based on the number of loans, across the 90th, 75th, 50th, 25th and 10th percentiles, respectively. Data for 2006-2014 are for all FTB mortgage agreements originated by retail banks, excluding split mortgages. Data for subsequent years relates to FTB loans in-scope of the mortgage measures captured through the Central Bank's Monitoring Templates Data. Last observation 2024.

The increasing reliance of the State on tax receipts that are volatile and heavily concentrated among a small number of MNEs highlights the sensitivity of the fiscal position to geo-economic developments. Government finances have been supported in the recent period by high recurring corporate tax receipts from MNEs, which account for 88 per cent of all corporate tax revenue. Buoyant tax receipts have contributed to the ongoing budget surplus. However, a significant proportion of current corporate tax receipts cannot be attributed to developments in the real economy. The underlying general government balance (GGB) – which excludes estimates of excess corporation tax and revenue related to the Court of Justice of the EU's (CJEU) ruling in the Apple state aid case – is projected to be in persistent deficit in the coming years (Chart 23). Should the current geo-economic fragmentation affect the operations of MNEs in Ireland, this would have direct implications for the State's fiscal position. While sensitive to future developments in sovereign bond markets, Irish sovereign interest costs remain at modest premia over benchmark German yields (Chart 24). However, as global government bonds yields rise, the interest costs for Ireland will also rise, as refinancing costs are higher than the historical average cost of servicing the debt (Chart 25).[16]

[16] Between April 2025 and the end of 2028, close to 20 per cent of outstanding government debt (approximately €35 billion) is due to mature.

Chart 23: Underlying budget balance is projected to remain in deficit in the coming years

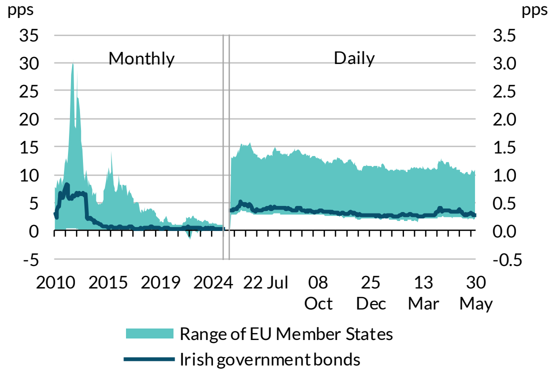
General Government Balance forecast



Source: CSO and Central Bank of Ireland.
Notes: Chart shows the evolution of the headline and underlying general government balances – as a percentage of GNI* - from 2015 to 2027. 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 2025.

Chart 24: Irish sovereign debt continues to trade in line with German Bunds

Irish and selected EU bond spreads over German Bunds

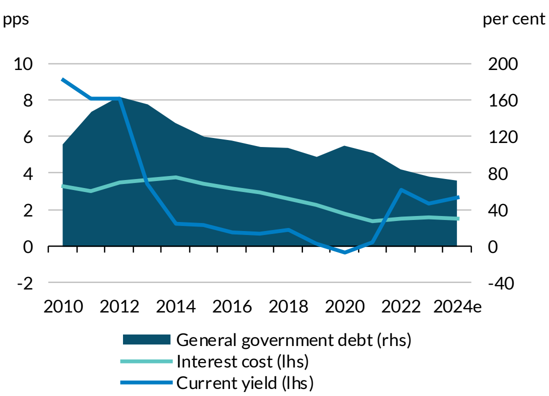


Source: Bloomberg.
Notes: Data are for a time-varying range of 16 EU Member States. Left pane shows month end values for the period June 2010 to May 2025. The right pane shows daily data for the last year. Last observation 30 May 2025.

A tightening in global financial conditions would also increase downside risks to the Irish economy through a range of channels. Growth-at-risk models provide a framework to analyse tail risk to the Irish economy. Under the economic conditions that prevailed at the end of 2024, downside risks were relatively contained, pointing to a low probability of a recession (Chart 26). However, under an extreme and significantly less probable scenario associated with a large adverse movement in financial conditions, the impact would be more severe. Should a large shock to euro area financial conditions occur, tail risks to the domestic demand could be twice as large as is currently the case. In such conditions, the entire growth forecast distribution would shift downwards as the likelihood of weaker demand growth would increase at all percentiles of the distribution.

Chart 25: While government debt has fallen, new issuances of debt are likely to attract higher funding costs

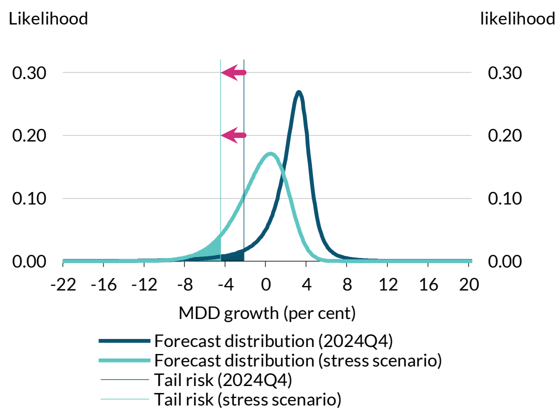
Irish government debt, 10-year yields and interest expense



Source: Bloomberg, CSO and Central Bank of Ireland.
Notes: General government debt as a percentage of GNI*. Interest cost is annual interest expense as a percentage of outstanding general government debt. Current yield refers to 10 year government bonds.

Chart 26: Measured downside risk to domestic demand appears relatively benign, but severe financial market dislocation could also impact growth

MDD growth forecast distribution



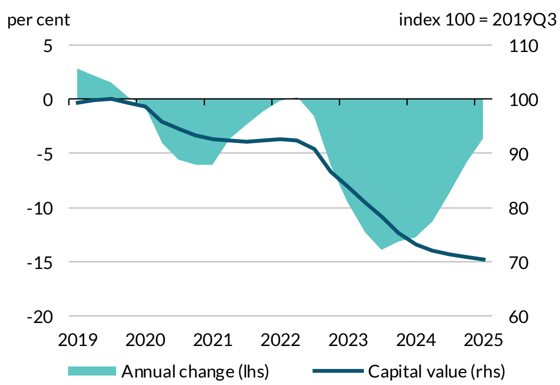
Source: Central Bank of Ireland calculations.
Notes: Distribution refers to the 1-year ahead forecast. The 'stress scenario' assumes an adverse 2-standard deviation movement in the euro area financial conditions component of the growth-at-risk model holding all other components constant.

Non-bank lenders are playing an increased role in the funding of NFCs and SMEs (in particular those active in the CRE sector) and can be more sensitive to international financial markets.[17] While non-bank lenders deepen and widen domestic credit provision, there are financial stability risks. These include increased sensitivity of domestic credit provision to international financial conditions, concentration risk, and exposure to opaque international private credit markets, (Moloney and O'Gorman 2025). Should external financial conditions tighten and/or the domestic economy become less attractive to external creditors, this could lead to a reduction in capital inflows impacting the supply of credit (particularly for the CRE sector).

The abrupt shift in the global environment could have implications for the nascent recovery in the CRE market. The rate of decline in Irish CRE capital values eased further in 2025Q1 (Chart 27), as the upward momentum in investment volumes evident during 2024 (Chart 28) continued into the opening months of 2025.[18] However, uncertainty remains over the full scale of the downturn in certain sub-markets, due to relatively low levels of market activity and limited price discovery.[19] Retail properties have attracted the largest share of investment in recent quarters, while at the same time the value of transactions involving residential assets has moved in the opposite direction (Chart 28). Investment activity in the Irish CRE market is widely diversified in terms of geographic origin and entity type.[20] In the years since the GFC, US-based investors have invested significant sums in Irish CRE.[21] While a more diverse investor base can help mitigate domestic financial stability risks through risk-sharing mechanisms when shocks hit, it can increase the risks associated with capital in- and outflows and a more amplified asset price cycle.

Chart 27: Capital values continue to adjust, though the rate of decline has reduced markedly in recent quarters

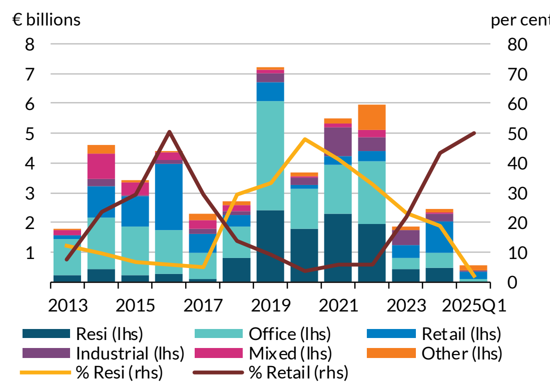
Irish CRE capital value index and annual percentage change



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

Chart 28: Demand for retail property assets is strong as investment in the residential sector has fallen sharply in recent years

Breakdown of CRE investment by sector



Source: CBRE Research and Central Bank of Ireland calculations.
Note: "Resi" refers to residential. Annual data, with the exception of last observation which covers 2025Q1 only.

[17] For more on the role of non-bank lenders in SME funding, see FSR 2024-II Resilience: Non-Bank Financial Sector.
[18] CRE capital values fell 3.6 per cent year-on-year in 2025Q1 compared to a decline of 12.7 per cent in 2024Q1. Though still well below the annual average of the past decade, CRE investment volumes in 2024 (€2.5 billion) were about one-third higher than in 2023, while the figure for 2025Q1 (€550 million) was well over three times the level of investment during the first quarter of 2024.
[19] At the subsector level, some elements of the office and retail markets have seen capital values decline by as much as 40 and 50 per cent respectively from pre-COVID 19 levels, according to data from MSCI.
[20] See Central Bank of Ireland *FSR Special Feature on CRE* (June 2024) for more information.
[21] According to CBRE data, over the period 2022 to 2024, approximately 30 per cent of Irish CRE investment volumes originated in the US.

Domestic capacity constraints continue to be evident in the housing market. Housing supply (approximately 30,200 units) was below expectations in 2024, falling by 7 per cent on the year, mainly driven by a lower delivery of apartments. The significant increase in housing commencements recorded last year will feed through to higher output over the near term (Chart 29). More recently, issues such as the sharp drop in residential commencements[22], on-going delays in the delivery of key infrastructure[23], and a decline in the provision of capital for new development by private institutional investors[24] (Chart 28), have raised concerns about continued supply constraints. Mortgage credit growth remains solid, with the value of annual mortgage drawdowns rising strongly (12.4 per cent) in 2025Q1 above the equivalent figure in 2024Q1, with all market segments registering increases.[25] First-time buyers still dominate the market, accounting for approximately 60 per cent of drawdowns, while the annual rolling total of FTB approvals climbed to 31,800 in March 2025, the highest level since the BPFI data series began in 2011.

While house price growth remains elevated, the momentum has slowed to some degree in the more recent period. RRE prices were 7.5 per cent higher year-on-year in March 2025, down from a recent peak of 10.1 per cent in August 2024 (Chart 30).[26] In the absence of any adverse shock, there are a number of factors that are likely to sustain housing demand over the near to medium term, including forecast nominal income growth, strong employment dynamics, fiscal supports, net inward migration and expectations of a further loosening of monetary policy.

The Irish housing market may be vulnerable to potential economic shocks arising from elevated geopolitical uncertainty and increased trade fragmentation. The housing market is sensitive to swings in consumer sentiment and tends to move with the business cycle. Persistent uncertainty could impact RRE house purchase decisions across both households and non-household investors, with some opting to defer. Any negative impact on domestic employment and incomes could reduce housing demand, with implications for house prices and rents.[27] High-income employees of MNEs and those working in trade-dependent firms may be particularly affected.

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[22] The significant increase in RRE commencements last year likely relates to the expiry of a waiver on development levies and water connection charges associated with residential construction at the end of 2024. In the first four months of 2025, housing starts (approximately 3,900 units) show an almost 90 per cent drop compared to the same period last year.

[23] See, for example, recent evidence provided by Uisce Éireann to the Joint Committee on Infrastructure and National Development Plan Delivery, on delays to the Greater Dublin Drainage wastewater treatment facility and the impact a failure to deliver this project would have on the capacity to provide new homes in Dublin beyond 2028.

[24] The residential component of the Irish CRE investment market amounted to approximately €500 million in 2024, a significant drop from the annual average of well over €2 billion during the period 2019 to 2022.

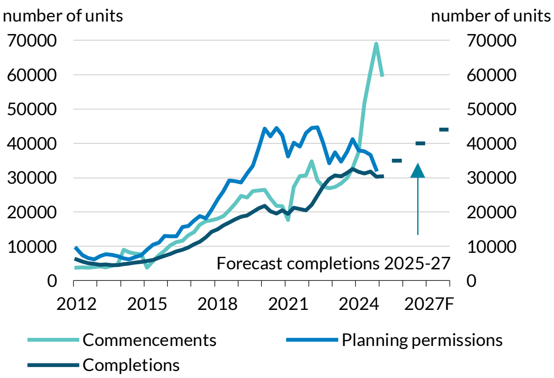
[25] On an annual basis, the value of mortgage lending reached €13 billion by end Q1 2025, its highest level since 2023Q3. The volume of annual mortgage drawdowns has also grown steadily over the past year, with data for 2025Q1 (43,900) pointing an increase of 6 per cent on the 2024Q1 figure.

[26] The three-month percentage change in the RPPI has also slowed markedly in recent months to 0.4 per cent in March 2025 from a recent high of 3.1 per cent last August.

[27] According to CSO data, the rate of annual growth in private rents has been steady at around 5 per cent over the past year or so, down from a recent high of almost 13 per cent in mid-2022.

Chart 29: The increase in commencements during 2024 supports higher forecasts of residential completions over the medium term

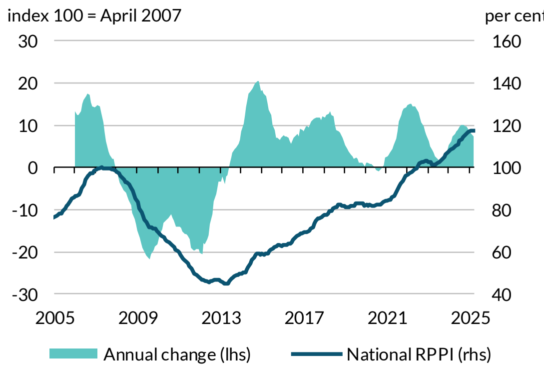
Indicators of residential construction activity - rolling annual totals



Source: CSO and Central Bank of Ireland calculations.
Note: Last observations of commencements and completions data 2025Q1. Last planning permissions observation 2024Q4. Completions forecasts for 2025, 2026 and 2027 are based on Central Bank of Ireland calculations. For more, see Quarterly Bulletin No.1 2025.

Chart 30: The annual rate of residential property price growth remains strong, despite some slowing of momentum over the past 6 months

Residential property price index and annual percentage change



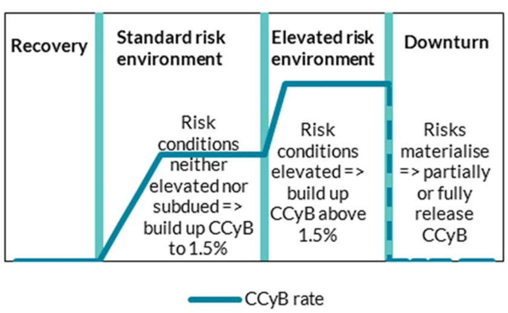
Source: CSO and Central Bank of Ireland calculations.
Note: Last observation March 2025.

In focus: Countercyclical capital buffer and banking sector resilience

The Central Bank is maintaining the CCyB rate on Irish exposures at 1.5 per cent. The Central Bank's CCyB framework considers a rate of 1.5 per cent to be appropriate when cyclical risk conditions are neither elevated nor subdued (Chart 31). Today's announcement represents no change to the policy stance for the CCyB. The CCyB rate has been maintained at 1.5 per cent since initially announced in June 2023 and provides resilience against macro-financial risks including those associated with Ireland being a small, globalised economy. Maintaining resilience is important in the context of the current, uncertain, macro-financial environment and the heightened risks facing the financial system. The CCyB provides a releasable buffer, should it be required to support the economy in the event of a materialisation of systemic risk.

Chart 31: The CCyB policy stance reflects the Central Bank's strategy for the buffer

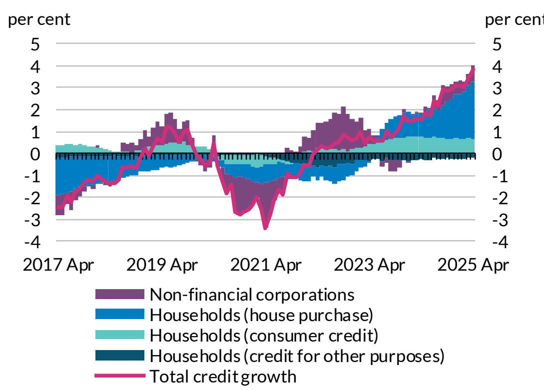
The Central Bank's high-level strategy for the CCyB



Source: The Central Bank's framework for macroprudential capital
Notes: Stylised representation.

Chart 32: Credit growth has doubled since March 2024, principally driven by house purchase

Contribution by loan type to annual growth of total bank credit



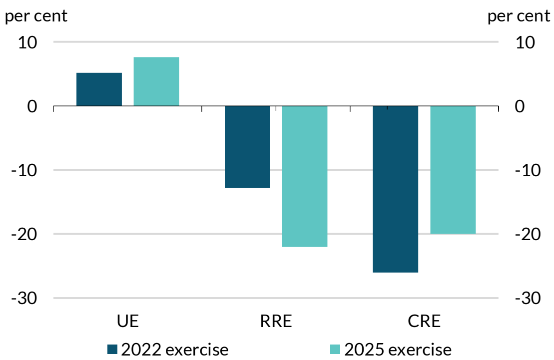
Source: Central Bank of Ireland Credit and Banking Statistics.
Notes: Calculations based on data from Tables A.1 and A.6. As of January 2022 Table A.6 has been discontinued following an updated ECB regulation on the treatment of securitised loans. Credit considers only loans from banks to Irish residents. Last observation April 2025.

While macro-financial conditions in the domestic economy have remained positive, elevated uncertainty and trade tensions are likely to result in a weaker than previously expected outlook. Maintaining the CCyB rate at 1.5 per cent is deemed appropriate in the context of the mixed macro-financial environment. While activity in the economy has to date remained robust, albeit with pockets of weaker dynamics, potential changes in the international trade and investment environment may have a considerable impact on the Irish economy in the future (see *Domestic risk assessment*). Aggregate bank credit growth strengthened to 3.8 per cent in April 2025, more than double the rate of the previous year (Chart 32). Lending to households, in particular for house purchase, continues to be the main contributor to overall bank credit growth. By contrast, SME lending remains relatively muted. Domestic capacity constraints continue to be evident in the housing market, while the nascent recovery in the CRE market could be affected by the shift in the global environment. As a small, open economy, Ireland is particularly exposed to external developments, and any marked deterioration in future economic activity could increase the credit risk of firms and households, with potential negative effects for the banking sector and the broader economy.

The banking sector's capital buffers support resilience against adverse events. Indicators across capital, liquidity, profitability and asset quality point to the banking sector being in a robust position (see *Domestic banking sector conditions*) with no signs of stress at this stage. In order to inform its judgement on its CCyB policy stance, the Central Bank carried out an assessment using its macroprudential stress test methodology[28], to understand the potential scale of losses on Irish exposures for the domestic banking sector associated with a hypothetical adverse movement in key macro-economic variables (Chart 33). While there is no direct mechanical link between the estimated capital depletion from this analysis and the CCyB rate, the exercise provides additional support in reaching a judgement that the CCyB rate remains at an appropriate level. Broadly speaking, the level of capital depletion from the exercise (Chart 34) is within the range of the level of resilience provided by the existing macroprudential buffers (i.e. CCoB, O-SII, CCyB) in the system, taking account also that there are bank-specific recommendations around the level of capital that supervisors expect banks to maintain in the form of Pillar 2 Guidance.

Chart 33: Adverse change in macro-economic input variables and relative to the assessment in 2022

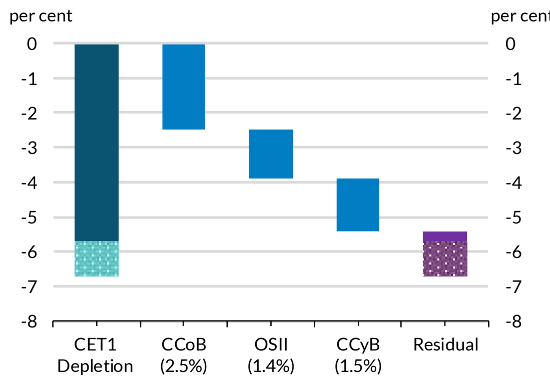
Adverse change in macro-economic input variables and relative to 2022 exercise



Source: Central Bank of Ireland.
Notes: Chart shows the difference in unemployment rate (UE) between the opening level and the scenario peak and, for residential (RRE) and commercial (CRE) real estate prices, shows the cumulative decline over the three-year horizon. "2022 exercise" refers to the application of macroprudential stress testing methodology underlying the Central Bank's framework for macroprudential capital 2022.

Chart 34: The banking sector's capital buffers support resilience against adverse events

CET1 capital depletion for given adverse movement in macro-economic variables relative to macroprudential buffers



Source: Central Bank of Ireland.
Notes: CET1 depletion shows the estimated capital depletion on Irish exposures with (solid colour) and additional depletion without (patterned colour) the effects of a banking sector deleveraging response. Capital buffers include the capital conservation buffer (CCoB), the aggregate other systemically important institutions (OSII) buffer for the domestic banking system and the countercyclical capital buffer (CCyB) rate applicable to Irish exposures. In considering the resilience in the system, the Central Bank also acknowledges that banks face institution-specific recommendations regarding the level of capital that supervisors expect them to maintain.

The Central Bank will remain agile to macro-financial developments, with future CCyB rate decisions based on macro-financial conditions in a manner consistent with the strategy for the CCyB. Having the CCyB rate set at 1.5 per cent allows for its partial or full release, should a materialisation of risk warrant it. In the other direction, if cyclical risks (reflected in indicators across credit, the economy and asset prices) were deemed to be becoming elevated, the CCyB rate could be increased to support the resilience of the banking sector and economy.

Quantitative analytical tools such as macroprudential stress test models provide useful insights to support considerations regarding the CCyB policy stance. These tools complement the regular suite of indicators and analysis which inform these decisions.[29] The modelling framework allows for an assessment of the potential impact on capital from a macro-financial shock, focusing

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[28] See Morell, Rice, and Shaw (2022)

[29] As outlined in its framework for macroprudential capital, the Central Bank expects to use its macroprudential stress testing toolkit on a periodic basis to help inform judgements regarding its CCyB policy stance.

specifically on the banking sector's domestic credit exposures, to reflect the exposures that the Irish CCyB rate is applied to. The shock is represented by the chosen path for the macro-economic variables in the model.

The adverse scenario was designed to reflect prevailing cyclical dynamics. In assessing resilience to adverse shocks, among other assumptions, the adverse scenario assumes a hypothetical decline in RRE and CRE prices as well as a rise in the unemployment rate. The severity of these shocks reflect prevailing cyclical dynamics. The exercise sees the unemployment rate reaching 12 per cent alongside cumulative declines of 22 and 20 per cent respectively in RRE and CRE prices (Chart 33). Relative to the exercise carried out as part of the Central Bank's review of macroprudential capital in 2022[30], this is a larger fall in RRE and smaller fall in CRE, reflecting the divergent trends that have been seen in these sectors in the intervening period.[31] The peak unemployment rate is similar, but reflects a slightly larger deterioration given the lower starting unemployment rate at end-2024 (compared to end-2021).[32]

As this exercise is used in to inform the Central Bank's judgement regarding the CCyB rate, the approach focuses on the potential impact on capital via the banking sector's domestic exposures only. As such, it is not an assessment of broader banking sector resilience and does not capture wider aspects of risk coming through international credit risks, market risks or even more idiosyncratic risks such as those related to pension liabilities. A key feature of the macroprudential stress test is that banks are assumed to respond to adverse conditions by deleveraging through contracting lending and raising lending interest rates to defend their capital positions. The strength of the banking sector reaction is an important determinant of the level of capital depletion observed. The estimated capital depletion for the exercise when allowing for banks' deleveraging responses is 570bps (Chart 34). When banks are restricted from deleveraging in the model, we would see larger credit impairments and larger aggregate capital depletion (670bps). This level of estimated capital depletion does not point to the need for a higher CCyB, on top of the buffers[33] already within the system.

Like any forward-looking quantitative exercise, there are significant uncertainties around the point estimates of capital depletion. Relative to the 2022 exercise, the level of capital depletion is somewhat smaller. One of the drivers of this relates to banks' asset quality. Asset quality has improved and NPLs have been falling (Chart 35), while banks have increased their performing books through loan purchases and through new lending at improved lending standards. Since the GFC, Irish mortgages have displayed elevated levels of default risk, but based on recent data, this has now declined towards EU averages (Chart 36), reflecting those improvements to banks' loan books. However, the economy's dependence on external developments has increased over the same timeframe, and the vulnerability of the Irish economy and financial system in the current uncertain environment underline the fact that any exercise would not capture fully all possible shocks, or transmission of shocks, to the economy and financial system. Ultimately, quantitative exercises such as this comprise only one input into an overall judgement about the CCyB.

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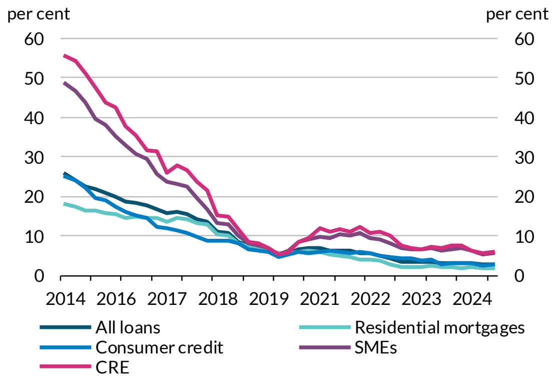
[30] See Financial Stability Review 2022:I.
[31] Between end-2021 and end-2024 residential real estate prices increased by approximately 22 per cent. By contrast, CRE prices declined by approximately 23 per cent.
[32] Interest and inflation rates, impacting through the profit and loss channel, also enter the model and decline relative to prevailing levels in the exercise.
[33] Acknowledging, in addition to the macroprudential buffers, the presence of bank-specific recommendations around the level of capital that supervisors expect banks to maintain in the form of Pillar 2 Guidance.

Chart 35: Non-performing loans at domestic banks remain low across all loan categories

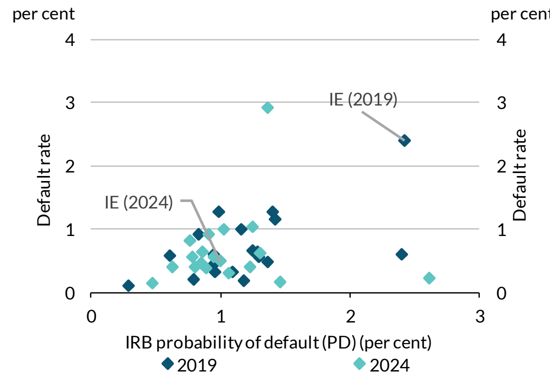
NPL ratios by loan type



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

Chart 36: Observed default rates and IRB probability of default for performing Irish mortgages have fallen in recent years

Observed default rates and IRB probability of default for performing retail mortgages, 2019 v 2024.



Source: EBA Risk Dashboard Data.
Notes: Default rate is as defined by EBA methodology and is observed new defaults for the period divided by: (original exposure – defaulted exposure). Default rate represents the average observed default for the previous two years: default rate (2019) is the average for period 2018-2019 and default rate (2024) is the average for 2023-2024. PD (2019) and PD (2024) represent the IRB probability of default for mortgages for the years 2019 and 2024 respectively. Non-Irish data points include other EU, euro area and UK points for which data is available. Italy is removed as an outlier.

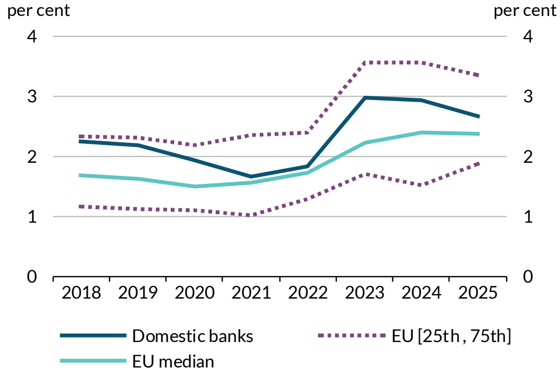
Domestic banking sector conditions

Domestic banks currently maintain healthy balance sheets, leaving them well-positioned to absorb potential credit losses in case of adverse shocks. Banks are reporting low NPL ratios across most asset classes (Chart 35), while capital and liquidity conditions are positive, providing a good initial buffer for any emerging shocks. However, as discussed in *Domestic risk assessment*, banks may face a greater exposure to credit losses due to higher default rates among households and businesses arising from shifts in the global environment. Given these potential challenges to the bank asset quality outlook, maintaining resilience through prudent risk management, including maintaining adequate capital buffers, is crucial to preserve financial stability.

Domestic bank profitability remains strong, but is moderating from recent highs due to falling interest rates. Between 2022 and 2024, domestic banks benefitted from rising interest rates, which significantly boosted their profitability. ECB interest rate hikes, beginning in mid-2022, led to a sharp increase in net interest income – the primary driver of bank earnings. Bank net interest margins (NIM) also rose significantly, reflecting the widening gap between assets (including liquidity placed with the ECB) and deposit rates, further strengthening overall profitability (Chart 37). However, domestic bank profits have moderated from recent highs, as the ECB began lowering rates, which reduced banks' net interest income. Although lower interest rates reduce bank income, they also improve affordability for borrowers by reducing debt repayment burdens. The net impact of this headwind to bank profitability needs to be taken into consideration by banks in their decision making, especially in the current, uncertain risk environment. In a lower profitability environment, structural cost issues are also likely to come back to the fore.

Chart 37: Domestic banks' NIM is moderating from recent highs due to falling interest rates

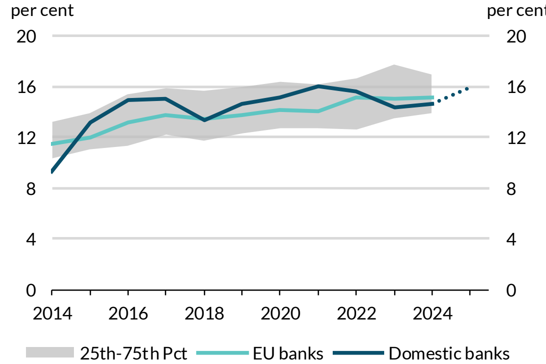
Aggregate net interest margin of Irish and EU banks



Source: Central Bank of Ireland, Moody's Analytics BankFocus.
Notes: Net interest margin (NIM) computed as net interest income over total interest earning assets. EU sample consists of EU significant institutions. Last observation 2025Q1.

Chart 38: Domestic banks' capital positions are robust

Fully-loaded CET1 capital ratios of domestic and EU banks



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. 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 is the median CET1 for EU significant institutions. Last observation 2025Q1.

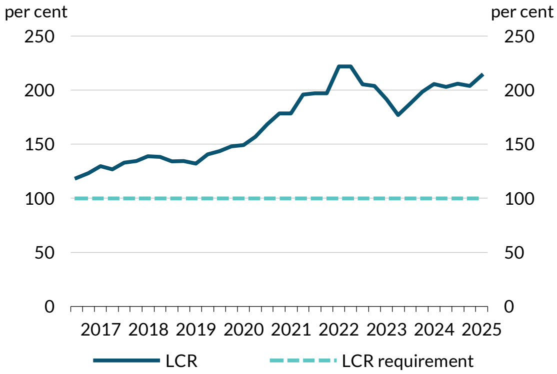
Domestic banks are well-capitalised and reported capital ratios have increased further with the implementation of Basel III reforms[34] (Chart 38). By the end of 2024, the median fully-loaded Common Equity Tier 1 (CET1) capital ratio among Irish banks was 14.7 per cent, exceeding regulatory requirements. With the introduction of Basel III, the CET1 ratio increased to 15.9 per cent in Q1 2025, according to interim reporting from the banks, driven primarily by a reduction in risk-weighted assets.

Domestic banks maintain significant liquidity buffers. Irish banks have excess liquidity, with an aggregate liquidity coverage ratio (LCR) exceeding 200 per cent, considerably above the regulatory minimum of 100 per cent (Chart 39). Domestic banks' strong liquidity position is a result of a number of factors including, but not limited to, the strength of the deposit base, system-wide excess liquidity, and a relatively concentrated banking market in Ireland. Irish households held €165 billion in deposit accounts as of March 2025, of which 86 per cent was held in current or overnight accounts, down from a peak of 94 per cent in late 2022 and early 2023 (Chart 40). This continues to provide banks with a relatively low-cost funding source. However, banks must remain vigilant and proactively manage liquidity and funding risks and adapt to potential shifts in depositor behaviour, particularly as new entrants arrive in the market and the degree of central bank liquidity gradually falls.[35]

[34] The mechanism to adopt these reforms into EU law exists through the Capital Requirements Regulation Capital Requirements Regulation (CRR III, Regulation (EU) 2024/1623) and via the Capital Requirements Directives (CRD VI, Directive (EU) 2024/1619).
[35] As the normalisation of the Eurosystem balance sheet progresses, the aggregate amount of central bank liquidity available to banks in the euro area will fall over the coming years. (ECB Blog, March 2025)

Chart 39: Liquidity coverage ratio (LCR) of domestic banks is well above the regulatory minimum

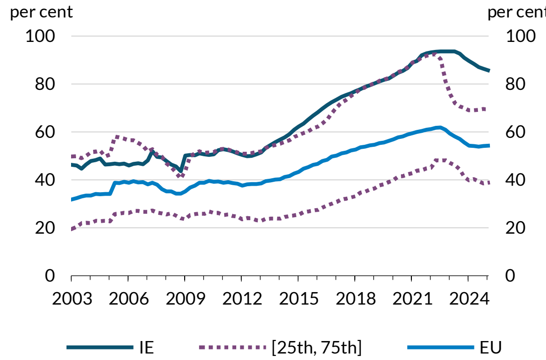
Aggregate liquidity coverage ratio (LCR) of domestic banks and LCR requirement



Source: Central Bank of Ireland
Notes: Aggregated LCR computed as system liquidity buffer over liquidity outflow. The LCR is a regulatory measure designed to ensure that banks maintain enough high quality liquid assets (HQLA) to withstand a 30-day period of liquidity stress. Last observation March 2025.

Chart 40: Irish banks continue to have access to large amounts of customer deposits, largely held in low cost overnight accounts

Share of households overnight deposits over total deposits for Irish and EU banks



Source: ECB.
Note: The share of overnight deposits is calculated by dividing the volume of overnight deposits by the sum of overnight, term and notice deposits. [25th, 75th] represents the 25th and 75th percentile shares respectively of a select number of countries where data is available for all time periods. Last observation March 2025.

In focus: The Irish NBFI sector during the April market volatility episode

The Central Bank actively monitors the internationally-focused NBFI sector as part of our mission to protect financial stability. This includes the regular publication of the *Market Based Finance Monitor*, which focuses on outward-facing investment funds and MMFs, as a complement to the mainly domestic focus of this *Review*. However, given the market turbulence in April, this *Review* includes a special focus on how investment funds performed during this period.

Open-ended investment funds – in the face of underlying vulnerabilities – may amplify adverse market dynamics, as global trade tensions intensify. Vulnerabilities in pockets of investment funds, namely liquidity mismatch and leverage, increase the risk that fire sales by NBFIs can amplify adverse market dynamics. The collective behaviour of investment funds can have wider macro-financial impacts and potentially damaging consequences for the financial system.[36] With the vast majority of the Irish domiciled funds sector exposed to international real and financial economies, global trade tensions may weigh on funds' portfolio asset quality and returns, particularly for funds with large exposures to trade-sensitive sectors. For more on the structure of the Irish domiciled funds sector, see the Central Bank's latest *Market Based Finance Monitor*.

Recognising the diversity of business models and activities within the NBFI sector, the Central Bank's focus – from a financial stability perspective – is on specific cohorts of the investment fund sector. The Central Bank has previously identified six fund cohorts according to their underlying vulnerabilities and their interconnectedness with the wider financial system.[37]

- **High yield corporate bond funds** and **emerging market bond funds** typically allow daily investor subscriptions and redemptions while investing in relatively illiquid markets and as such are vulnerable to deteriorating risk outlooks and large redemption requests (Chart 41).[38]

- **MMFs** are cash-like investment funds that play an important role in credit intermediation. Any large-scale redemptions from MMFs could have amplifying effects on other parts of the financial system and lead to abrupt disruptions in short-term funding markets, in particular for banks and sovereigns.

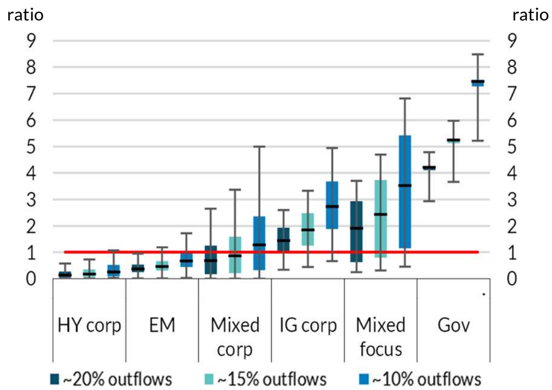
- **GBP LDI (sterling liability driven investment) funds** and **hedge funds** have been identified as highly leveraged and are active in the derivative and repo markets (Chart 42). Margin and collateral calls could increase the demand for liquidity on these funds during times of stress and can lead to forced asset sales if funds are unable to meet these liquidity calls with liquid assets. These forced sales can amplify the stress and impact the functioning of the underlying market, as was seen, for example, during the turbulence in the gilt market in September 2022 when GBP LDI funds sold gilts into an already stressed market (Dunne et al 2023).

[36] See Central Bank of Ireland's Discussion Paper: An approach to macroprudential policy for investment funds.
[37] See Central Bank's latest Markets Based Finance Monitor.
[38] See Box A in the Central Bank's latest Market Based Finance Monitor on a liquidity stress simulation for Irish bond funds.

- Finally, **leveraged Irish property funds** are vulnerable to reductions in valuations as these could lead to covenant breaches within loan covenants that can force the property funds to sell assets.

Chart 41: Emerging market, high yield and a portion of mixed corporate bond funds would not have enough liquid assets to cover large outflows

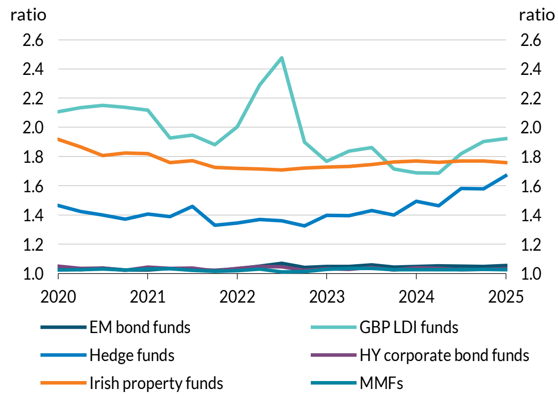
Distribution of fund-level redemption coverage ratio, by fund cohort and redemption shock



Source: MMIF, CSDB and Central Bank of Ireland calculations.
Notes: The redemption coverage ratio (RCR) is a widely-used measure of liquidity vulnerability for investment funds, representing a ratio of liquid asset holdings over a severe but plausible redemption shock. The ratio is calculated on the basis of funds' liquid holdings as of end-March 2025 and following the methodology outlined in Box 1 of the Central Bank's MBF Monitor 2024. The red line represents the RCR threshold, as funds with an RCR < 1 would have a liquidity mismatch. The whiskers are at the 5th and 95th percentiles.

Chart 42: Leverage is highest in Irish property funds, GBP LDI funds and hedge funds

Weighted average financial leverage by fund cohort



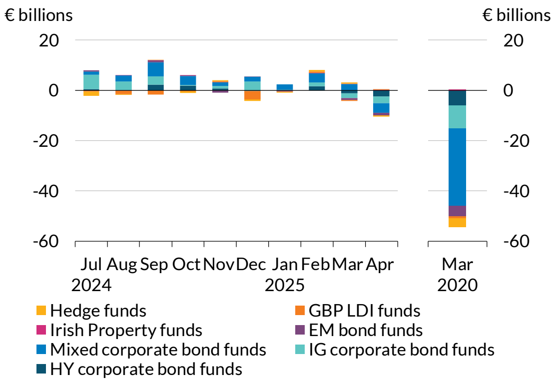
Source: MMIF and Central Bank of Ireland calculations.
Note: Financial leverage calculated as AUM over NAV. Last observation March 2025.

Open-ended funds investing in corporate bonds saw net outflows across high yield, investment grade and mixed cohorts in April, but the scale of outflows was significantly lower than at the onset of COVID-19. Intensifying trade disputes and increased economic uncertainty triggered outflows from corporate bond funds as investors reduced their exposure to more illiquid assets, most notably for high-yield corporate bonds (Chart 43). This is a similar, if smaller in scale, reaction to that seen at the onset of COVID-19 (Box 6 FSR 2020 H1) (Chart 44). Recent supervisory engagement with fund managers suggests that price-based liquidity management tools (LMTs) have been used during the normal course of business, but non-price based LMTs such as side pockets and suspensions have not been activated given the level of redemptions experienced.[39]

[39] Non-price based LMTs like side pockets and suspensions are only deployed during times of market stress and "under exceptional circumstances".

Chart 43: Outflows were seen recently in some more vulnerable cohorts, but were significantly less than at the onset of COVID-19

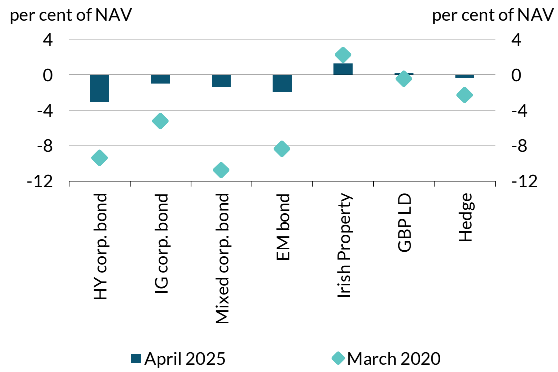
Monthly net flows for key investment fund cohorts from July 2024 to April 2025 and compared with March 2020



Source: NAV Returns and Central Bank of Ireland calculations.
Notes: Last observation April 2025.

Chart 44: Recent outflows are relatively small in terms of investment fund size and relative to the onset of COVID-19

Monthly outflow as a percentage of preceding month's NAV for April compared with March 2020 for investment funds

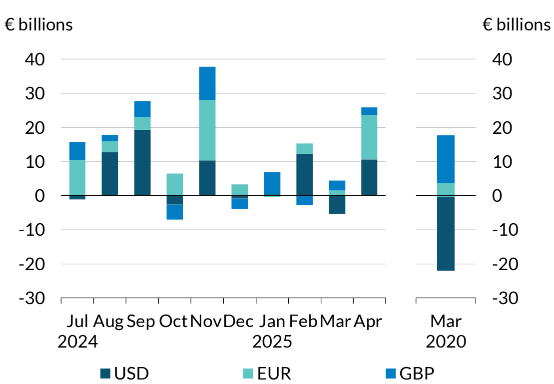


Source: NAV Returns and Central Bank of Ireland calculations.
Notes: Last observation April 2025.

Unlike the March 2020 episode, MMFs continued to see inflows during the April market volatility. MMFs, often seen as safe havens during times of economic stress, attracted strong inflows in April. This was amid concerns about the impact of tariffs on the global economy. However, there has been significant heterogeneity of flows amongst the different types of Irish-resident MMFs over March and April (Chart 45). US dollar-denominated Irish-resident MMFs, which represent the largest share of Irish MMFs' assets by value, saw outflows in March, before reversing to inflows in April. Meanwhile, euro-denominated MMFs continued to see inflows, with April seeing relatively large inflows as a proportion of total net assets (Chart 46). Overall, Irish-domiciled MMFs have seen significantly lower net outflows compared to the onset of COVID-19 and weathered the financial market volatility episode in April.

Chart 45: There were some US$ MMF outflows in March 2025, lower than at the onset of COVID-19 and reverting to inflows in April

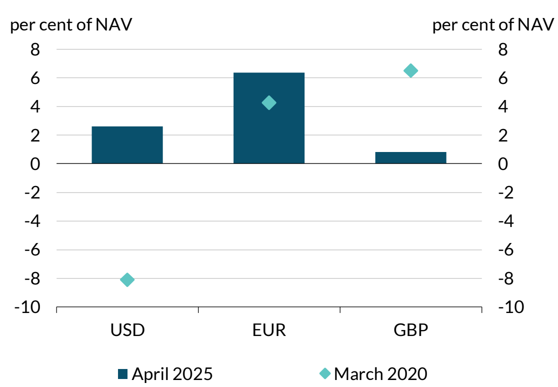
Monthly net flows for MMFs from July 2024 to April 2025 and compared with March 2020



Source: MMM Returns and Central Bank of Ireland calculations.
Notes: Last observation April 2025.

Chart 46: Recent market turbulence saw relatively large inflows into euro denominated MMFs

Monthly outflows as a percentage of preceding month's NAV for April compared with March 2020 for MMFs



Source: MMM Returns and Central Bank of Ireland calculations.
Notes: Last observation April 2025.

Notwithstanding the increase in gilt yields in the first half of April, GBP LDI funds were able to absorb the shock, and continued to comply with the Central Bank's macroprudential measures, as they have done since the implementation of the measures in July 2024. During the first two weeks of April, 20-year nominal gilt yields increased from 5.2 per cent to a peak of almost 5.5 per cent, placing downward pressure on funds' yield buffers. All GBP LDI funds maintained a monthly-average yield buffer in April above the 300bps minimum level (as outlined under the Central Bank's measures to safeguard the resilience of this fund cohort).[40] Similarly, since the implementation of the measures in July 2024, no fund has yet availed of the flexibility in the measures to report a monthly-average buffer below 300bps, which is allowed in exceptional circumstances on a 1-in-4 month rolling basis.

Event Driven, Relative Value and Other hedge funds experienced an increase in margin calls during April. While hedge funds remain a relatively small subsector of the Irish domiciled investment fund sector, with a NAV of €183 billion, they have the potential for leverage-related risk. Financial leverage among hedge funds has increased in recent years, in line with a growing trend among hedge funds across the euro area.[41] Hedge funds make significant use of synthetic leverage in the form of derivative exposures, which may give rise to increased margin calls during spikes of market volatility. The market stress that followed the US tariff announcement elevated variation margins of Irish domiciled hedge funds, increasing from close to €8 billion at the end of March to approximately €12 billion in early April (Chart 47).[42] The categories with the largest increases as a per cent of NAV were Event Driven, Relative Value and Other hedge fund strategies. As a whole, variation margins as a share of total net assets increased by around 50 per cent during this period, rising from around 4 per cent to 6 per cent of NAV for the overall hedge fund cohort (Chart 48).

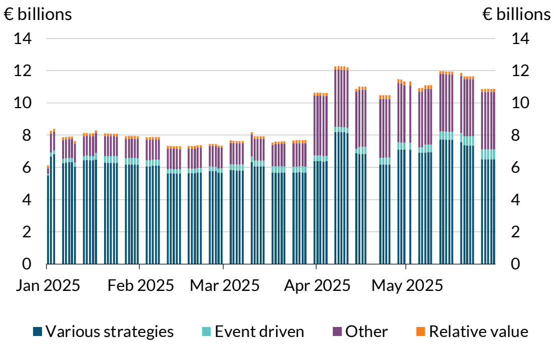
While levels of volatility increased in many markets in early April, markets functioned broadly well and there has been no evidence of unmanageable liquidity demands. Some cohorts have seen higher redemptions and/or margin calls. These have been met without any reported difficulties, with some funds noting the increased use of price-based LMTs. However, the elevated market volatility was relatively short lived. Pockets of vulnerabilities persist in investment funds, and these could pose risks to financial stability if market disruptions were more severe or protracted. In response to the increase in uncertainty, the Central Bank stepped up the monitoring of financial market developments, and the associated engagement with the Irish-domiciled investment fund sector, to be able to identify and respond quickly to any emerging market stresses and enhance the preparedness of the sector to adverse shocks.

The Central Bank continues to prioritise the development of a robust macroprudential policy framework for the funds sector. Market events over the last number of years have highlighted the need for robust measures to mitigate potential risks in the funds sector. The development of a macroprudential policy framework for the funds sector remains a priority for the Central Bank, aimed at strengthening the overall regulatory architecture and enhancing the sector's ex ante resilience to adverse shocks. This work includes the ongoing monitoring and implementation of two domestic macroprudential measures targeting Irish property funds and Irish-authorised GBP LDI funds. The Central Bank is also supporting and proactively engaged with work at an international level in a range of areas, including liquidity risk management in open-ended funds and NBFI leverage at the FSB and IOSCO.

[40] For more, see "Central Bank of Ireland introduces macroprudential measures for Irish-authorised GBP-denominated LDI funds", 29 April 2024.
[41] See ECB's latest Financial Stability Review.
[42] When entering derivative contracts, funds usually post an initial margin for their contract. Depending on market movements, funds may need to pay a sum of money (variation margin) as their position is marked-to-market in order to keep their position open.

Chart 47: Recent market turmoil led to a sharp increase in variation margins for hedge funds

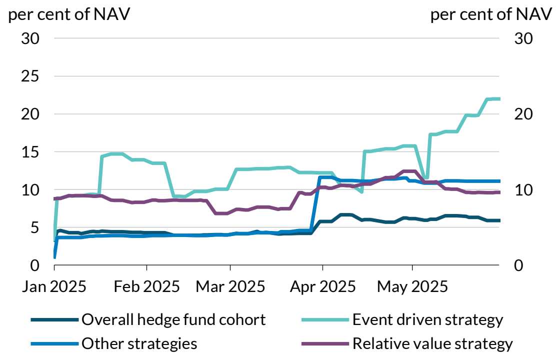
Daily collateral variation margins posted by hedge funds



Source: EMIR and Central Bank of Ireland calculations.
Notes: Hedge funds are defined as typically open-ended, often with monthly or less frequent dealing, targeted to institutional/high net worth investors, actively managed, uses performance fees, seeks to achieve positive absolute returns and are unlimited in terms of choosing investment strategies. Hedge funds are mainly alternative investment funds (AIFs) unless UCITS self-report as hedge funds. For the purposes of this analysis, we also consider Event Driven Funds, Relative Value Funds and 'Other' hedge funds which represent €3bn, €2bn and €32bn in NAV respectively. NAV held constant as of 31 December 2024. A small portion of funds reports the daily change in the value of their variation margins, leading to a lower-bound estimate of total variation margins. Gaps in series correspond to weekends and bank holidays. Last observation of margin data 30 May 2025.

Chart 48: Certain hedge fund cohorts saw strong increases in variation margin compared to NAV

Daily collateral variation margin posted as a share of NAV



Source: EMIR and Central Bank of Ireland calculations.
Notes: Hedge funds are defined as typically open-ended, often with monthly or less frequent dealing, targeted to institutional/high net worth investors, actively managed, uses performance fees, seeks to achieve positive absolute returns and are unlimited in terms of choosing investment strategies. Hedge funds are mainly alternative investment funds (AIFs) unless UCITS self-report as hedge funds. For the purposes of this analysis we also consider Event Driven Funds, Relative Value Funds and 'Other' hedge funds which represent €3bn, €2bn and €32bn in NAV respectively. NAV held constant as of 31 December 2024. A small proportion of funds reports the daily change in the value of their variation margins, leading to a lower bound estimate of total variation margins. Last observation of margin data 30 May 2025.

Abbreviations

Country and currency abbreviations follow the European Union standards.

AI	Artificial intelligence
AIB	Allied Irish Bank
AUM	Assets under management
BOI	Bank of Ireland
BPFI	Banking & Payments Federation Ireland
CBRE	Coldwell Banker Richard Ellis Group
CCyB	Countercyclical capital buffer
CET1	Common equity tier 1
CRE	Commercial real estate
CSO	Central Statistics Office
EA	Euro area
EBA	European Banking Authority
ECB	European Central Bank
EU	European Union
FDI	Foreign direct investment
FSB	Financial Stability Board
FSR	Financial Stability Review
FTB	First-Time Buyer
GDP	Gross domestic product
GFC	Global Financial Crisis
GGB	General government balance
GNI	Gross national income
GVA	Gross value added
ICT	Information and communication technology
IFRS	International financial reporting standard
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
IRB	Internal ratings-based approach
LCR	Liquidity coverage ratio
LDI	Liability driven investment
LSEG	London Stock Exchange Group
LTI	Loan to income ratio
MDD	Modified domestic demand
MMF	Money market fund
MNE	Multi-national enterprise
MSCI	Morgan Stanley Capital International
NAV	Net asset value
NBFI	Non-bank financial intermediary
NFC	Non-financial corporation
NIM	Net interest margin
NPL	Non-performing loan
O-SII	Other Systemically Important Institutions
PTSB	Permanent TSB
RRE	Residential real estate
SME	Small and medium enterprise
WEO	World economic outlook

T: +353 (0)1 224 6000
E: mfdadmin@centralbank.ie
www.centralbank.ie

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