Financial Stability Review 2025:II

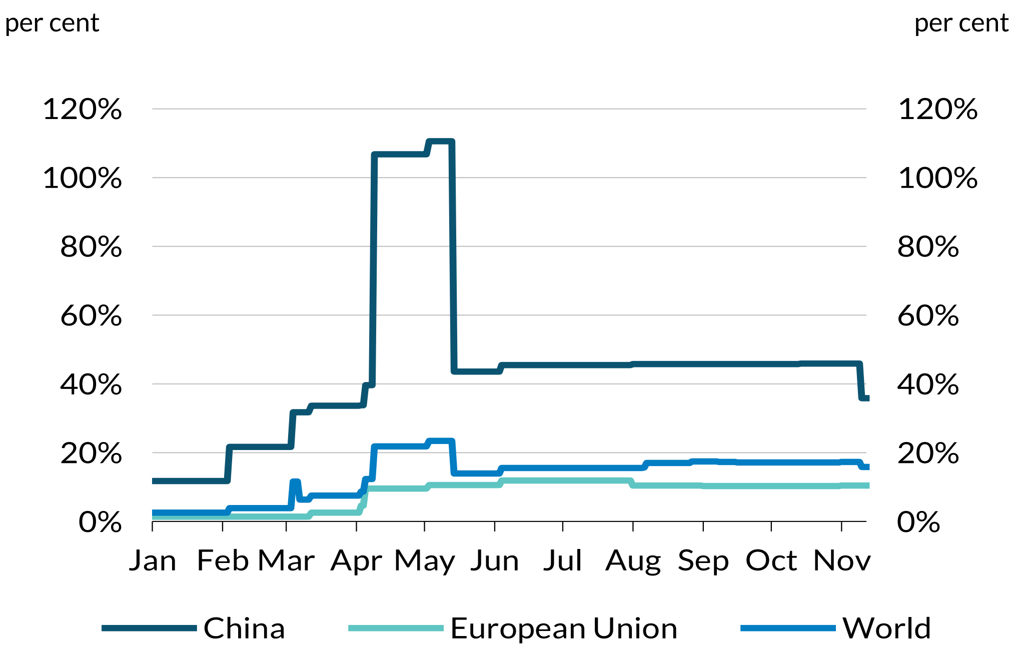
Main messages of the Financial Stability Review

- **Globally**, trade policy uncertainty eases, but financial stability concerns intensify with rising market and NBFI risks;
  - Financial conditions remain accommodative, risk appetite continues to increase and stock market valuations are close to historic highs;
  - High valuations and market concentration in US technology and AI firms increase vulnerability to correction risk;
  - AI financing is also increasingly debt-funded which raises financial stability risks through spillovers to creditors;
  - Private credit expansion, concerns around lending standards, and interlinkages with banks have been exposed by recent US defaults;
  - Rising sovereign debt and yields, uncertainty on safe-haven assets, and widening global imbalances add pressure to financial stability.
- **Domestically**, continued resilience of households, NFCs and retail banks confirmed by scenario analysis and stress tests;
  - Credit growth recovering gradually from a very low base, driven by FTB mortgage lending and supported by lower interest rates;
  - House prices rising faster than mortgage credit amid supply constraints and strong non-mortgage demand including public transactions;
  - Expanding NBFI presence– Non-Bank Lenders and Property Funds - diversifies financing but adds vulnerabilities;
  - Commercial real estate continues to stabilise as residential investment from abroad declines;
- The Central Bank's **macroprudential policies** aim to promote resilience and are proportionate to the risks faced by the financial system.

The near-term global economic outlook has improved due to lower tariffs than initially feared; but trade policy uncertainty remains high

US tariff rates have come down from the higher levels announced earlier in the year

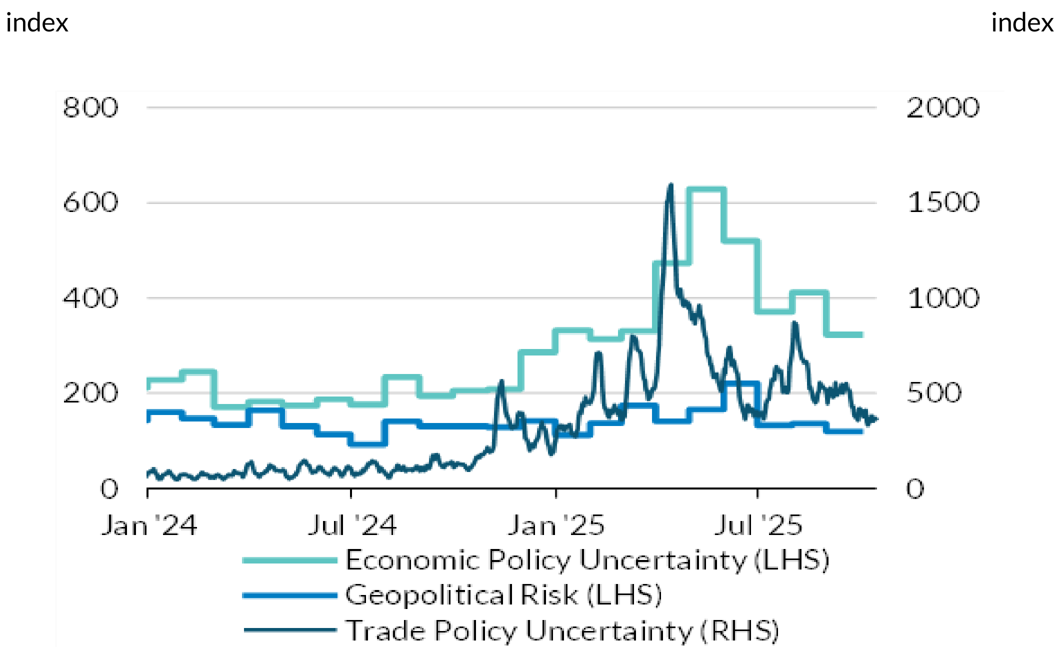
Estimated effective US tariff rates for a selection of trading partners



Source: WTO/IMF tariff tracker
Notes: Effective rate based on the composition of US imports from the trading partners. Chart up to date to 12 November 2025.

Uncertainty has broadly decreased over the summer, although levels are still higher than they were last year

Economic Policy Uncertainty, Geopolitical Risk, and Trade Policy Uncertainty indices

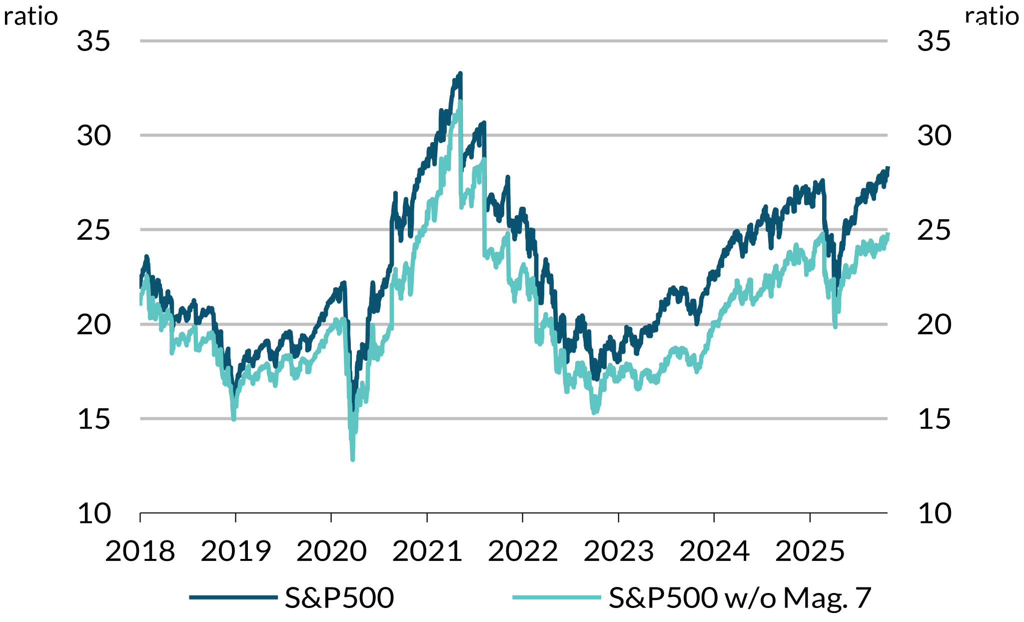


Source: Data based on Caldara et al. (2019), Caldara, D. and Iacoviello, M., and Baker, et al.
Notes: Trade Policy Uncertainty index on the right hand side axis, all others on the left hand side axis. Trade Policy Uncertainty index is shown as a 7-day moving average.

Financial conditions remain accommodative, risk appetite continues to increase and stock market valuations are close to historic highs

The US tech and AI sectors have been increasing P/E ratios of the overall stock market

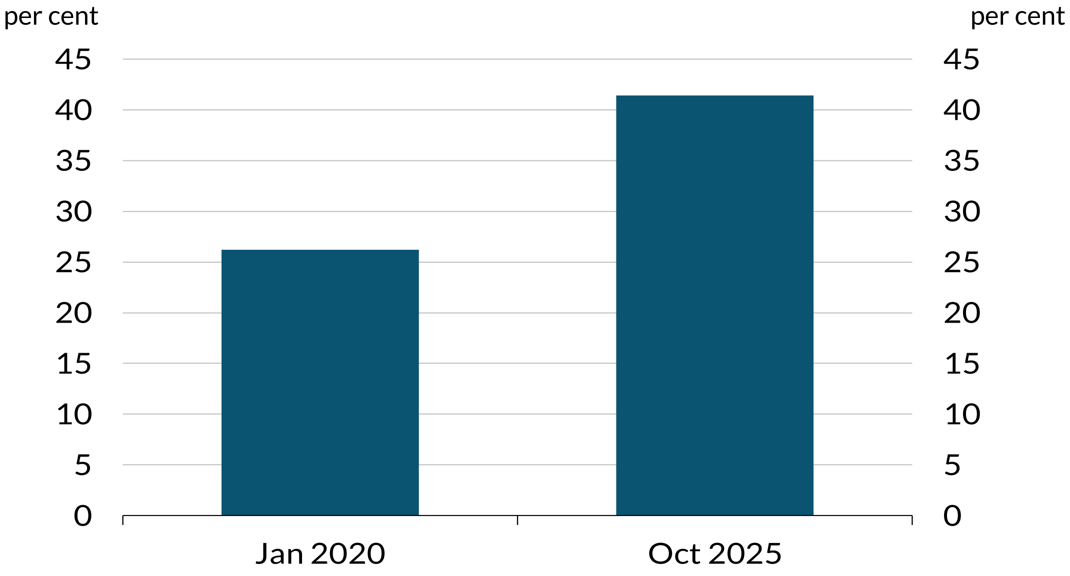
P/E ratio of the S&P500 Index including and excluding the Magnificent 7 companies



Source: Bloomberg and CBI staff calculations
Notes: Adjusted earnings P/E ratios and market cap of the Magnificent 7 companies. The Magnificent 7 companies are among the predominant stocks relating to AI. Last observation 24th October.

Equity markets are increasingly concentrated, leaving investors exposed to market adjustment

Market cap of 10 largest firms in the S&P 500 relative to the total market cap of the index

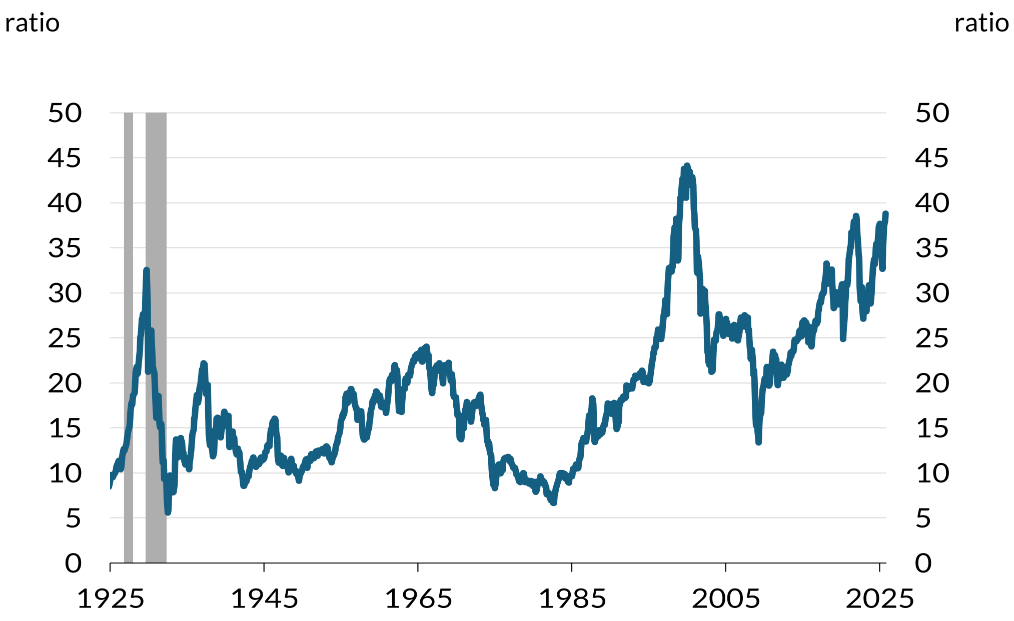


Source: Bloomberg and CBI staff calculations

Valuations appear stretched while AI funding is increasingly debt-financed

Indicators of market valuation are at their second highest levels in history, below only dot com bubble

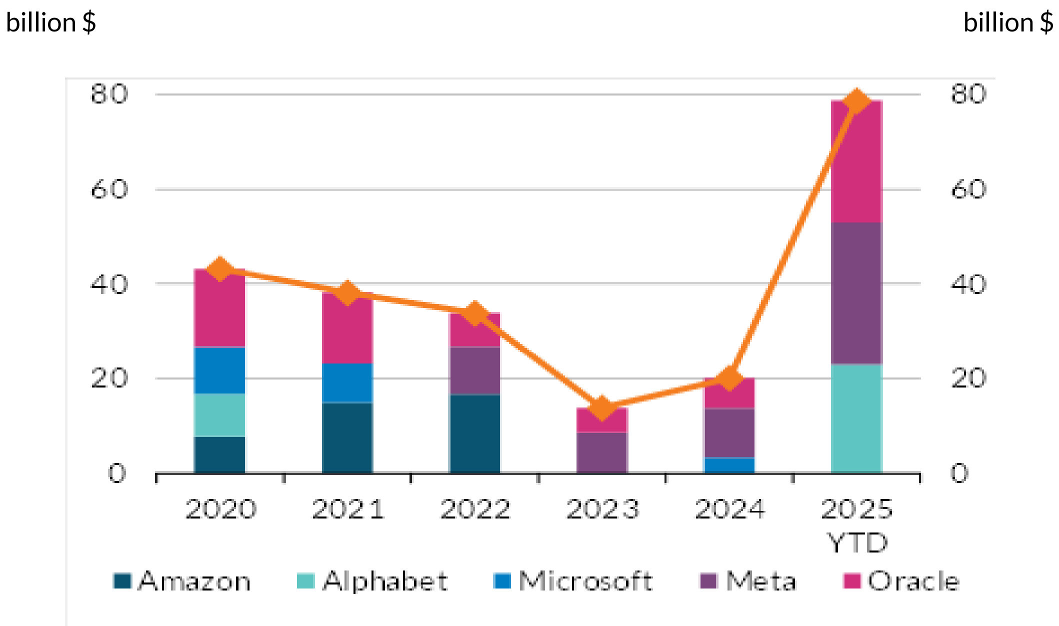
Shiller Price-to Earnings Ratio for the S&P500



Source: Robert J. Shiller
Notes: Recessions are shaded.

Debt financing by major AI companies has taken off in 2025

Bonds issued by five large AI-related companies



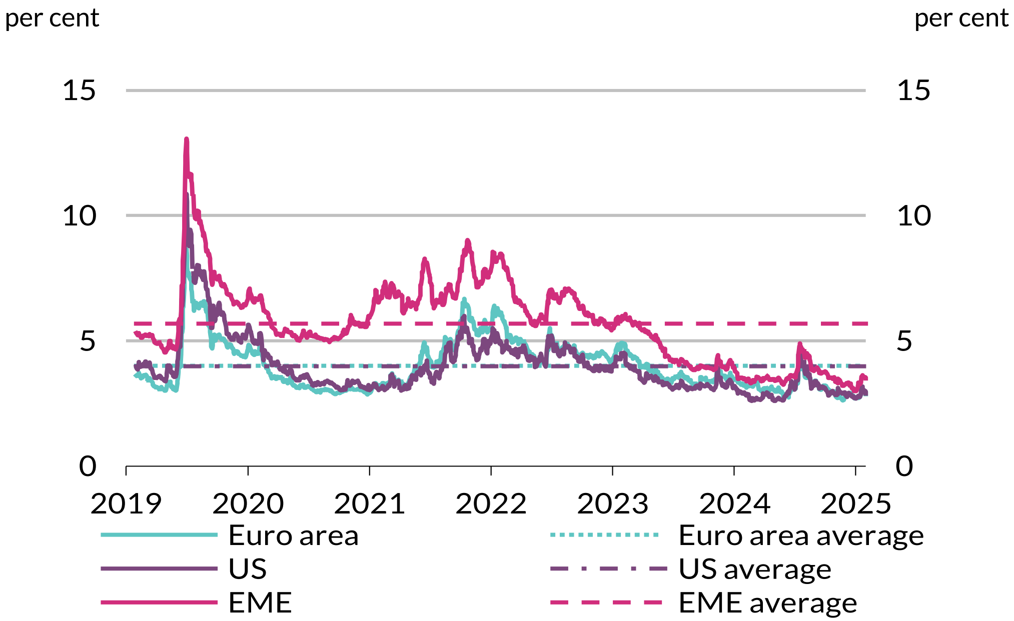
Source: Bloomberg
Notes: All amounts converted to USD, where required, using end-of-year exchange rate or the latest exchange rate in 2025. Chart only covers publicly traded debt securities. Privately issued/traded debt is not included.

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Risk appetite continues to increase in credit markets, with increasing focus on private credit risks

Corporate bond spreads are reaching multi-year lows

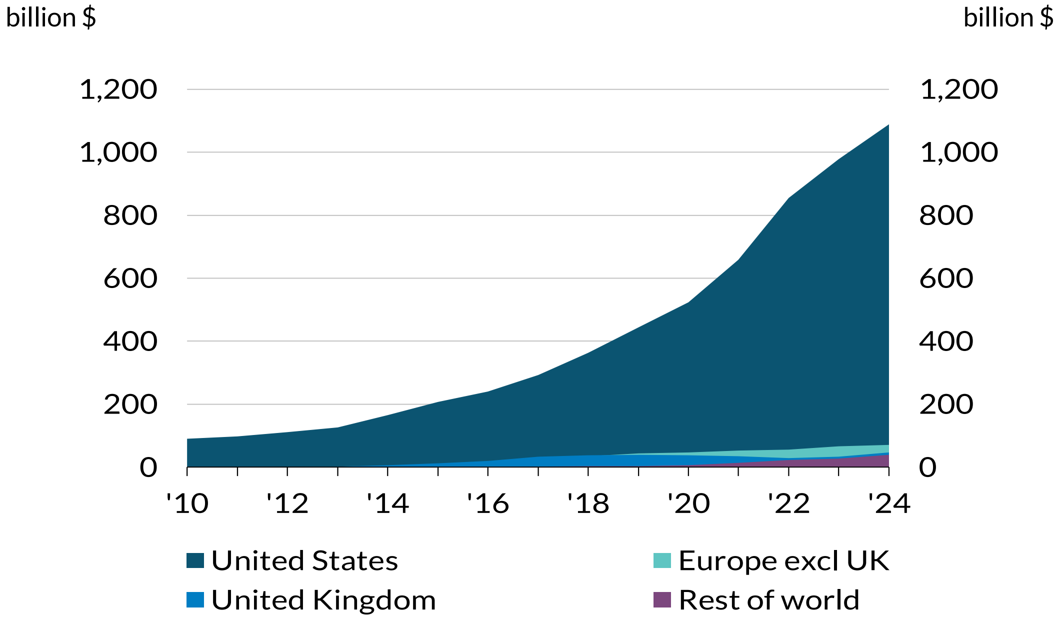
High-yield corporate bond spreads



Source: Bloomberg Financial Conditions Index
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 October 2019. EME refers to emerging market economies. Last observation 24th October.

Private credit lending has seen accelerated growth and is particularly large in the US

Lending by private credit funds across jurisdictions

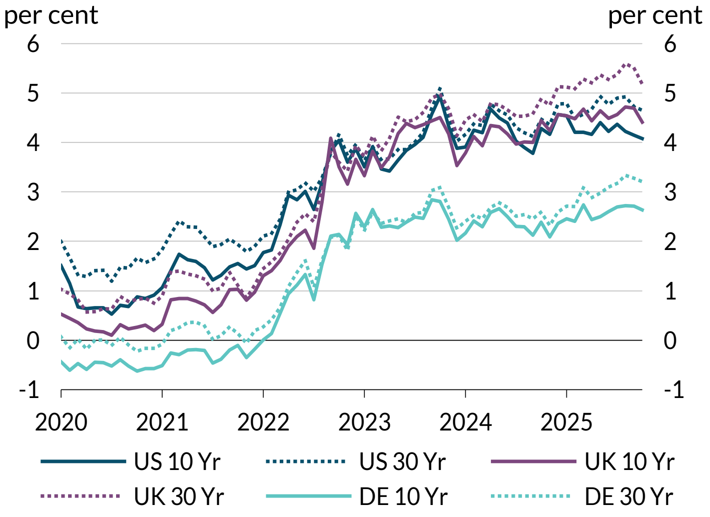


Source: Pitchbook Data Inc, BIS staff calculations
Notes: Data relates to the total volume of outstanding direct and asset-based loans from funds by region of the borrower.

There are persistent fiscal deficits in many advanced economies, rising global imbalances, and uncertainty surrounding safe haven assets

Sovereign financing costs have increased, and maturity spreads are also higher.

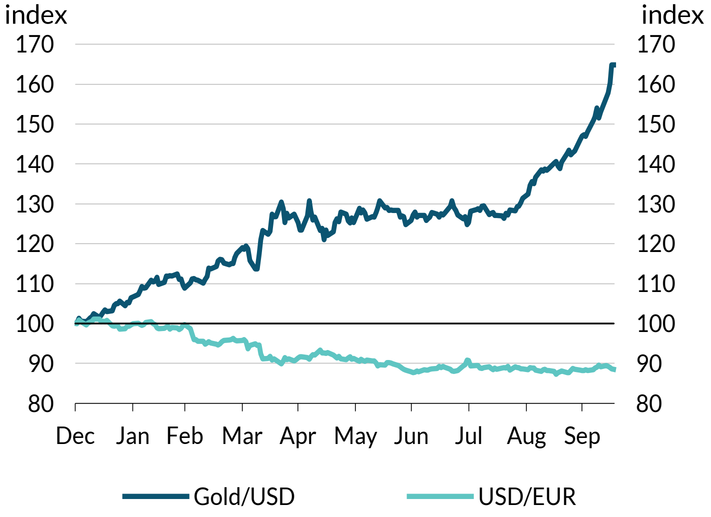
10-year and 30-year sovereign yields



Source: Bloomberg
Notes: Last observation 31st October.

Gold prices have continuously increased over the course of 2025, while the value of the USD has been falling

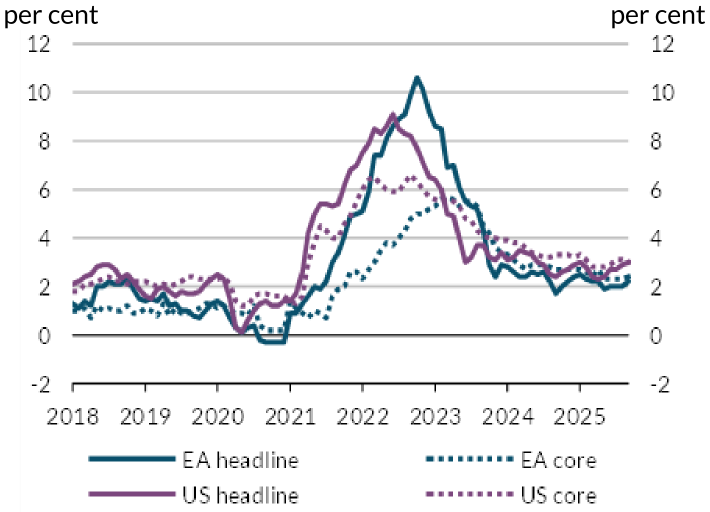
Gold/USD and USD/EUR indexed to end-2024



Source: Bloomberg

Latest data show some modest pick up in US inflation; data releases for inflation and jobs impacted by Shutdown

Euro area and US inflation



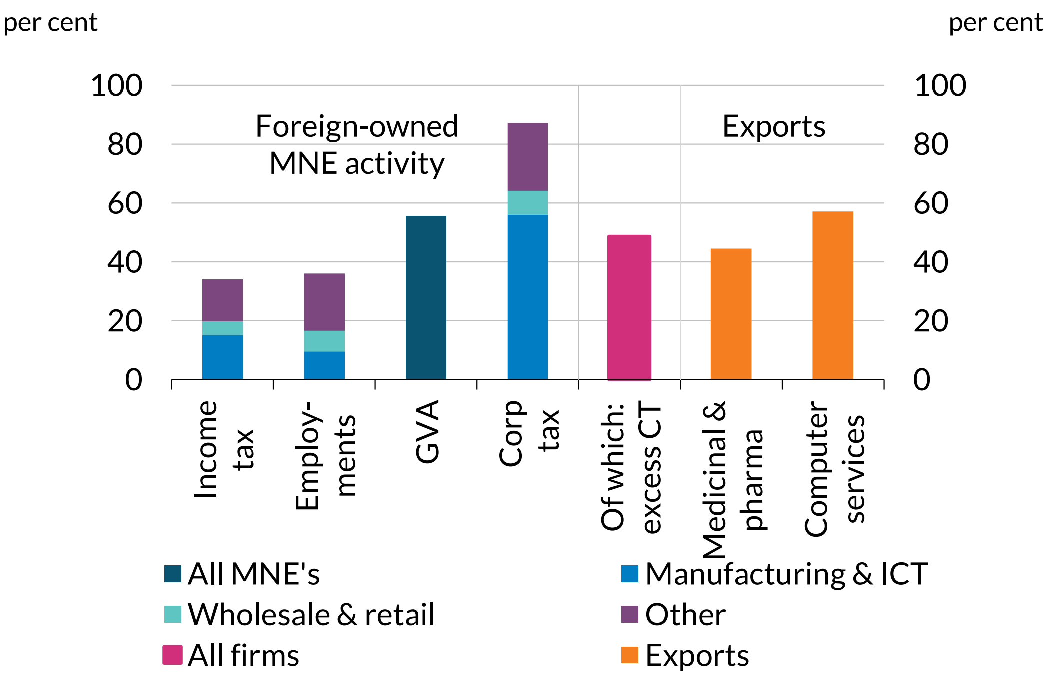
Source: Eurostat and Bureau of Labor Statistics via Haver Analytics
Notes: Last observation September.

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Ireland is more exposed to international trade/investment shocks and less vulnerable to market risks

Economic activity is disproportionately concentrated in a small number of MNE / export-oriented sectors

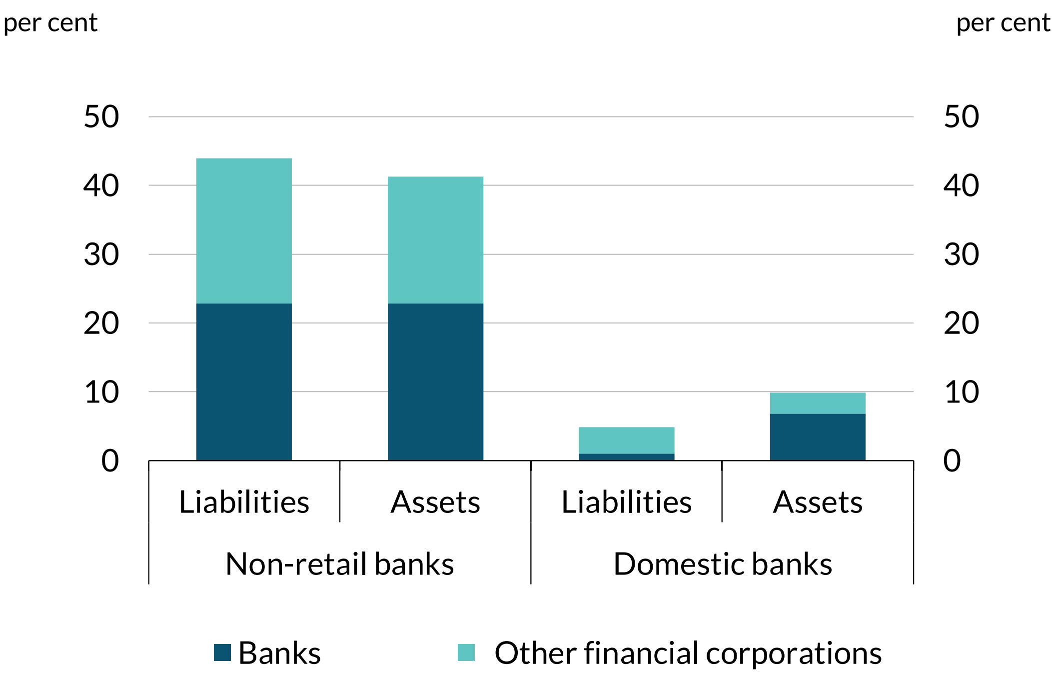
Share of MNE contribution to various measures of activity and the importance of certain sectors for Irish exports



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.

Domestic banks are less exposed than international banks to NBFIs

Interconnectedness of the Irish banking system across banking assets and liabilities

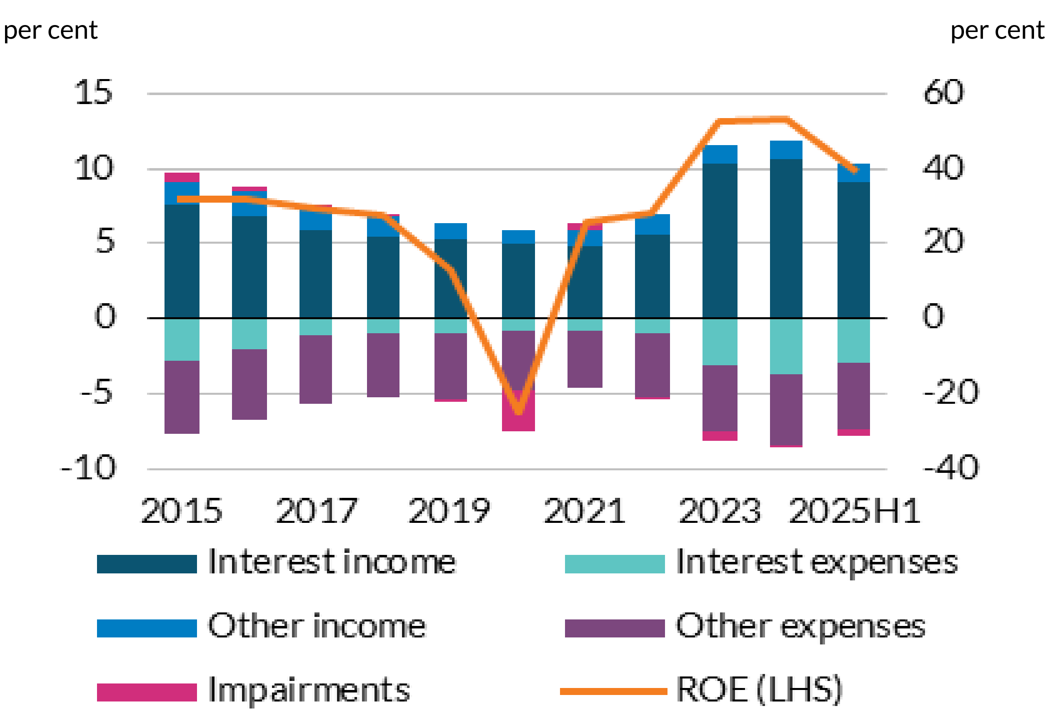


Source: Central Bank of Ireland
Notes: Financial interconnectedness relates to the on-balance sheet exposures of banks to 1) other credit institutions (i.e., banks) and 2) other financial corporations. All data are expressed as a percentage of total assets. Non-retail refers to international banks located in Ireland. Exposures may reflect intragroup activity. Data as at 2025Q1.

The domestic banking sector continues to exhibit strong profitability, with stress test results underscoring resilience

Bank profitability has fallen relative to recent highs, but is expected to remain healthy

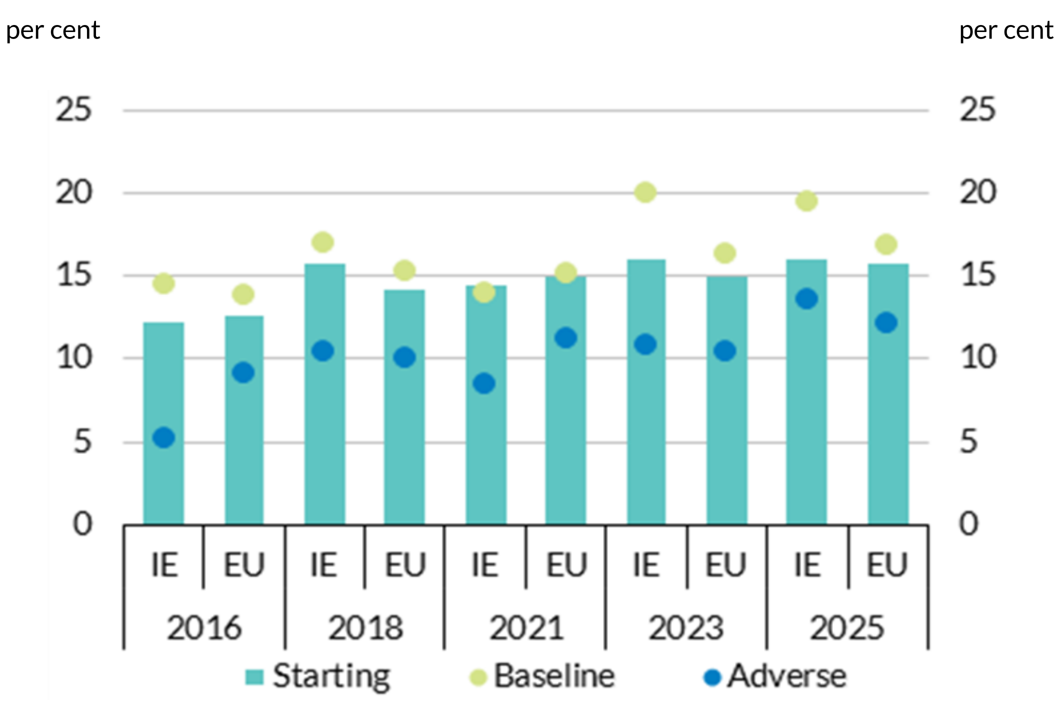
Return on average equity and its decomposition



Source: FINREP
Notes: Annualised data. Other income encompasses net fee and commission income and other operating income. Other expenses encompasses other operating expenses, other continuing operations, staff expenses and tax expenses.

The 2025 EBA stress test results indicate that banks are resilient to adverse shocks

CET1 ratios for domestic and EU banks in the 2025 EBA ST

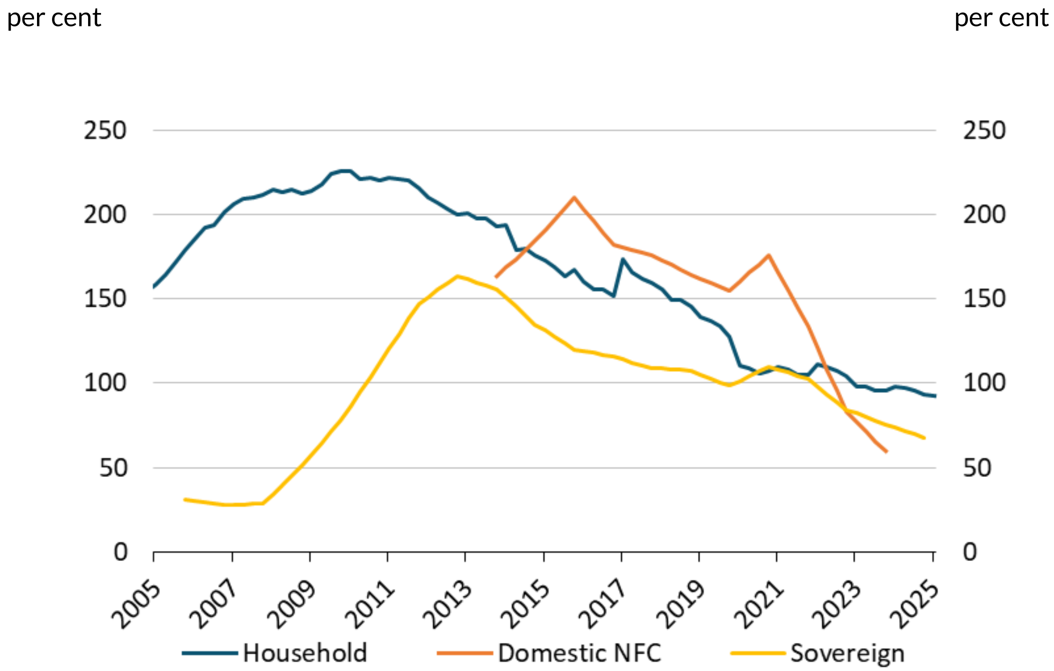


Source: EBA stress test results
Notes: For Ireland, the EBA adverse scenario features a peak unemployment rate of 11.7%, cumulative decline in GDP and RRE prices of -4.3% and -17.4% respectively. The scenario entails an escalation of geopolitical tensions and increase in trade tariffs resulting in a significant contraction in global economic growth

Irish households and businesses remain resilient; credit growth has continued to increase from its low base

Household, NFC and Sovereign indebtedness has fallen substantially over the last 15 years

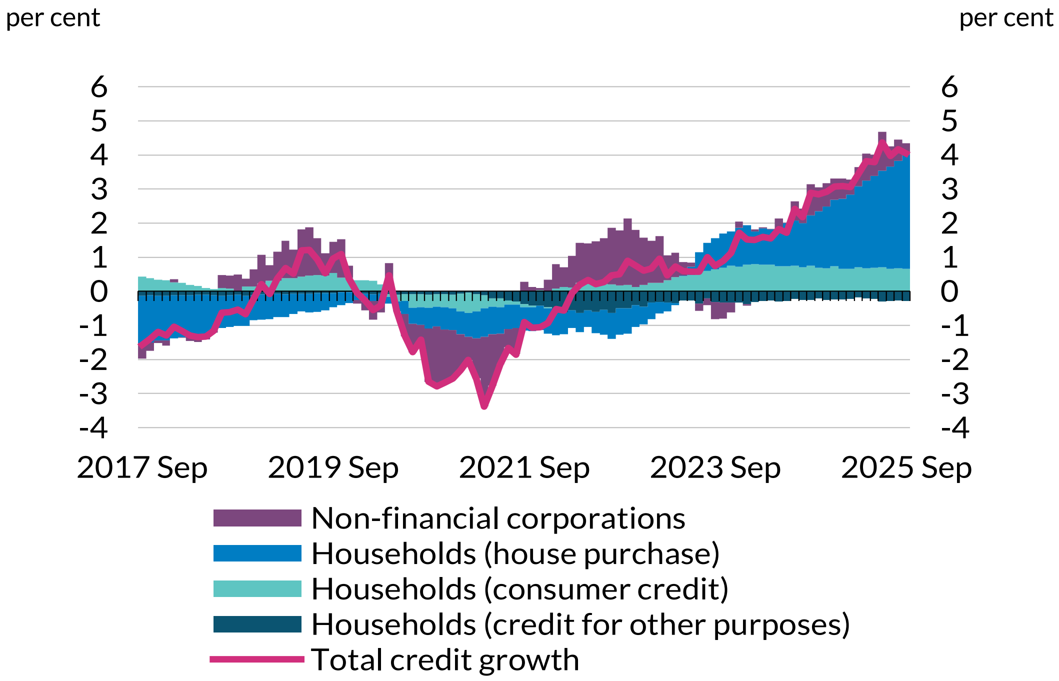
Household debt to gross disposable income, domestic NFC debt to output ratios and sovereign debt-to-GNI*



Source: Central Bank of Ireland, CSO
Note: Household total financial liabilities over gross disposable income. Irish-owned, non-redomiciled NFC debt security and loan liabilities over output. General Government Debt over GNI*.

Credit growth has gathered pace, driven by mortgages and first-time buyers in particular

Contribution by loan type to annual growth of total bank credit



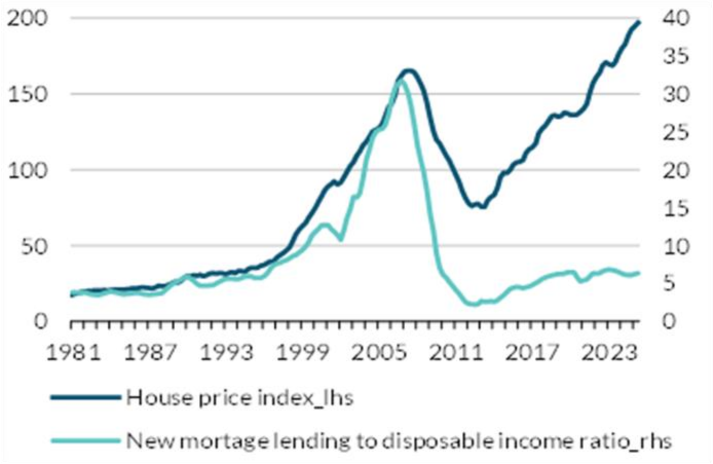
Source: Central Bank of Ireland Credit and Banking Statistics.
Notes: Calculations based on data from Tables A.1 and A.6. As of January 2022 Table A.6 has been discontinued following an updated ECB regulation on the treatment of securitised loans. Credit considers only loans from banks to Irish residents.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

House price growth has significantly outpaced mortgage lending growth as well as incomes, with continued strong non-mortgage demand

House price appreciation not a result of excessive mortgage lending

House prices and new mortgage lending

index (2015=100) per cent

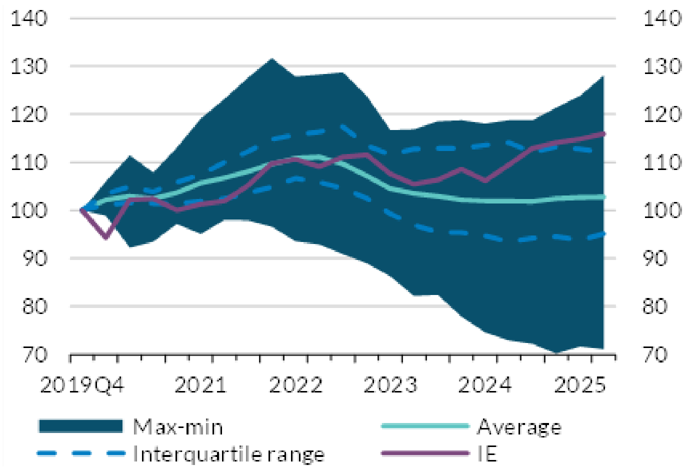


Source: CSO and Central Bank
Note: New mortgage lending to disposable income ratio is a 4-quarter moving average. Last observation 2025Q2.

The house price-to-income ratio has increased relative to many countries

Cross-country house price-to-income ratio indices

index 100 = 2019Q4 index 100 = 2019Q4

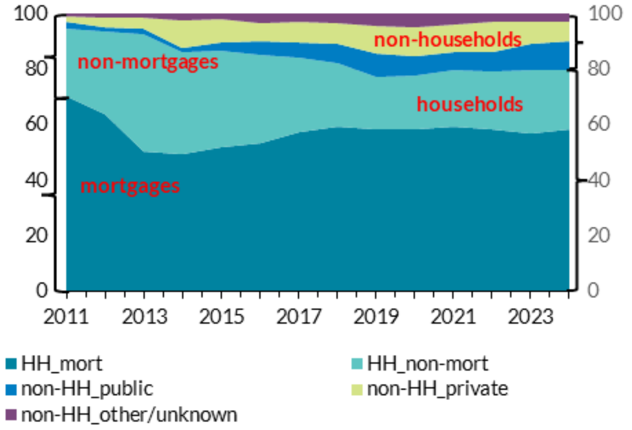


Source: OECD and Central Bank of Ireland calculations
Note: Calculations of maximum, minimum, average and inter quartile range values based on a sample of 29 OECD countries, consisting of 24 EU members (excludes. Ireland, Cyprus and Malta), plus Canada, Australia, New Zealand, the USA and UK. Data for Ireland based on Central Bank's own house price to income ratio calculations. Last observation 2025Q2.

Non-households remain a material share of RRE transactions

household/non-household, mortgage / non-mortgage and non-household public/private/other as a % of total

per cent per cent

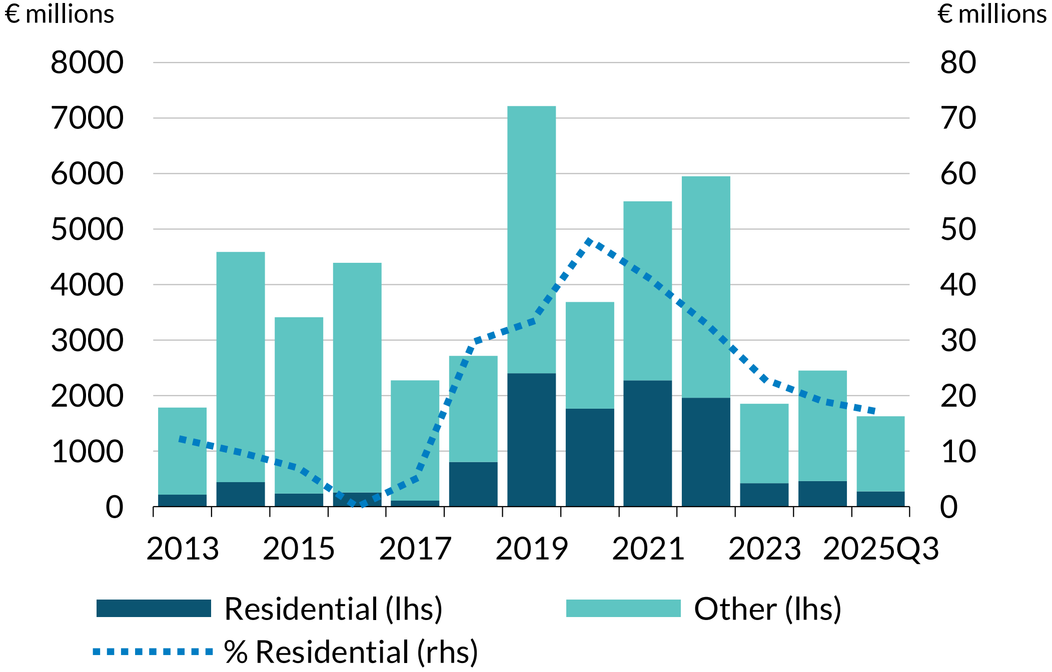


Source: CSO
Note: Data are annual. Last observation 2024

NBFI presence has been increasing, although a slowdown in international investment inflows poses a risk to housing supply

Marked slowdown of international investment particularly in the residential property sector

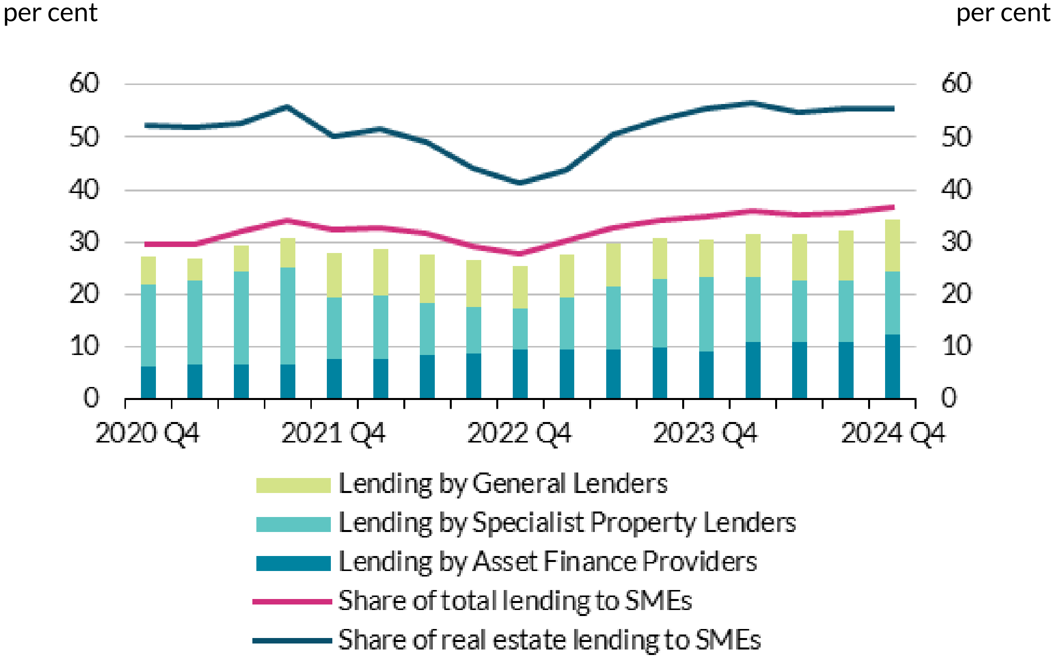
Residential element of CRE investment volumes



Source: CBRE Research
Notes: 'Other' includes investment expenditure related to office, retail, industrial, logistics and mixed commercial property assets. Last observation 2025Q3.

The share of non-bank lending to SMEs has increased over recent years

Share of lending to SMEs by non-banks, with breakdown by lender and borrower category



Source: CCR and Central Bank of Ireland Credit and Banking Statistics
Notes: 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. 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. Last observation 2024Q4.

The Central Bank's macroprudential policies aim to promote resilience and are proportionate to the risks faced by the financial system.

- The **CCyB rate** of 1.5 per cent supports the resilience of the banking sector which is important given the uncertain, macro-financial environment and the somewhat elevated risks facing the financial system.
- The **2025 O-SII review** will see an adjustment to the buffer rate for one institution, looking to appropriately balance its relative systemic footprint from both a domestic and banking union perspective. Existing buffers rates will continue to apply for the other five O-SIIs.
- The **mortgage measures** continue to ensure sustainable lending standards in the mortgage market, following a refresh of the framework.
- The Central Bank continues to develop **the macroprudential framework for non-banks**, which remains a key priority.
- Domestically the Central Bank's focus is on evaluating the implementation of two macroprudential measures in place which relate to specific cohorts of investment funds:
  - Irish-authorised GBP LDI Fund measures announced April 2024 aim to ensure LDI funds are more resilient to shocks to UK interest rates.
  - Irish property fund measures announced in November 2022, with a phased implementation. While improving CRE market values in some sectors might help funds adjust their leverage towards the limit, additional leverage reduction planning is needed for some funds.