Financial Stability Review 2025:I

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

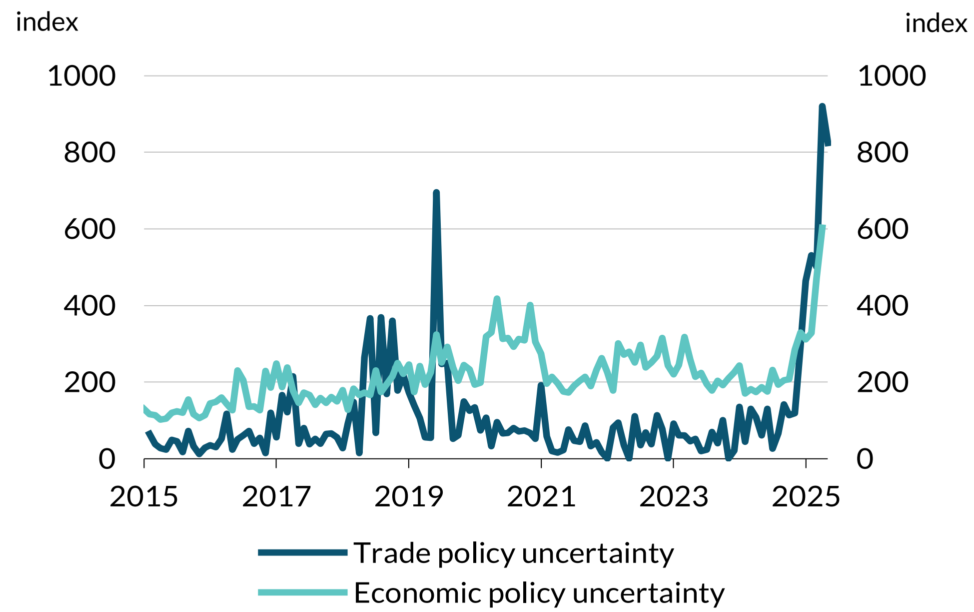
Overview

- **Risks facing the financial system have risen, amid a marked increase in economic and trade policy uncertainty.**
    - The global growth outlook has weakened, reflecting uncertainties around tariff announcements and potential changes to international trading patterns.
    - Financial markets reacted strongly to the initial tariff announcements in April, and remain vulnerable to further bouts of 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.**
    - Households, businesses and the domestic banking system have become financially stronger over the past decade, providing a buffer to adverse shocks.
    - Transmission of shocks to the domestic financial system could come through higher credit risk and/or the impact of a tightening of financing conditions on the non-bank sector.
    - Cyber and climate related risks continue to be important sources of possible adverse shocks and have the potential to amplify existing cyclical vulnerabilities.
- **Maintaining financial and operational resilience across the financial system is critical for navigating shifting landscape.**
    - The CCyB rate is being maintained at 1.5%.
    - Given the sharp increase in global market volatility in April, this Review includes a special focus on how investment funds performed during this period.

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

The global environment is in a state of elevated uncertainty

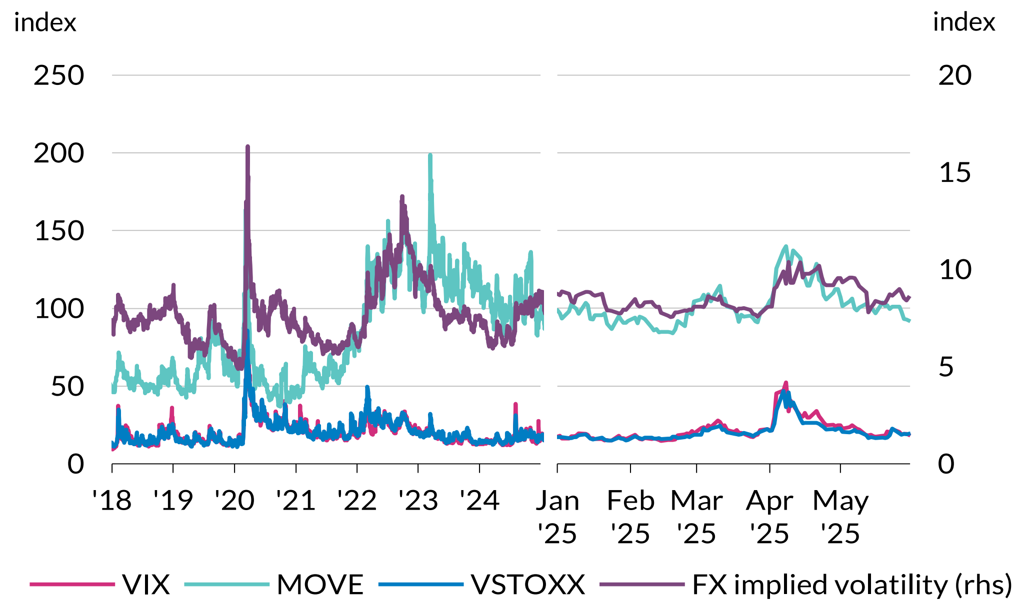
Trade Policy Uncertainty, Global Economic Policy Uncertainty indices



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

US policy announcements led to significant volatility in financial markets

VIX, VSTOXX, MOVE, FX Implied Volatility indices



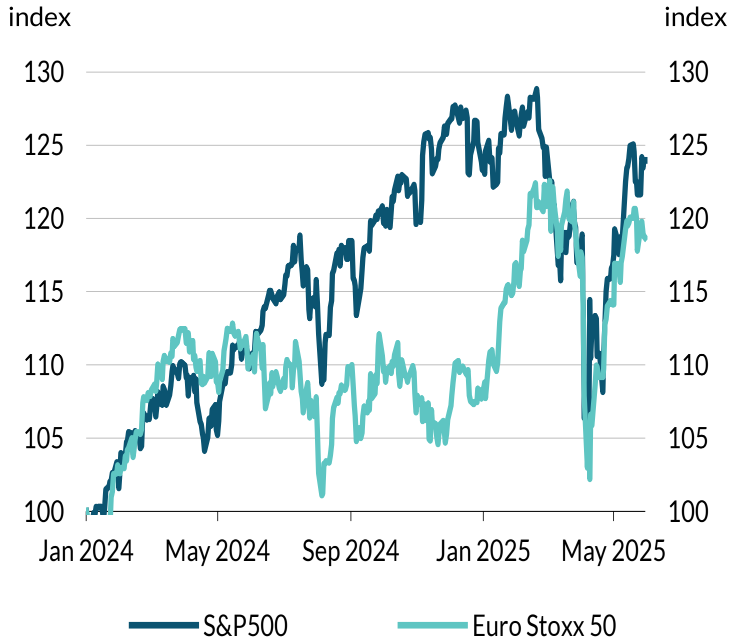
Source: Bloomberg.
Notes: The VIX index measures 30-day expected equity market volatility of the US stock market while the VSTOXX index measures 30-day equity market volatility based on the EuroStoxx 50 index. The MOVE index measures expected bond market volatility by tracking US Treasury options. Deutsche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

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

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

Equity valuations initially declined sharply [but recovered and remain high]

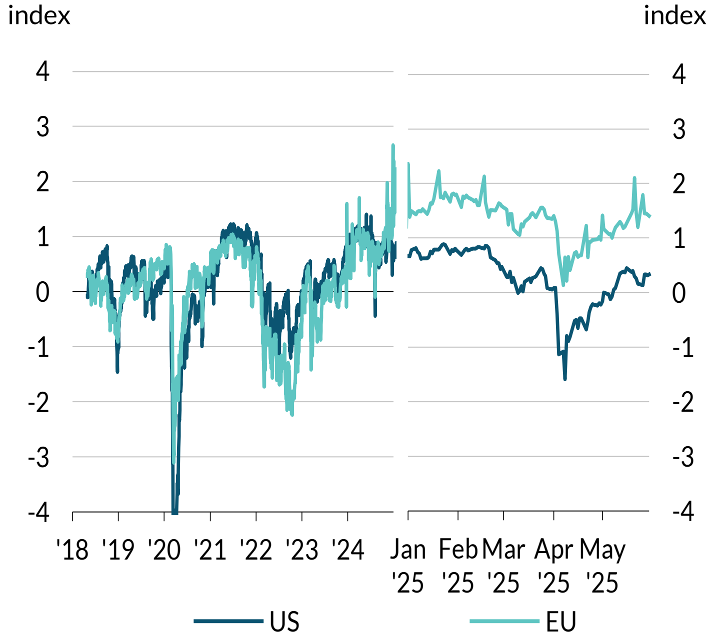
S&P500 and Euro Stoxx 50



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

Financial conditions tightened amidst elevated uncertainty and volatility

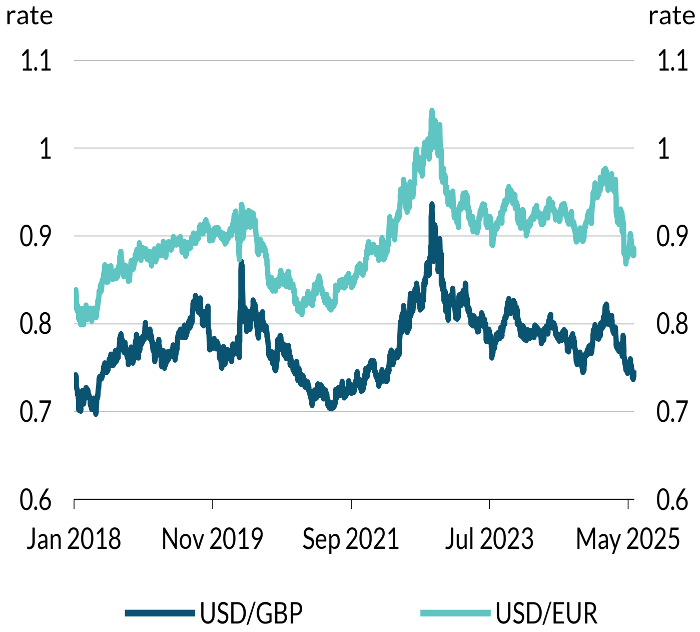
Financial conditions indices



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

The dollar weakened against other major currencies

USD foreign exchange rates



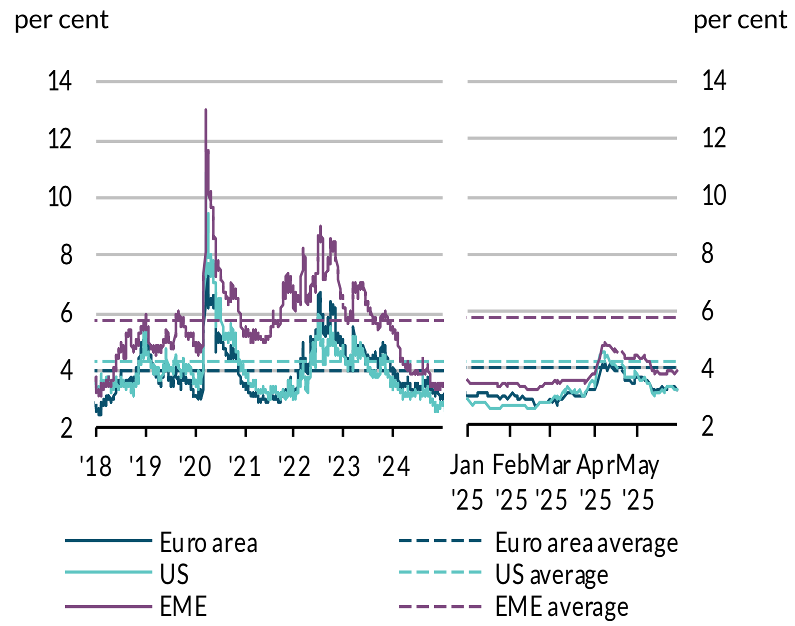
Source: Bloomberg
Notes: Last observation 30 May

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

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

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

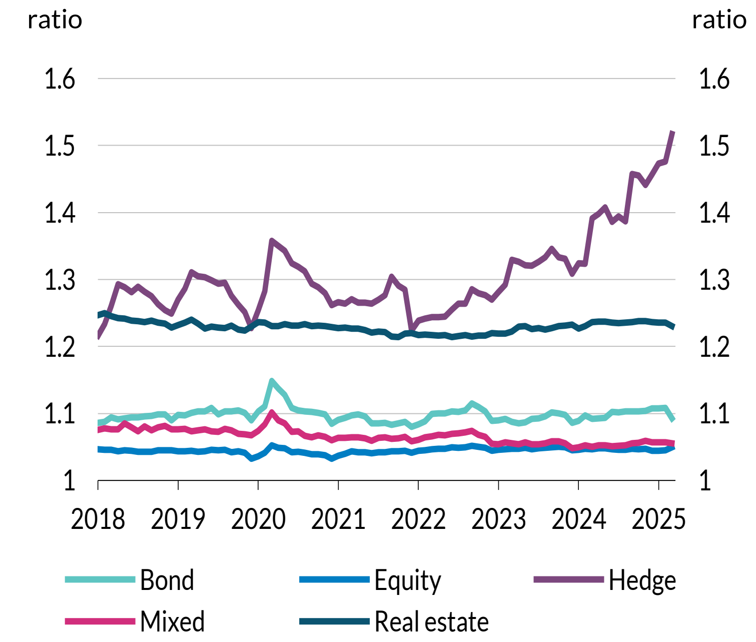
High-yield corporate bond spreads



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

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

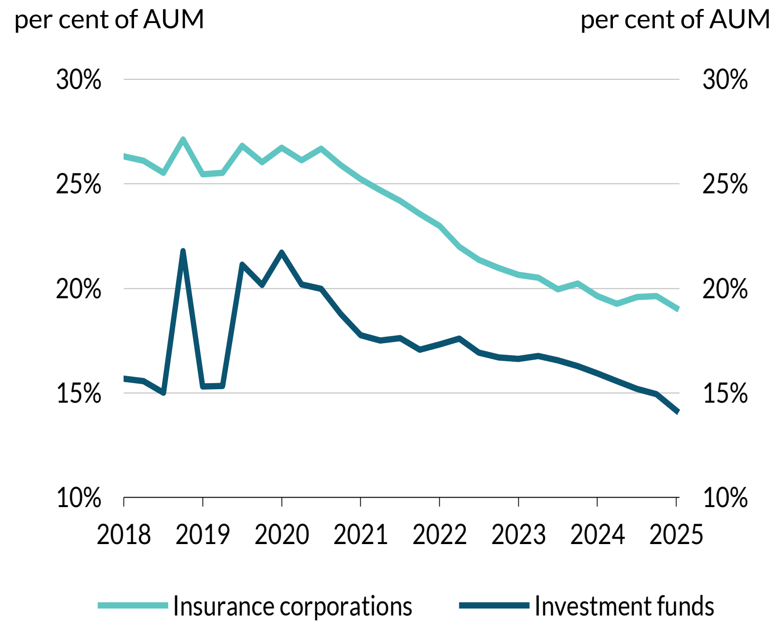
Total assets over net asset value of euro area investment funds, by cohort



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

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

Liquid assets as share of total assets

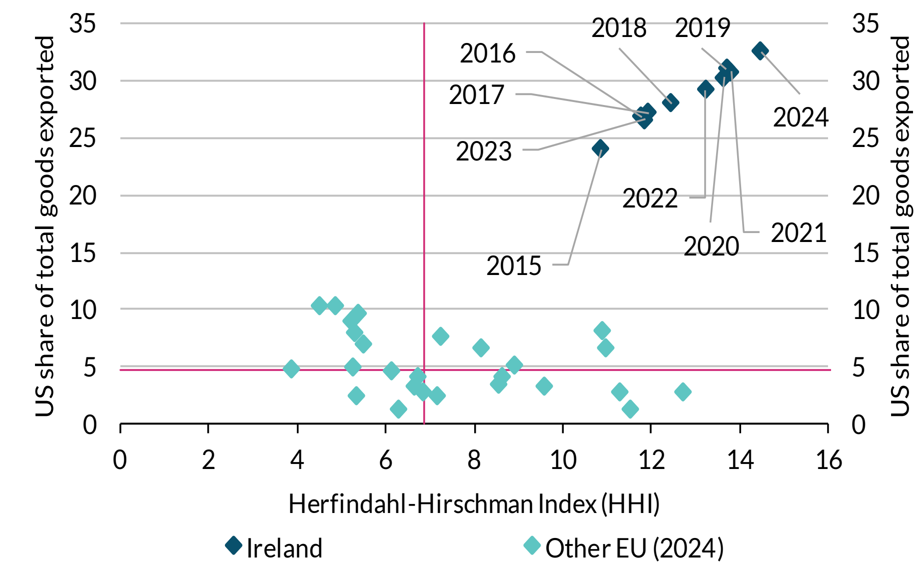


Source: ECB (IVF, SHSS, CSDB) and Central Bank calculations.
Notes: Liquid assets are defined as cash and cash equivalents plus HQLA Level 1 assets.

The Irish economy is particularly exposed to changes in the global trade environment

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

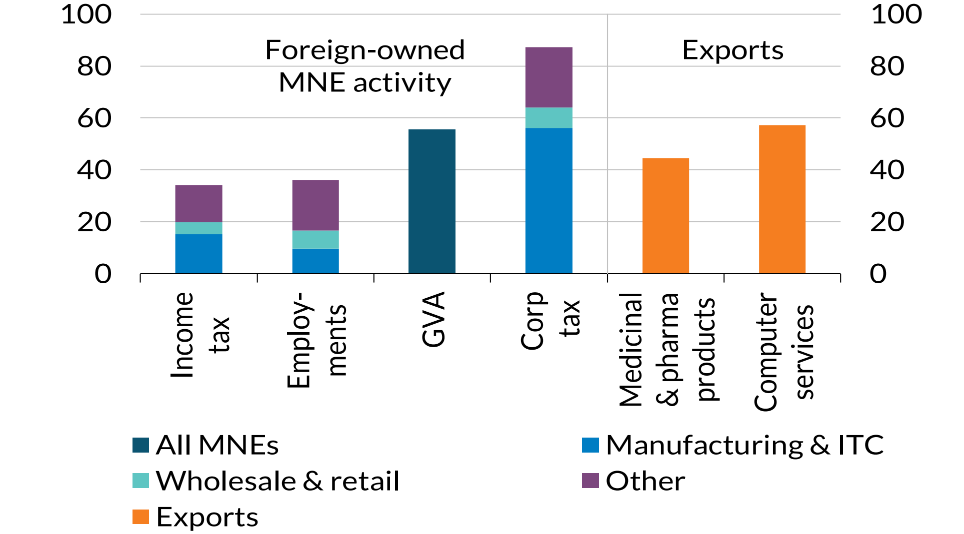
Share of total goods exported to the US and degree of concentration across all export partners



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

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

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

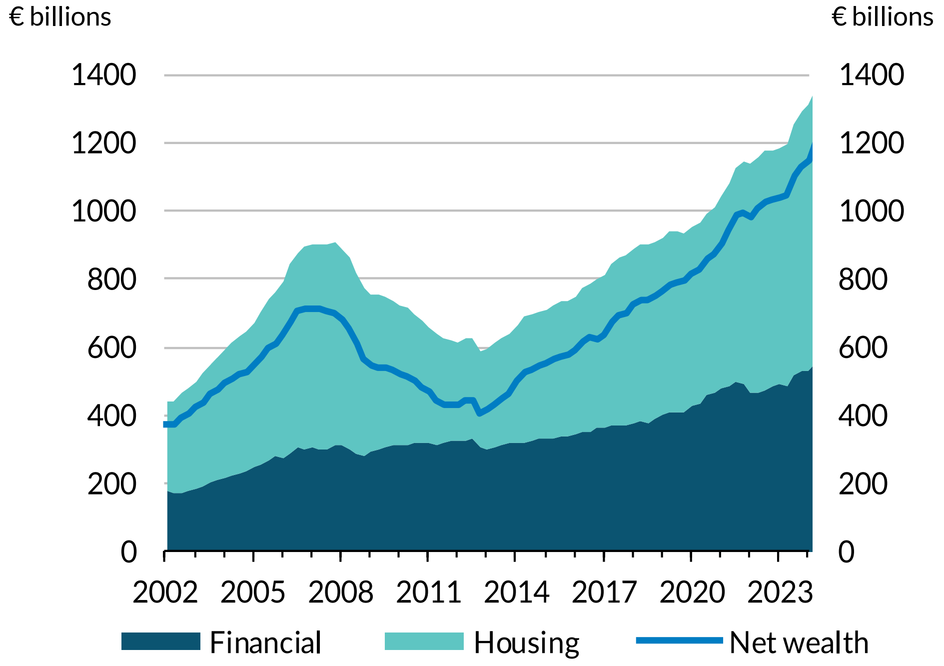


Source: CSO, Eurostat, The Revenue Commissioners and Central Bank of Ireland calculations.
Notes: Data for MNE activity are for 2023. Except for Gross Value Added (GVA) which relates to 2022. GVA relates to non-EU owned MNE's GVA as a percentage of economy wide total. Medicinal and pharma products are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

Financial position of Irish households and SMEs are resilient in aggregate…

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

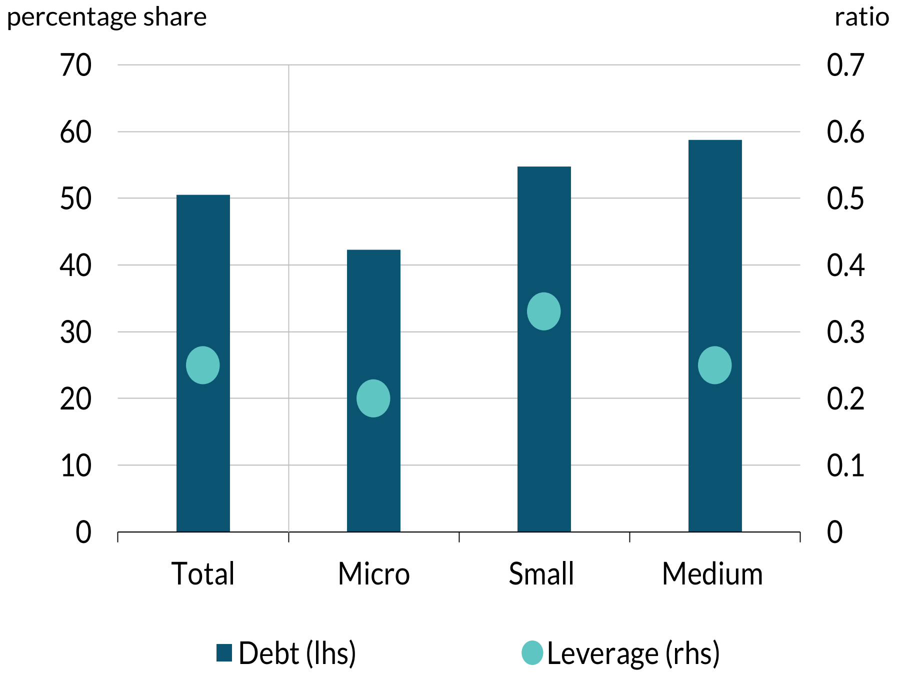
Household assets and net wealth



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

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

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



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

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

...but uncertain outlook could affect savings and investment decisions.

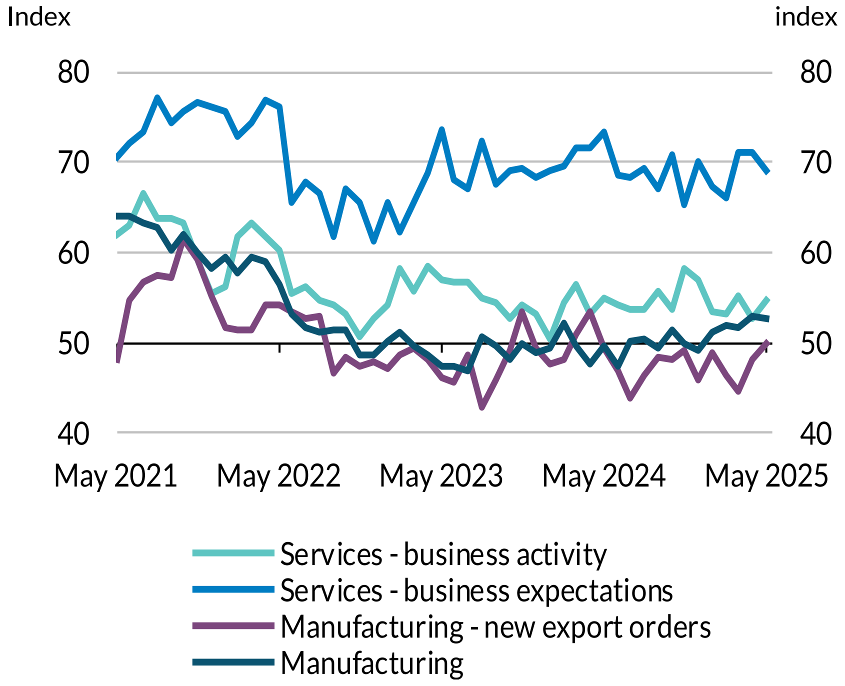
Households remain positive about the economy but there are signs of softening in the outlook

Consumer sentiment index

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

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

PMI indices



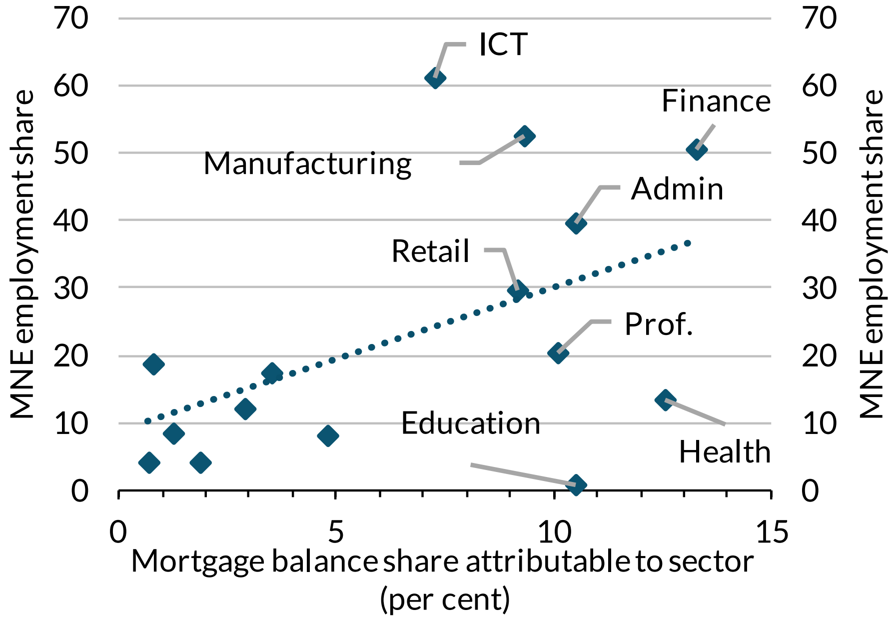
Source: AIB Ireland PMIs via LSEG.
Notes: A value above 50 represents an expansion while below 50 implies a contraction. Last observation May 2025 and relates to surveys conducted through April.

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Transmission of shocks to the domestic financial system could come through higher credit risk…

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

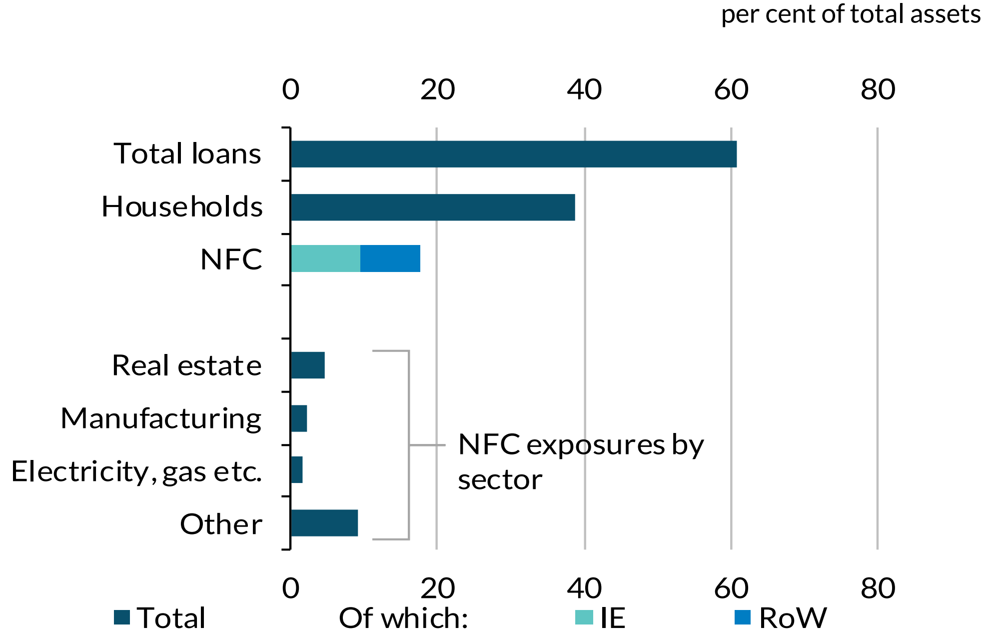
Share of mortgage loans owed by sector of employment and MNE share of employment



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

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

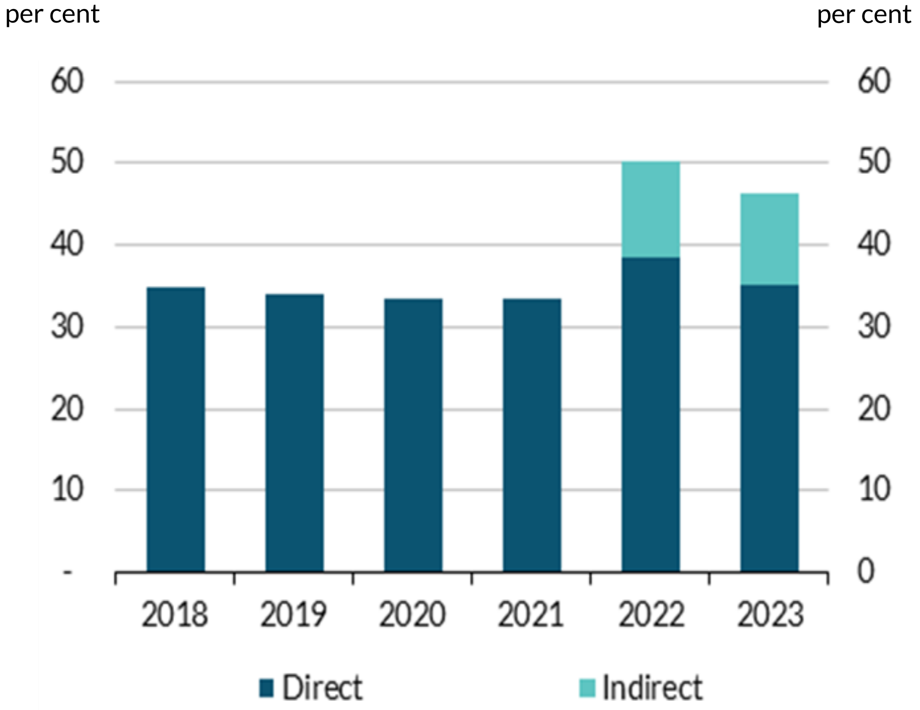
Breakdown of domestic banks' loan exposures



Source: Central Bank of Ireland.

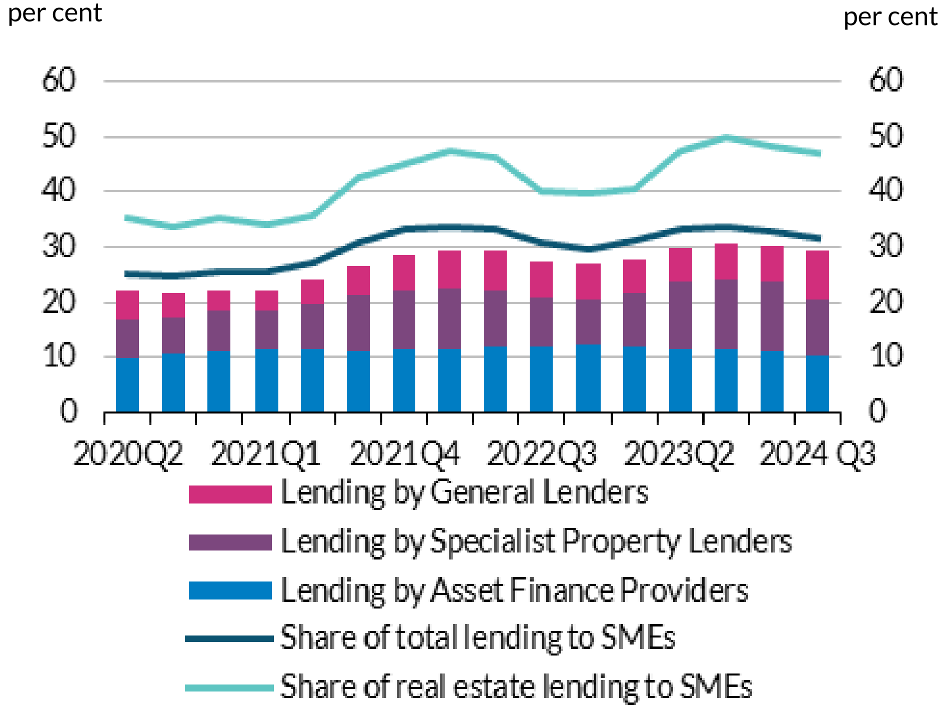
…or the impact of a tightening of financing conditions on the non-bank sector

Property funds have become key participant in CRE market



Source: MMIF, IPF, Cushman and Wakefield and Central Bank of Ireland calculations
Notes: MMIF data up to 2021. IPF Return used for 2022 and 2023 and includes a breakdown by direct and indirect holdings. Per cent refers to per cent of investable CRE sector.

Non-banks play an important role in financing domestic economy

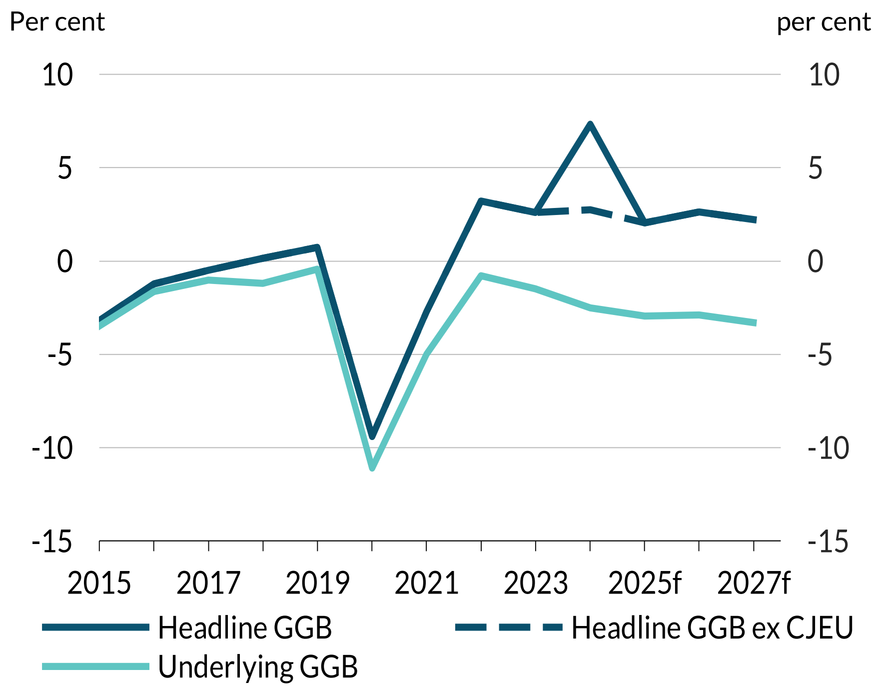


Source: CCR and Central Bank of Ireland Credit and Banking Statistics
Note: All series are four-quarter moving averages. The share of total lending to SMEs is the share of new loan agreements from non-bank lenders relative to the sum of gross non-bank loan agreements and bank gross new lending. Real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

Increasing reliance of the State on concentrated MNE tax receipts highlights the sensitivity of the fiscal position to geo-economic developments

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

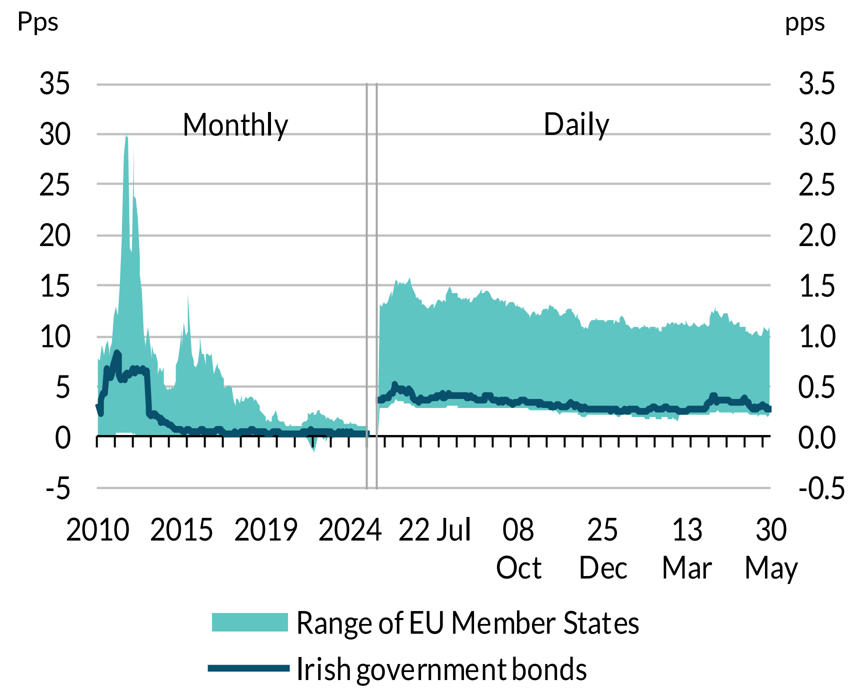
General Government Balance forecast



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.

Irish sovereign debt continues to trade in line with German Bunds

Irish and selected EU bond spreads over German Bunds

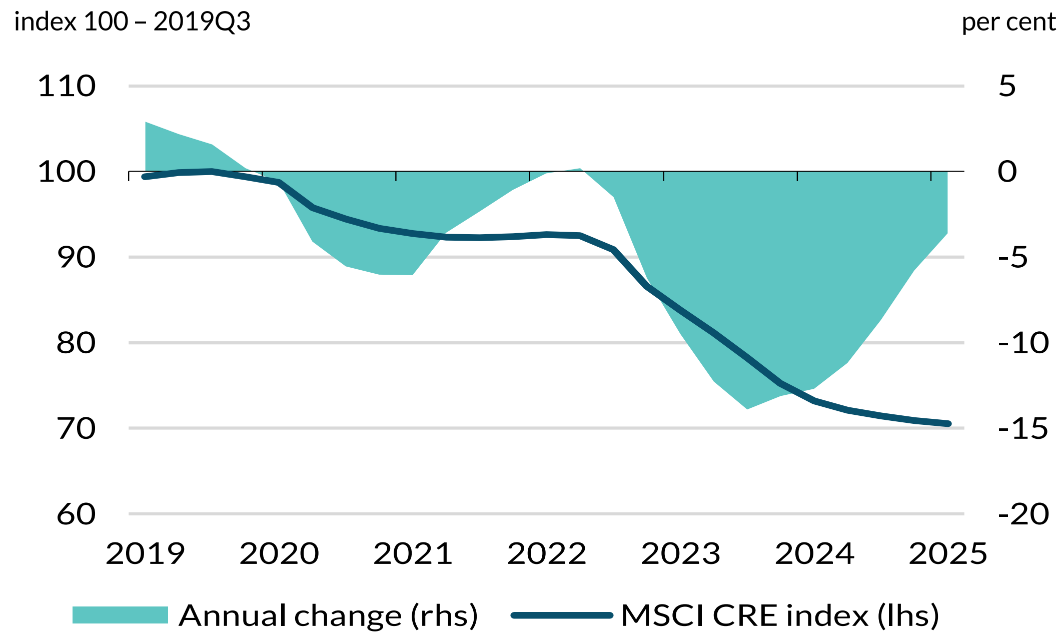


Source: Bloomberg.
Notes: Data are for a time-varying range of 16 EU Member States. Left pane shows month end values for the period June 2010 to May 2025. The right pane shows daily data for the last year. Last observation 30 May 2025.

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

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

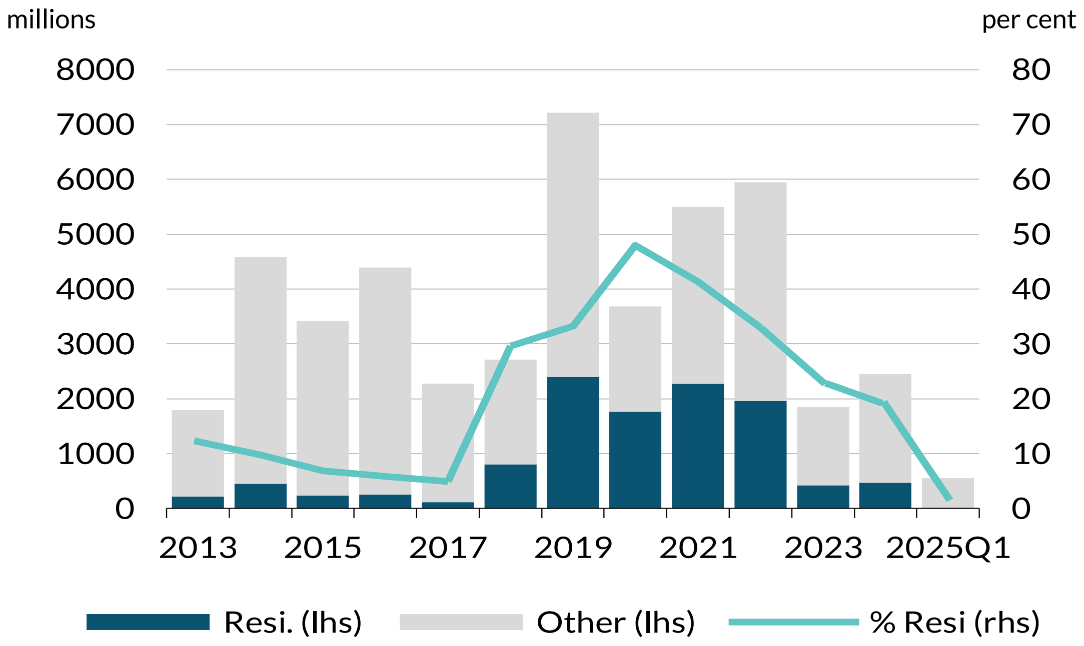
MSCI CRE index and annual percentage change



Source: MSCI.
Note: Latest observation 2025Q1.

Investor demand has declined, particularly for residential real estate

Residential element of CRE investment volumes



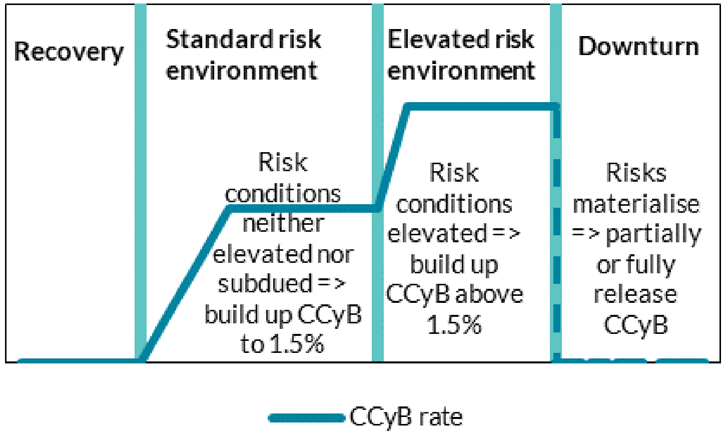
Source: CBRE Research.
Note: "Other" includes investment in office, retail, industrial and mixed sectors. Annual data, with the exception of latest observation, which covers 2025Q1 only.

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

In focus: Countercyclical capital buffer and banking sector resilience

- CCyB promotes banking sector resilience with a view to facilitating a sustainable flow of credit to the economy through the cycle.
- 1.5 per cent is the CCyB rate expected to be maintained when risks are neither elevated nor subdued.
- The CCyB would be increased above 1.5 per cent were the Bank to deem that cyclical risks (as reflected in indicators across credit, the domestic economy, asset prices, global conditions) were becoming elevated.
- The CCyB could be (partially or fully) released, should it be required in response to a materialisation of risks to facilitate the banking system to absorb losses and maintain the supply of lending to the economy.
- CCyB strategy sits in the context of the [Central Bank's framework for macroprudential capital](#).

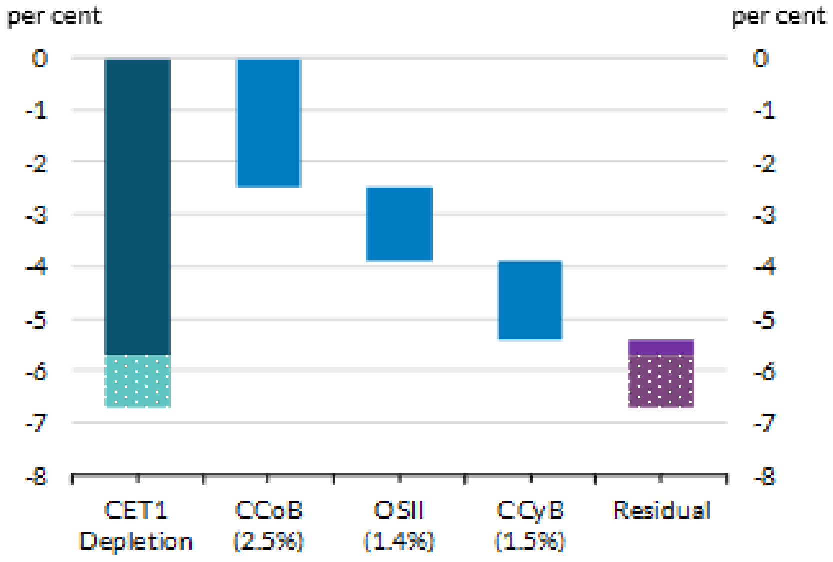
The Central Bank's high-level strategy for the CCyB



CCyB rate is being maintained at 1.5 per cent

- Maintaining resilience is important in the context of the current, uncertain, macro-financial environment.
- Macro-financial conditions in the domestic economy have remained positive, but elevated uncertainty and trade tensions likely to result in a weaker than previously expected outlook.
- Policy stance further informed by exercise using macroprudential stress test methodology, with adverse scenario reflecting developments in cyclical conditions since the previous exercise in 2022.
- Capital depletion from the exercise is within the range of the level of resilience provided by the existing macroprudential buffers* - supporting judgement that the CCyB rate remains at an appropriate level.
- The Central Bank will remain agile, with future CCyB rate decisions based on macro-financial conditions in a manner consistent with the strategy for the CCyB.

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



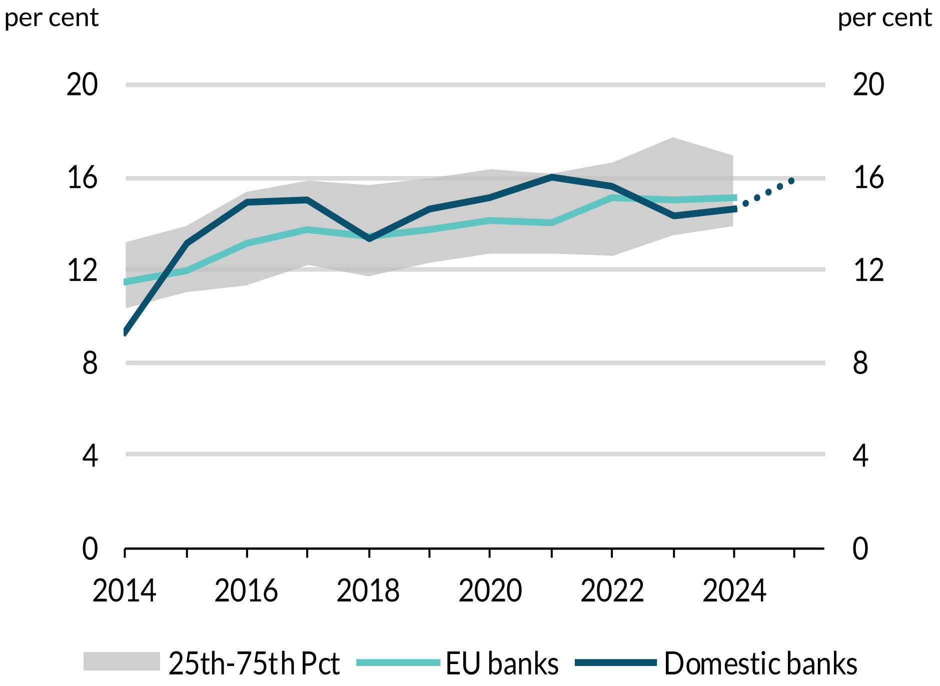
Source: Central Bank of Ireland
Note:CET1 depletion shows the estimated capital depletion on Irish exposures with (solid colour) and additional depletion without (patterned colour) the effects of a banking sector deleveraging response. Capital buffers include the capital conservation buffer, the aggregate O-SII buffer for the domestic banking system and the 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.

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

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

Domestic banks' capital positions are robust

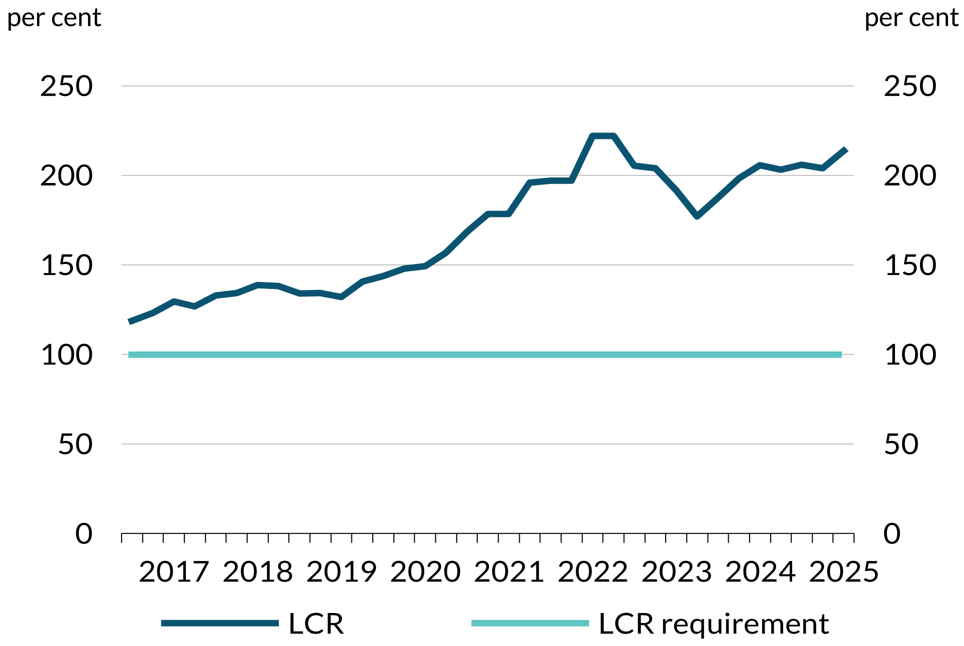
Fully-loaded CET1 capital ratios of domestic and EU banks



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.

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

Liquidity coverage ratio



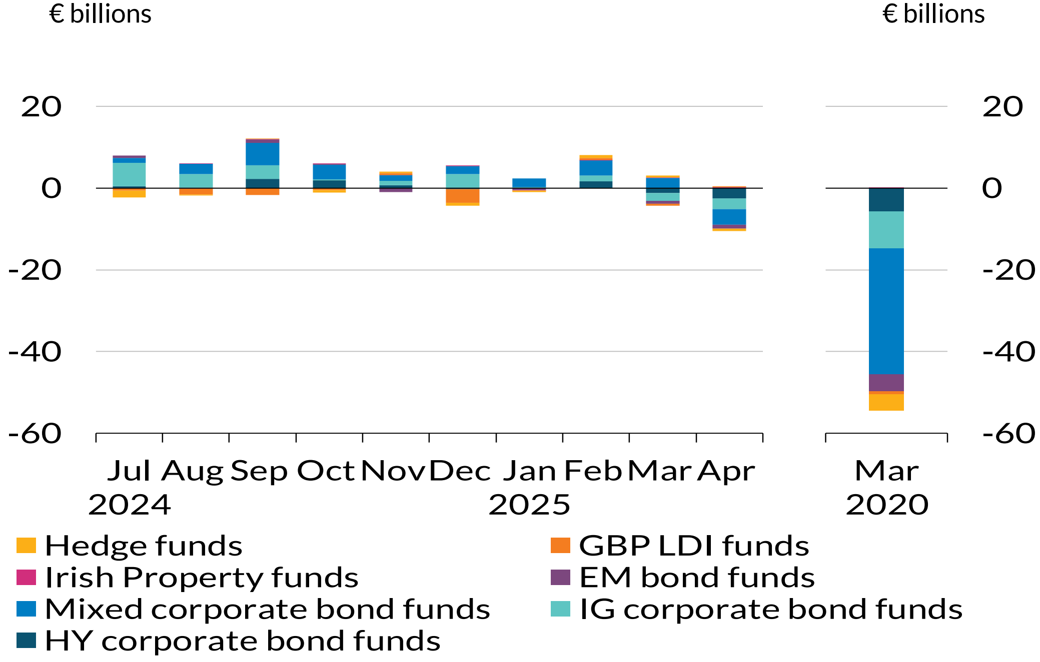
Source: Central Bank of Ireland .
Notes: Last observation 2025Q1

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

In focus: The Irish NBFI sector saw increased outflows in some cohorts during the April market volatility episode

Recent outflows were significantly less than at the onset of COVID-19

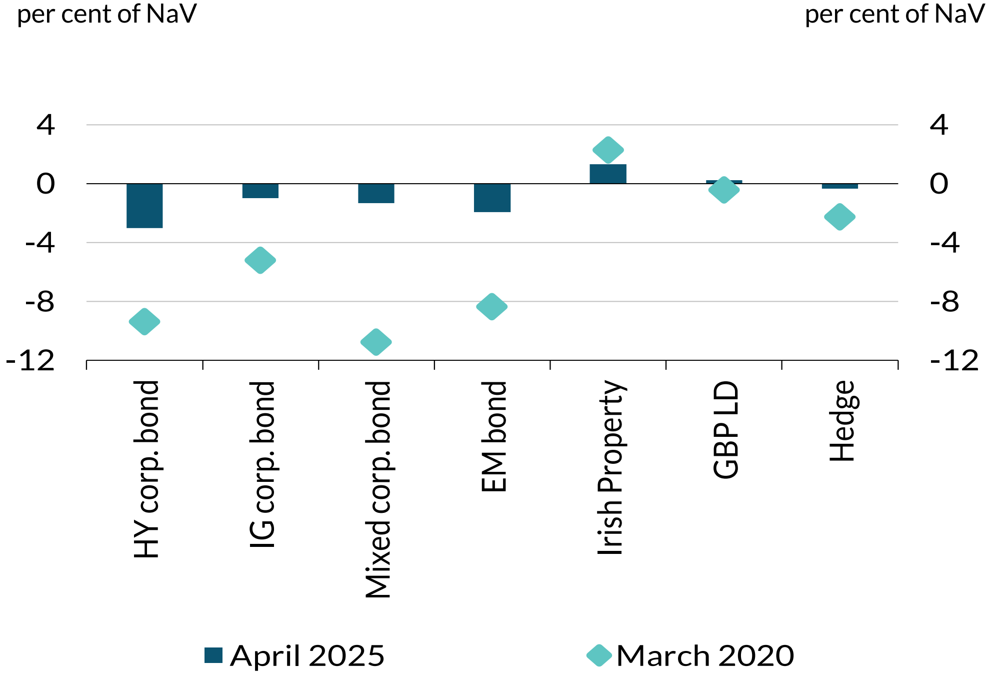
Monthly net flows for key investment fund cohorts from July 2024 to April 2025 and compared with March 2020



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

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



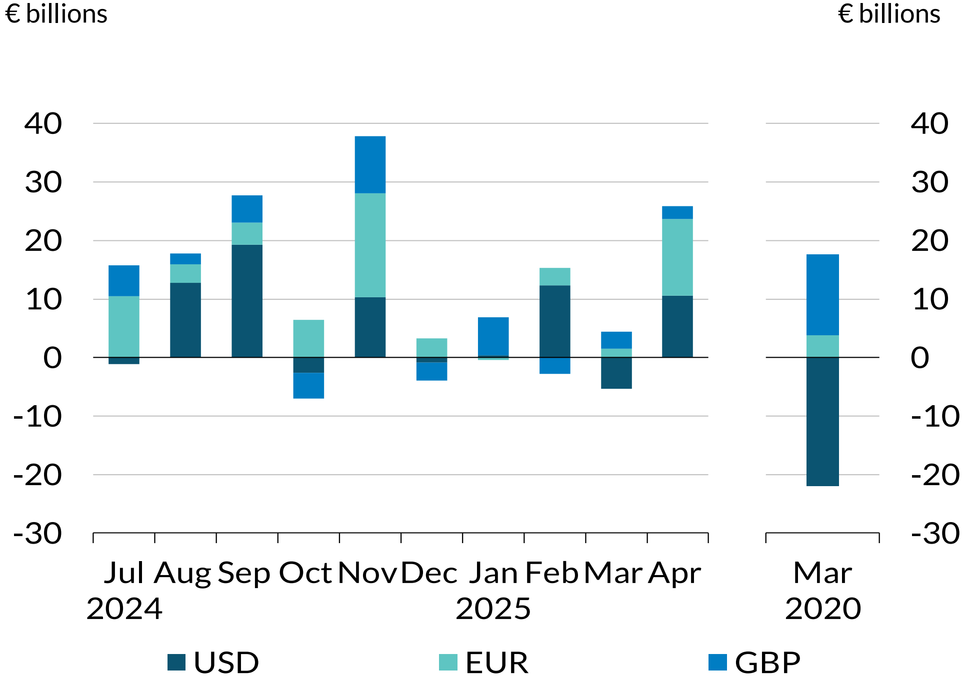
Source : NAV Returns and Central Bank of Ireland calculations.
Notes: Last observation April 2025.

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

In focus: MMFs saw inflows in April, especially in € denominated MMFs

US$ MMF outflows in March 2025 were lower than at the onset of COVID-19 and reverting to inflows in April

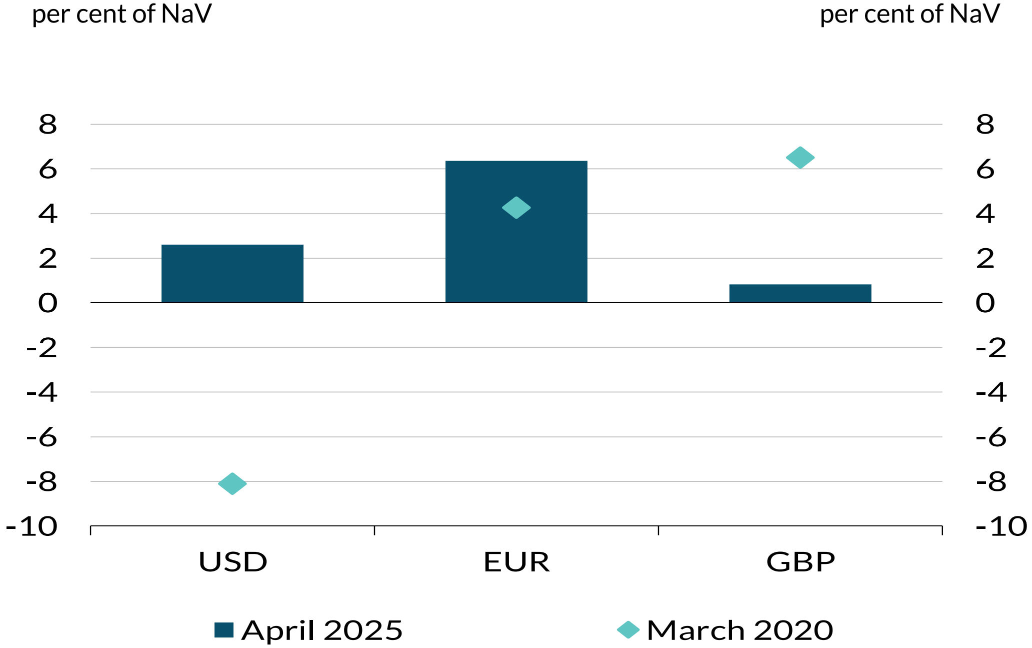
Monthly net flows for MMFs from July 2024 to April 2025 and compared with March 2020



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

Recent market turbulence saw relatively large inflows into euro denominated MMFs

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

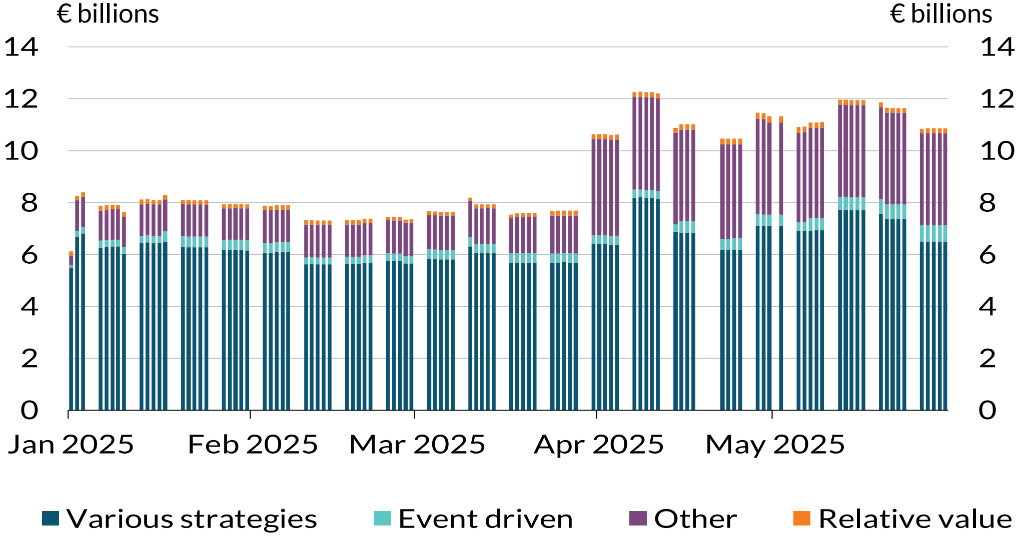


Source: NAV Returns and Central Bank of Ireland calculations.
Notes: Last observation April 2025.

In focus: Hedge funds experienced an increase in margin calls during April

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

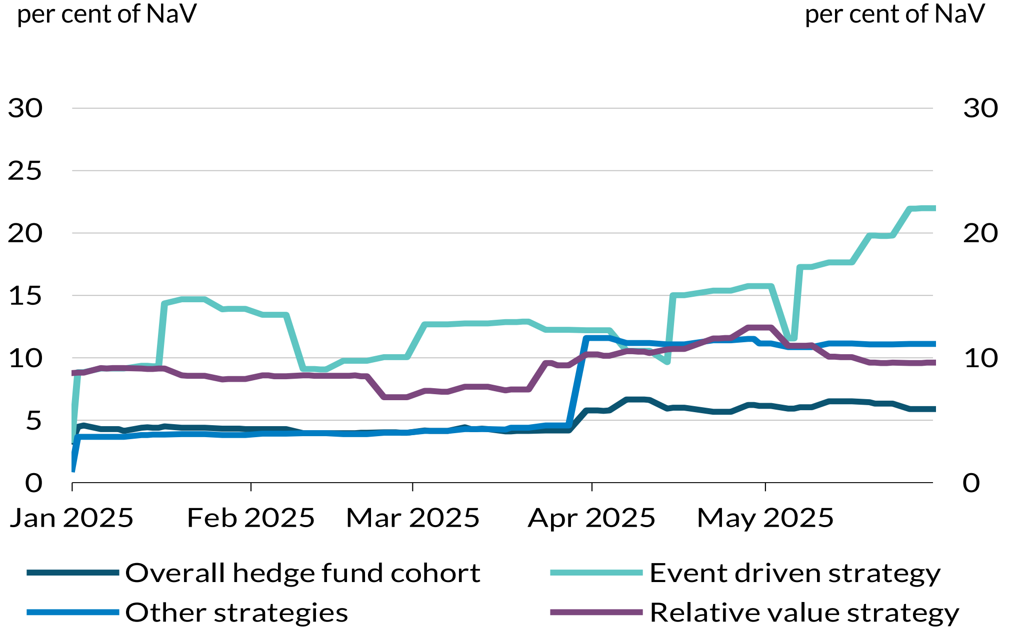
Daily collateral variation margins posted by hedge funds



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.

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.

Financial Stability Review **2025:I**

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

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

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

Vulnerabilities to global financial markets persist in NBFIs

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

See our Financial Stability Review 2025:I at **centralbank.ie/FSR**