Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Central Bank of Ireland **Financial Stability Review 2024:II**

December 2024

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Notes

1. Unless otherwise stated, this document refers to data available on 20 November 2024.

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 the 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

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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.

The structure of this publication mirrors the overall approach the Central Bank takes in reaching a judgement around its macroprudential policy stance.

- The first section outlines the Central Bank's assessment of the main risks facing the Irish financial system over the short to medium term.
- The second section outlines the Central Bank's assessment of the resilience of the domestic-facing financial system to adverse shocks and its ability to absorb, rather than amplify, shocks of this nature.
- The third section explains the Central Bank's policy actions to safeguard financial stability and ensure that the resilience of the financial system is proportionate to the risks it faces.

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.

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

The global financial system has remained resilient since the last *Review* despite periods of market volatility, but risks are to the downside amid heightened economic and geopolitical uncertainty. Global inflation has continued to fall and is close to target for many advanced economies, allowing central banks to begin cutting policy rates. While global growth forecasts have been stable, indicators of activity in the euro area have weakened, and financial markets have at times responded strongly to economic news. This suggests the balance of risks has shifted from inflation to growth, and intensified geopolitical tensions raise the prospect of lower trade and GDP growth. There is evidence of compressed risk pricing in corporate debt markets and stretched equity valuations in some sectors. Liquidity and leverage vulnerabilities in parts of the non-bank financial sector could amplify the market impact of any economic or financial shocks.

Growth in the Irish domestic economy has been robust, and this is expected to continue over the near-to-medium term, supporting the financial position of borrowers and lenders. But Ireland is particularly exposed to heightened geopolitical and economic risks as a small, open economy. Medium-term domestic risks have increased on balance, with capacity constraints and housing shortages posing risks to growth and future FDI. An expansionary fiscal stance coupled with an expectation of easing monetary policy could aggravate existing imbalances and contribute to overheating in the economy. Households and businesses remain resilient, but are also exposed to global developments through trade exposures and high concentration of MNE employment in some sectors. The domestic CRE market continues to adjust, as both structural and cyclical headwinds persist, but the domestic banking system remains resilient in the face of this CRE downturn.

With increased confidence that inflation will return to central banks' targets in a sustainable manner, interest rates are expected to fall further, but macro-financial risks remain tilted to the downside. Global inflation continues to fall from the highs seen in 2022 and central banks in major advanced economies have started to cut their policy rates. Economic growth has been stable, but some forward-looking indicators of activity have weakened and there is continued divergence in growth expectations across regions. Market interest rate expectations have fallen since the last *Review*, and weak economic data or a delayed impact of the rate tightening cycle could also lead to an even faster pace of rate cuts. Downside risks to global economic growth stem from growing geopolitical risks, such as conflicts and potential trade frictions, as well as potential disruption arising from extreme weather events.

Compressed credit spreads and stretched equity valuations could result in disorderly corrections in financial markets if macroeconomic conditions deteriorate, or in the case of sector-specific shocks. Heightened geopolitical and macro-financial uncertainty has triggered bouts of market volatility in recent months, most notably in early August, highlighting vulnerabilities in financial markets. These episodes underscore the fragility of current market sentiment, and a possibility of broader market instability if the outlook shifts abruptly. Moreover, concerns persist over the potentially elevated valuation of US technology stocks. Given their significant contribution to market capitalization, these stocks are increasingly vulnerable to downward repricing.

Leverage in the non-bank sector could amplify any market adjustment, with increasing links between banks and non-banks acting as a source of contagion. Since the Global Financial Crisis, the NBFI sector has expanded rapidly, driven largely by rising assets under management in investment funds. Vulnerabilities in the non-bank financial sector may amplify adverse market dynamics through forced asset sales, low market liquidity and procyclical selling behaviour, thereby exacerbating the risk of disorderly conditions in financial markets. Evidence now indicates that the actions of highly leveraged hedge funds amplified the turbulence in global markets in August of this year. These risks can spread through the financial system due to increased interconnectedness (including common holdings) between banks and non-banks.

Global and Irish CRE markets continue to adjust as higher borrowing costs and weak demand are factored into price declines, but the domestic banking system remains resilient to this downturn. Although conditions in CRE markets have shown emerging signs of stabilisation, the full scale of the shock is still uncertain and conditions could deteriorate quickly. Future global financing conditions and projected income returns among investors and occupiers will be key price determinants. In Ireland, the outlook for the Dublin office market remains uncertain as the vacancy rate continues to rise, despite some pick-up in take-up activity. The Central Bank's judgement remains that the domestic banking system currently has capacity to absorb, rather than amplify, this CRE downturn. Pockets of vulnerability remain within Irish property funds due to high levels of leverage as well as some funds being exposed to the ongoing weakness in both the office and retail sectors.

Climate risks and growing operational as well as cyber related incidents are structural issues which could affect the resilience of the financial system. Europe has seen an increase in the severity and frequency of flooding, highlighted by recent catastrophic events in Valencia. The key risk channels are discussed in *Box B: Flood damages and financial sector linkages*. Rising geopolitical tensions may also have contributed to an increase in cyber-attacks, while the CrowdStrike incident in July 2024 reveals the potential system-wide disruption an operational incident can have on financial services (see *Box A: Digital operational resilience and financial stability*).

The Irish economy has continued to perform robustly although remains vulnerable to external shocks. Domestic inflation has eased, but price pressures remain for some segments, with core inflation (i.e. excluding volatile energy and food prices) expected to lag the wider measure. Services inflation, a better measure of domestically generated inflationary pressures, is also running significantly higher than the headline rate. Modified domestic demand is expected to grow in 2024 and 2025 at a faster pace than at the time of the last *Review*. Ireland's reliance on international investment, at a time of increased trade restrictions and geopolitical tensions, leaves the domestic economy susceptible to global shocks.

Monetary policy easing combined with expansionary fiscal policy could exacerbate potential economic overheating risks. The Irish economy is operating at or above full capacity, and an expansionary fiscal stance could aggravate domestic pressures. The public finances are relying heavily on excess corporation tax receipts, with clear downside risks associated with this revenue. If these elevated corporate tax receipts were to reverse, or there is a firm or sector-specific shock that negatively impacts on the MNE sector, the subsequent correction to public spending, as well as to the financial positions of households and firms would have adverse macro-financial implications.

An ongoing deficit in housing continues to drive residential property price growth, while there has been an increase in estimates of underlying housing demand. The acceleration in house price growth occurs against the backdrop of an ongoing imbalance in the supply and demand of housing. Updated estimates indicate that around 52,000 new homes per annum could be needed to meet demand, while the delivery of new residential units has slowed during 2024 so far. Despite excess demand, there are no signs of significant increases in mortgage credit growth, which remains moderate.

Households remain resilient and are being supported by a strong labour market, though a downturn in MNE activity could have a sizeable effect on the economy overall and negatively impact household resilience. Despite a period of higher interest rates, the proportion of income that households spend on debt payments has remained stable since 2022, with higher loan repayments being offset by rising incomes. Geopolitical risks may threaten trade growth and MNE investment levels, with knock-on effects for the labour market given high shares of MNE related employment in some sectors. Some sectors with high shares of MNE related employment also have high shares of household mortgage exposures, which has implications for broader household resilience. Household balance sheets appear resilient with accumulated household savings and limits on mortgage debt helping to support resilience.

SME turnover growth has moderated, with strong wage growth expected to weigh on profit margins, but there are limited signs of borrower distress. Although consumer demand remains strong, moderating turnover growth combined with wage pressures are likely to compress profit margins for SMEs. Global factors could also weigh on the performance of Irish firms, with exposures to geopolitical risk via energy input costs. Despite these pressures, Irish firms continue to demonstrate resilience, and there has even been a moderation in CRE borrowers exhibiting acute signs of financial distress. There are some pockets of risk, however, with insolvencies within the accommodation/food and other services sectors increasing significantly. Both aggregate employment and new company registrations in these sectors remain robust, which suggests that part of the adjustment relates to a redistribution of resources within the sectors.

Domestic bank profitability has likely reached its cyclical peak, while NPL ratios continue to be at relatively low levels. Profitability increased between 2022 and 2024, with interest income rising significantly due to higher interest rates on retail loans and central bank deposits. Domestic banks rely on net interest income and customer deposits more than European peers, and reductions in ECB policy rates are likely to weigh on profitability. The banking sector is well placed to weather a softening in profits, with non-performing loan ratios continuing to decline, and capital buffers above regulatory requirements.

The Central Bank is maintaining an unchanged policy stance with respect to active macroprudential capital buffers (i.e. CCyB, O-SII) which continue to provide resilience to adverse shocks. No change is being made to the CCyB rate of 1.5 per cent on Irish exposures – with the rate deemed appropriate for the current macro-financial environment. The Central Bank expects to maintain a CCyB rate of 1.5 per cent when cyclical risks are neither elevated nor subdued, providing resilience to macro-financial risks including those relating to the small, globalised nature of the economy. The Central Bank's 2024 O-SII review has resulted in no change to the existing policy. The same six institutions will continue to be identified as systemically important and required to maintain the associated supplementary capital buffer. These institution specific O-SII buffers aim to reduce the probability of failure of these systemically important institutions.

Mortgage lending continued to shift towards the LTI and LTV limits but the refreshed mortgage measures framework supports sustainable lending standards in the mortgage market. Recent developments in new mortgage lending indicate that the mortgage measures continue to support sustainable mortgage lending. In the first half of 2024, the shift towards the new LTI and LTV limits continued, with limited lending above these levels (4 times LTI and 90 per cent LTV) ensuring that riskier new mortgage lending remains contained. Higher mortgage interest rates combined with a larger share of lending between 3.5 and 4 has resulted in higher debt service ratios for some FTBs, but the share of new lending in categories that could be considered risky remains contained. Further, average LTIs and the share of PDH lending taking place at higher LTIs continues to be materially below the levels seen during the mid-2000s.

The Central Bank continues to develop the macroprudential framework for non-banks and has previously announced two macroprudential measures relating to cohorts of investment funds. In November 2022, the Central Bank announced the phased implementation of macroprudential limits on leverage of 60 per cent for Irish property funds. The Central Bank is currently focused on ensuring appropriate progress is being made throughout the implementation period. Irish-authorised GBP LDI fund measures were announced in April 2024 and aim to ensure these funds are more resilient to shocks to UK interest rates. The Central Bank continues to support the development of an overarching macroprudential framework for investment funds, and has published a Feedback Statement to its Discussion Paper in July 2024, as well as continuing to actively engage in international work in this area. For example, the Central Bank has recently published its response to the European Commission's targeted consultation on macroprudential policies for NBFI which closed on 22 November. The Central Bank's response sets out key policy priorities that should be considered when developing the macroprudential framework for the NBFI sector.

Réamhrá

Tá an Banc Ceannais freagrach as cobhsaíocht airgeadaíochta agus airgeadais a choimeád ar bun agus as a chinntiú go bhfeidhmeoidh an córas airgeadais 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. Le gníomhaíochtaí beartais an Bhainc Ceannais, féachtar lena chinntiú go bhfuil an córas airgeadais in ann turraingí dochracha a iompar seachas a mhéadú.

Tá struchtúr an fhoilseacháin seo ag teacht leis an gcur chuige foriomlán atá ag an mBanc Ceannais chun teacht ar bhreithniú maidir lena sheasamh beartais macrastuamachta.

- Sa chéad mhír, déantar cur síos ar mheasúnú an Bhainc Ceannais ar na príomhrioscaí atá roimh chóras airgeadais na hÉireann sa ghearrthéarma agus sa mheántéarma.
- Sa dara mír, leagtar amach measúnú an Bhainc Ceannais ar athléimneacht an chórais airgeadais intíre i leith turraingí dochracha agus ar a chumas rioscaí den sórt sin a iompar seachas a mhéadú.
- Sa tríú mír, déantar cur síos ar ghníomhaíochtaí beartais an Bhainc Ceannais chun cobhsaíocht airgeadais a chosaint agus chun a chinntiú go bhfuil athléimneacht an chórais airgeadais comhréireach leis na rioscaí atá roimhe.

Tá earnáil mhór ilchineálach airgeadais in Éirinn. Tá fás ag teacht ar an gcuid sin de sheirbhísí earnála airgeadais a fhreastalaíonn ar chliaint idirnáisiúnta, agus tá 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.

San *Athbhreithniú*, léirítear breithnithe ón gCoiste um Chobhsaíocht Airgeadais de chuid an Bhainc Ceannais agus tá na breithnithe sin mar bhonn eolais don *Athbhreithniú*. Ní hé is aidhm don *Athbhreithniú* réamhaisnéis eacnamaíoch a chur ar fáil, ina ionad sin díríonn sé ar thorthaí díobhálacha a d’fhéadfadh teacht chun cinn agus ar na himpleachtaí a d’fhéadfadh a bheith acu don chobhsaíocht airgeadais intíre. Tá an Banc Ceannais tiomanta do thrédhearcacht a chuid breithnithe maidir le cobhsaíocht airgeadais agus tá sé beartaithe aige an foilseachán seo a úsáid mar bhealach tábhachtach chun míniú a thabhairt ar na gníomhaíochtaí beartais a ghlactar laistigh dá shainordú chun cobhsaíocht airgeadais a chosaint.

Forbhreathnú

Tá an córas airgeadais domhanda athléimneach i gcónaí ó foilsíodh an t*Athbhreithniú* deireanach d'ainneoin tréimhsí luaineachta margaidh, ach tá rioscaí ar an taobh thíos ann i bhfianaise éiginnteacht mhéadaithe eacnamaíoch agus geopholaitiúil. Leanann boilsciú domhanda de bheith ag titim agus tá sé gar don sprioc i gcás roinnt mhaith de na geilleagair fhorbartha, rud a chuireann ar chumas na mbanc ceannais rátaí beartais a laghdú. Fad atá réamhaisnéisí don fhás domhanda cobhsaí, tá lagú tagtha ar tháscairí maidir le gníomhaíocht sa limistéar euro, agus bíonn freagairt láidir ag margaí airgeadais ar fhorbairtí eacnamaíocha in amanna. Tugann sé seo le fios go bhfuil an chothromaíocht maidir le rioscaí ag aistriú ó bhoilsciú go fás, agus tá an fhéidearthacht ann go mbeidh fás níos ísle ar thrádáil ar agus OTI mar gheall ar theannas geopholaitiúil méadaithe. Tá fianaise ann go bhfuil praghsáil riosca chomhbhrúite i margaí fiachais chorparáidigh agus go bhfuil luachálacha cothromais sínte in earnálacha áirithe. Le leochaileachtaí leachtachta agus giarála i gcodanna den earnáil airgeadais neamhbhainc, d'fhéadfaí go méadófaí tionchar aon turraingí eacnamaíocha nó airgeadais ar an margadh.

Bhí fás láidir ar gheilleagar intíre na hÉireann, agus meastar go leanfaidh sé seo sa ghearrthéarma agus sa mheántéarma, rud a thacaíonn le staid airgeadais iasachtaithe agus iasachtóirí. Ach, tá geilleagar na hÉireann neamhchosanta ar rioscaí geopholaitiúla agus eacnamaíocha méadaithe toisc gur geilleagar beag, oscailte é. Ar an iomlán, tá méadú tagtha ar rioscaí intíre sa mheántéarma, sa mhéid go bhfuil srianta acmhainneachta agus ganntanas tithíochta ann a chruthaíonn rioscaí don fhás agus don infheistíocht dhíreach eachtrach amach anseo. D'fhéadfaí go gcuirfeadh staid fhorleathnaitheach fhioscach i dteannta ionchais go maolófaí an beartas airgeadaíochta leis na míchothromaíochtaí atá ann cheana agus le róthéamh sa gheilleagar. Tá teaghlaigh agus gnóthaí athléimneach i gcónaí ach tá siad neamhchosanta ar fhobairtí domhanda freisin trí bhíthin neamhchosaintí trádála agus comhchruinniú fhostaíocht FIN in earnálacha áirithe. Tá margadh CRE ag dul in oiriúint go fóill, de réir mar a leanann na constaicí struchtúracha agus timthriallacha araon, ach tá an córas baincéireachta intíre athléimneach i gcónaí d'ainneoin chor chun donais CRE.

Agus muinín mhéadaithe ann go bhfillfidh boilsciú ar spriocanna na mbanc ceannais ar mhodh inbhuanaithe, meastar go dtiocfaidh laghdú breise ar rátaí úis, ach tá rioscaí macrairgeadais claonta ar an taobh thíos. Tá boilsciú domhanda ag laghdú i gcónaí ón mbuaicphointe a chonacthas in 2022 agus tá bainc cheannais na mórgheilleagar forbartha ar tosú ar a gcuid rátaí beartais a laghdú. Tá fás eacnamaíoch cobhsaí, ach tá lagú tagtha ar roinnt táscairí gníomhaíochta agus tá difríocht ann idir na hionchais fáis ar fud na réigiún éagsúil. Tá na hionchais maidir le rátaí úis margaidh laghdaithe ó foilsíodh an tAthbhreithniú deireanach, agus d'fhéadfadh go dtiocfadh laghduithe níos tapúla ar rátaí i gcás sonraí eacnamaíocha laga nó iarmhairt mhoillithe na timthriallach géaraithe ar rátaí. Eascraíonn rioscaí don fhás eacnamaíoch domhanda ó rioscaí méadaitheacha geopholaitiúla, amhail coinbhleachtaí agus easaontas féideartha trádala, mar aon le suaitheadh féideartha de bharr teagmhais adhaimsire.

D'fhéadfadh ceartuithe mí-ordúla a bheith i gceist i margaí airgeadais mar gheall ar raonta difríochta creidmheasa comhbhrúite agus luachálacha cothromais sínte i gcás ina rachadh dálaí maicreacnamaíocha in olcas nó dá dtarlódh turraingí atá sonrach ó thaobh earnála de. Leis an éiginnteacht mhéadaithe gheopholaitiúil agus mhacrairgeadais, spreagadh luaineacht sna margaí le míonna beaga anuas, go háirithe go luath i mí Lúnasa, rud a léiríonn na leochaileachtaí atá sna margaí airgeadais. Léiríonn an méid seo ar fad an leochaileacht a bhaineann le seintimint an mhargaidh faoi láthair, mar aon leis an bhféidearthacht go bhféadfadh éagobhsaíocht níos leithne teacht chun cinn sa mhargadh má thagann athrú tobann ar an ionchas. Thairis sin, tá imní ann i gcónaí maidir le luacháil ionchasach stoic theicneolaíocha na Stát Aontaithe. I bhfianaise an méid a chuireann na stoic sin le caipitliú margaidh, bíonn feidhm an-mhór ag athphraghsáil anuas orthu.

D'fhéadfadh giaráil san earnáil neamhbhainc aon choigeartú margaidh a mhéadú, agus bheadh naisc mhéadaitheacha idir na bainc agus neamhbhainc ag feidhmiú mar fhoinse tógálachta. Ón nGéarchéim Airgeadais Dhomhanda i leith, tá earnáil NBFI (Institiúidí Airgeadais Neamhbhainc) ag leathnú go tapa, rud atá á spreagadh go mór mór ag sócmhainní méadaitheacha faoi bhainistíocht i gcistí infheistíochta. Féadfaidh leochaileachtaí san earnáil airgeadais neamhbhainc dinimic dhíobhálach an mhargaidh a mhéadú trí bhíthin díolacháin éigeantacha sócmhainní, leachtacht íseal an mhargaidh agus iompar comhthimthriallach díola, rud a ghéaraíonn an riosca go mbeidh dálaí mí-ordúla i margaí airgeadais. Tugann an fhianaise le fios anois gur méadaíodh an suaitheadh i margaí domhanda i mí Lúnasa de bharr gníomhartha cistí fálaithe ardghiaráilte. Féadfaidh na rioscaí sin leathnú ar fud an chórais airgeadais de bharr idirnascthacht bhreise (lena n-áirítear sealúchais chomónta) idir na bainc agus neamhbhainc.

Leanann margaí domhanda agus Éireannacha CRE de choigeartú a dhéanamh de réir mar a chuirtear costais iasachtaithe níos airde agus éileamh níos laige san áireamh i laghduithe praghsanna, ach tá an córas baincéireachta intíre athléimneach i gcónaí i leith an mheathlaithe seo. Cé go bhfuil comharthaí ag teacht chun cinn go bhfuil dálaí i margaí CRE ag cobhsú, tá éiginnteacht ag baint i gcónaí le scála iomlán na turrainge agus d'fhéadfadh go rachadh dálaí in olcas go tapa. Beidh dálaí maoiniúcháin domhanda amach anseo agus torthaí ionchasacha ioncaim i measc infheisteoirí agus áititheoirí ina bpríomhchinntithigh ó thaobh praghsanna de. In Éirinn, tá éiginnteacht ag baint i gcónaí leis an ionchas maidir leis an margadh oifigí i mBaile Átha Cliath de réir mar a leanann ráta na n-oifigí folmha de bheith ag ardú, d'ainneoin méadú áirithe ar ghníomhaíocht. Dar leis an mBanc Ceannais go fóill go bhfuil an cumas ag an gcóras baincéireachta intíre cúlú CRE a iompar seachas a mhéadú. Tá roinnt leochaileachtaí ann i gcónaí laistigh de chistí maoine na hÉireann mar gheall ar ardleibhéil ghiarála agus toisc go bhfuil roinnt cistí neamhchosanta ar an laigeacht leanúnach in earnáil na n-oifigí agus san earnáil mhiondíola.

Is saincheisteanna structúracha iad rioscaí aeráide, teagmhais mhéadaitheacha oibríochtúla agus cibirtheagmhais a d'fhéadfadh difear a dhéanamh d'athléimneacht an chórais airgeadais. Tá méadú le feiceáil san Eoraip ar ghéire agus ar mhinicíocht tuilte, mar a léiríodh le déanaí leis na teagmhais thubaisteacha i Valencia. Pléitear na príomhchainéil riosca i m*Bosca B*: Damáiste ó thuilte agus nascálacha leis an earnáil airgeadais. Seans gur chuir teannas méadaitheach geopholaitiúil leis an méadú ar chibirionsaithe, fad a léirigh teagmhas CrowdStrike i mí Iúil 2024 an suaitheadh uile-chórais a d'fhéadfadh a bheith ag teagmhas oibríochtúil ar sheirbhísí airgeadais (féach *Bosca A: Athléimneacht oibríochtúil digiteach agus cobhsaíocht airgeadais*).

Leanann geilleagar na hÉireann de bheith ag feidhmiú go láidir ach tá sé leochaileach do thurraingí seachtracha go fóill. Tá maolú tagtha ar bhoilsciú intíre ach tá brú praghsanna ann i gcónaí i ndeighleoga áirithe, agus meastar go mbeidh croí-bhoilsciú (i.e. gan praghsanna luaineacha fuinnimh agus bia san áireamh) taobh thiar den tomhas níos leithne. Tá boilsciú seirbhísí, ar tomhas níos fearr é ar bhrúnna boilscitheacha arna spreagadh go hintíre, i bhfad níos airde ná an ráta príomha freisin. Meastar go mbeidh an t-éileamh modhnaithe intíre ag méadú in 2024 agus 2025 ar luas níos tapúla ná mar a bhí an tráth a foilsíodh an *tAthbhreithniú* deireanach. Tá Éire soghonta i leith turraingí domhanda mar gheall ar a spleáchas ar infheistíocht idirnáisiúnta, tráth atá srianta trádála agus teannas gepholaitiúil méadaithe.

Le héascú beartais airgeadaíochta i dteannta beartas fioscach leathnaitheach, d'fhéadfaí rioscaí ionchasacha maidir le róthéamh eacnamaíoch a ghéarú. Tá geilleagar na hÉireann ag feidhmiú ar a lánacmhainneacht nó os a cionn, agus d'fhéadfaí brúnna intíre a mhéadú le staid fhioscach fhorleathnaitheach. Tá an t-airgeadas poiblí ag brath go mór ar fháltais bhreise ó cháin chorparáide, agus tá rioscaí soiléire ar an taobh thíos ag baint leis an ioncam seo. Más rud é go dtosódh na fáltais ardaithe ó cháin chorparáide ag dul sa treo contrártha, nó dá mbeadh turraing do ghnólacht nó d'earnáil ar leith a mbeadh iarmhairt dhiúltach aici ar earnáil FIN, bheadh impleachtaí díobhálacha macrairgeadais ag an gceartú ina dhiaidh sin ar chaiteachas poiblí, agus ar staid airgeadais na dteaghlach agus na ngnólachtaí.

Tá méadú ar phraghsanna réadmhaoine cónaithe á spreagadh i gcónaí ag an easnamh leanúnach i dtithíocht, fad atá méadú tagtha ar na meastacháin ar an mbunéileamh ar thithíocht. Tá luasghéarú ar an bhfás ar phraghsanna tithe ag tarlú i bhfianaise míchothromaíocht leanúnach idir soláthar agus éileamh tithíochta. Leis na meastacháin nuashonraithe, tugtar le fios go mbeidh gá le tuairim is 52,000 teach nua in aghaidh na bliana chun freastal ar an éileamh, fad atá moilliú tagtha in 2024 ar sholáthar aonad cónaithe nua. D'ainneoin an ró-éilimh, níl aon chosúlacht ann go bhfuil méaduithe suntasacha ag teacht ar an bhfás ar chreidmheas morgáiste, fás atá measartha i gcónaí.

Tá teaghlaigh athléimneach i gcónaí agus tá margadh láidir saothair mar thaca leo, cé go bhféadfadh éifeacht mhór a bheith ag cor chun donais ghníomhaíocht FIN ar an ngeilleagar iomlán, rud a dhéanfadh difear diúltach d'athléimneacht na dteaghlach. D'ainneoin tréimhse de rátaí úis níos airde, tá an cion den ioncam a chaitheann teaghlaigh ar íocaíochtaí fiachais cobhsaí ó 2022 i leith, sa mhéid go bhfuil aisíocaíochtaí iasachta níos airde á bhfritháireamh le hioncaim mhéadaitheacha. Féadfaidh go mbeidh rioscaí geopholaitiúla ina mbagairt don fhás trádála agus do leibhéil infheistíochta FIN, agus go mbeidh éifeachtaí iarmhartacha ar an margadh saothair i bhfianaise an chion mhóir d'fhostaíocht FIN i roinnt earnálacha. Tá cion mór de neamhchosaintí morgáiste teaghlaigh i roinnt earnálacha ina bhfuil cion mór d'fhostaíocht FIN freisin agus, dá bharr sin, tá impleachtaí ann d'athléimneacht níos leithne na dteaghlach. Is cosúil go bhfuil clár chomhardaithe na dteaghlach athléimneach agus tá coigilteas carntha na dteaghlach agus teorainneacha ar fhiachas morgáiste ag tacú leis an athléimneacht sin.

Tá maolú tagtha ar láimhdeachas FBM agus meastar go gcuirfidh an fás láidir ar phánna isteach ar chorrlaigh bhrabúis, ach níl mórán cosúlachta ann go bhfuil anás airgeadais ar iasachtaithe. Cé go bhfuil éileamh tomhaltóirí láidir i gcónaí, is dócha go gcuirfidh fás maolaitheach ar láimhdeachas i dteannta brúnna pá comhbhrú ar chorrlaigh bhrabúis FBManna. D'fhéadfadh go gcuirfeadh dálaí domhanda isteach ar fheidhmíocht gnólachtaí Éireannacha freisin, sa mhéid go mbeidh neamhchosaintí ar riosca geopholaitiúil ann trí chostais ionchuir fuinnimh. D'ainneon na mbrúnna seo, tá athléimneacht á léiriú go fóill ag gnólachtaí Éireannacha, agus tá maolú tagtha ar líon iasachtaithe CRE a bhfuil cuma anáis airgeadais orthu. Tá roinnt réimsí riosca ann, áfach, sa mhéid go bhfuil méadú mór ag teacht ar an leibhéal dócmhainneachta laistigh den earnáil cóiríochta/bia agus laistigh d'earnálacha seirbhísí eile. Tá fostaíocht chomhiomlán agus cláruithe cuideachtaí nua sna hearnálacha seo láidir i gcónaí, rud a thugann le tuiscint go mbaineann cuid den choigeartú le hathdháileadh acmhainní laistigh de na hearnálacha.

Is dócha go bhfuil buaicphointe thimthriallach bainte amach ag brabúsacht na mbanc intíre, fad atá cóimheasa iasachtaí neamhthuillmheacha ag leibhéil sách íseal i gcónaí. Tháinig méadú ar bhrabúsacht idir 2022 agus 2024 ó tharla gur tháinig méadú suntasach ar ioncam úis de bharr rátaí úis níos airde ar iasachtaí miondíola agus ar thaiscí bainc ceannais. Bíonn bainc intíre ag brath níos mó ar ghlanioncam úis agus ar thaiscí custaiméirí ná mar a bhíonn a gcuid piaraí Eorpacha, agus is dócha go gcuirfidh laghduithe ar rátaí beartais BCE isteach ar bhrabúsacht. Is maith atá an earnáil baincéireachta in ann maolú ar bhrabúis a sheasamh, sa mhéid go bhfuil cóimheasa iasachtaí neamhthuillmheacha ag laghdú i gcónaí agus tá maoláin chaipitil os cionn na gceanglas rialála.

Níl aon athrú á dhéanamh ag an mBanc Ceannais ar a sheasamh beartais airgeadaíochta maidir le maoláin chaipitil macrastuamachta ghníomhacha (i.e. CCyB, O-SII) a chruthaíonn athléimneacht i leith turraingí díobhálacha. Níl aon athrú á dhéanamh ar ráta CCyB de 1.5 faoin gcéad ar neamhchosaintí Éireannacha - meastar go bhfuil an ráta iomchuí don timpeallacht macrairgeadais reatha. Tá sé i gceist ag an mBanc Ceannais ráta CCyB de 1.5 faoin gcéad a choimeád ar bun nuair nach mbeidh rioscaí timthriallacha ardaithe nó maolaithe, rud a chruthóidh athléimneacht i leith rioscaí rioscaí macrairgeadais lena n-áirítear na rioscaí sin a bhaineann le cineál beag, domhandaithe an gheilleagair. De thoradh athbhreithniú O-SII a rinne an Banc Ceannais in 2024, beartaíodh gan aon athrú a dhéanamh ar an mbeartas reatha. Leanfar de na sé institiúid chéanna a aithint mar institiúidí a bhfuil tábhacht shistéamach leo agus ceanglaítear orthu an maolán caipitil forlíontach gaolmhar a choimeád ar bun. Leis na maoláin O-SII seo atá sonrach d'institiúidí ar leith, féachtar leis an dóchúlacht go dteipfidh ar na hinstitiúidí seo a laghdú.

Lean iasachtú morgáiste de bheith ag druidim i dtreo theorainneacha CII agus CIL ach tacaíonn creat athnuaite na mbeart morgáiste le caighdeáin iasachtaithe inbhuanaithe sa mhargadh morgáiste. Tugann na forbairtí le déanaí ar iasachtú nua morgáiste le fios go bhfuil na bearta morgáiste ag tacú i gcónaí le hiasachtú morgáiste inbhuanaithe. Sa chéad leath de 2024, lean an t-aistriú i dtreo theorainneacha CII agus CIL agus, le hiasachtú teoranta os cionn na leibhéal sin (4 huaire CII agus 90 faoin CIL), cinntítear go gcoinnítear srian ar iasachtú nua morgáiste a mbaineann riosca níos airde leis. Tá cóimheasa fiach-sheirbhíse níos airde ann do cheannaitheoirí céaduaire áirithe mar gheall ar rátaí úis níos airde ar mhorgáistí i dteannta cion níos mó den iasachtú idir 3.5 agus 4, ach tá srian i gcónaí ar an gcion den iasachtú nua in aicmí a mbreathnaítear orthu mar aicmí rioscúla. De bhreis air sin, tá meán-CII agus an cion den iasachtú i leith Príomháras Cónaithe ag CII níos airde go mór faoi bhun na leibhéal a chonacthas i lár na 2000idí.

Leanann an Banc Ceannais d'fhorbairt a dhéanamh ar an gcreat macrastuamachta do na neamhbhainc agus d'fhógair sé dhá bheart macrastuamachta roimhe seo maidir le grúpaí de chistí infheistíochta. I mí na Samhna 2022, d'fhógair an Banc Ceannais go ndéanfaí teorainneacha macrastuamachta de 60 faoin gcéad ar ghiaráil a chur chun feidhme i leith cistí maoine Éireannacha. Faoi láthair, tá an Banc Ceannais ag iarraidh a chinntiú go bhfuil dul chun cinn iomchuí á dhéanamh le linn na tréimhse cur chun feidhme. I mí Aibreáin, fógraíodh bearta maidir le cistí GBP LDI arna n-údarú in Éirinn agus féachann na bearta seo lena chinntiú go bhfuil na cistí seo níos athléimní i leith turraingí do rátaí úis sa Ríocht Aontaithe. Tá an Banc Ceannais ag tacú i gcónaí le creat uileghabhálach macrastuamachta a fhorbairt do chistí infheistíochta, agus d'fhoilsigh sé Ráiteas Aiseolais i mí Iúil 2024 maidir lena Phlépháipéar, agus leanann sé de pháirt ghníomhach a ghlacadh san obair idirnáisiúnta a bhíonn ar siúl sa réimse seo. Mar shampla, d'fhoilsigh an Banc Ceannais a fhreagairt ar chomhchomhairliúchán spriocdhírithe an Choimisiúin Eorpaigh, a tugadh chun críche an 22 Samhain, ar bheartais macrastuamachta d'institiúidí airgeadais neamhbhainc. Leagtar amach i bhfreagra an Bhainc Ceannais na príomhthosaíochtaí beartais ar chóir breithniú a dhéanamh orthu nuair a bheidh creat macrastuamachta á fhorbairt d'earnáil na n-institiúidí airgeadais neamhbhainc.

Risk Assessment

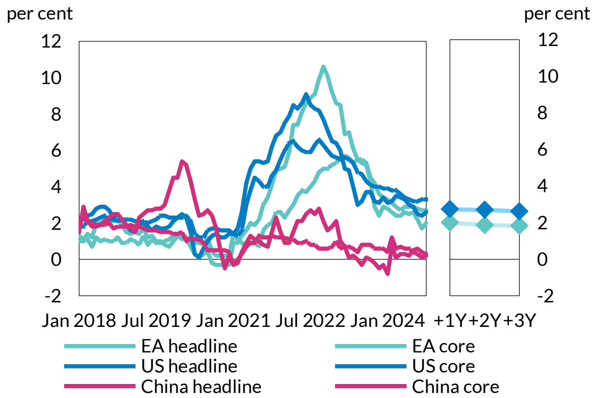
Global risk assessment

Global inflation has continued to fall and is close to target for many advanced economies, allowing policy makers to begin cutting rates. While global growth forecasts remain broadly stable, activity in the euro area has weakened with heightened sensitivity to macroeconomic data releases. Heightened geopolitical and macro-financial uncertainty has triggered bouts of market volatility in recent months and further geopolitical tensions could lead to supply side shocks, inflation and further geo-economic fragmentation. Vulnerabilities in the non-bank financial sector may amplify adverse market dynamics through forced asset sales, low market liquidity and pro-cyclical selling behaviour, thereby exacerbating the risk of disorderly conditions in financial markets. Global commercial real estate markets continue to adjust with uncertainty around valuations. However, price declines show signs of bottoming out in some jurisdictions.

Confidence has increased that inflation rates will return to central banks' targets in a sustainable manner, however risks to global growth are tilted to the downside. In response to declining inflation levels (Chart 1), central banks in major advanced economies have started to cut their policy rates. Global growth is expected to remain stable, despite high interest rates and geopolitical tensions, but forecasts are for continued divergences across regions (Chart 2). Risks to global economic growth are tilted to the downside as a result of growing geopolitical risks and volatile markets, even as inflation risks continue to subside.

Chart 1: Inflation in the EA and US has moved closer to central banks' targets

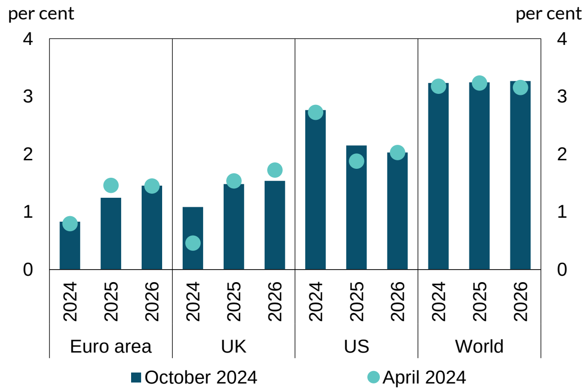
Euro area, US and China inflation



Source: Eurostat and Bureau of Labor Statistics via Haver Analytics, National Bureau of Statistics of China via Bloomberg and Bloomberg.
Notes: The diamonds on the right are 1-year, 2-year and 3-year ahead implied headline inflation expectations derived from zero coupon inflation swaps. Last observation for monthly inflation data is October 2024. Implied expectations are as observed on 20th November 2024.

Chart 2: Global GDP growth forecasts are steady but projections differ across regions

Evolution of GDP growth outlook for 2024, 2025 and 2026



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

The pace of economic recovery may be slower than previously expected in the euro area, with implications for the debt service capacity of NFCs. GDP growth is expected to gradually recover in the euro area over 2025 and 2026. However, there have been downward revisions in growth for 2025, indicating the pace of recovery may be slower than previously expected (Chart 2). GDP growth in the euro area's largest economy, Germany, is forecasted at 0 per cent for 2024 in comparison to 2.8 per cent for the US.[1] The poor growth in the euro area is reflected in indicators

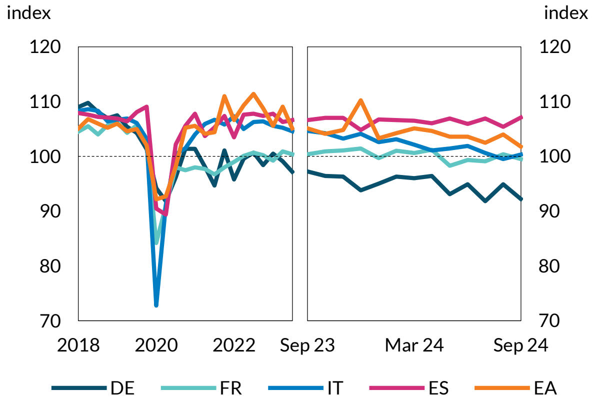
[1] For more, see IMF World Economic Outlook October 2024.

showing lower manufacturing activity, with declines in industrial production led by major industrial economies (Chart 3). Declining competitiveness and reduced productivity growth in the euro area could lead to weaker economic growth in the region when compared to the US. Weaker than expected economic growth could lead to further challenges for NFCs meeting increased debt servicing costs, with resultant increases in credit risk in bank and non-bank portfolios.[2]

Divergent economic conditions and monetary policy could have implications for euro area trade and lead to financial market volatility. Market expectations of rates have been volatile and sensitive to economic news. However, market implied policy rate curves for the Fed and the ECB have both shifted downwards since the last *Review* as lower inflation in both regions is expected to lead to rate cuts (Chart 4). Divergence of economic conditions and monetary policy across regions poses several macro-financial risks. For example, higher US demand for commodities could lead to increases in the price of imports to the euro area. Furthermore, changes in policy rate differentials could lead to investment flows and financial market volatility, particularly if central bank decisions are unexpected.[3] These risks are balanced against a potential increase in euro area exports due to higher external demand. However, the likely increase in demand for euro area exports is quite uncertain due to rising trade tensions globally.

Chart 3: Euro area production has been flat or declining

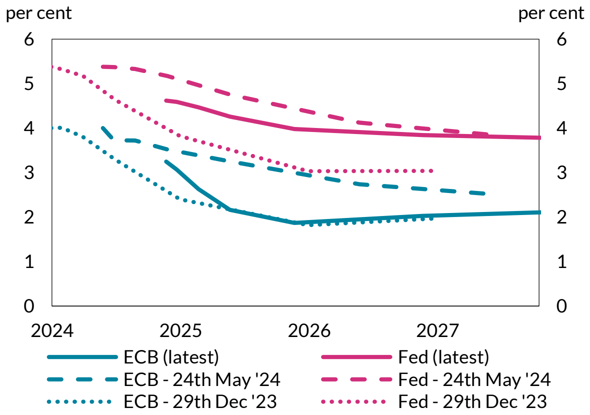
Manufacturing production index (2015 = 100)



Source: OECD.
Notes: Selected nations make up the majority (73%) of the manufacturing output in the euro area as of end-2023. Right hand side panel shows monthly developments since September 2023.

Chart 4: Market rate expectations have shifted lower recently

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 at 20th November 2024. The ECB rate refers to the deposit facility rate.

Compressed risk pricing in credit and equity markets could cause disorderly corrections in financial markets if macroeconomic conditions deteriorate. Concerns over investor mispricing of risk have persisted since the last *Review*.[4] Equity risk premia have remained low and corporate bond spreads are relatively compressed despite high macro-financial uncertainty and elevated geopolitical risk (Chart 5). In recent months, investor sentiment has shown signs of fragility with financial markets responding strongly to the publication of key US and euro area economic indicators (Chart 6). In August, global stock prices fell sharply following an unexpected tightening of policy rates in Japan and lower-than-expected job creation in the US non-farm sector. Combined with the fragility of the current market sentiment, compressed risk premia could lead to

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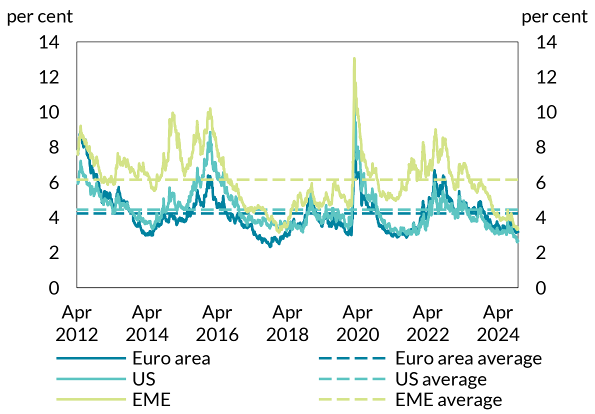
[2] Large volumes of debt are due to be refinanced at higher cost in the coming years, with annual speculative-grade maturities rising from $362 billion in 2025 to $626 billion in 2026. See S&P Global Refinancing Update, 2024Q3.
[3] For example, carry trades are leveraged cross-currency positions designed to take advantage of interest rate differentials and low volatility. For more details see BIS Quarterly Review, Sept 2024.
[4] See ECB Financial Stability Review, November 2024.

broader market instability in the event of deteriorating macroeconomic conditions or a worsening geopolitical environment.

Concerns persist over the valuation of US technology stocks, with the possibility of spillovers in the event of sharp repricing. Valuation ratios for US technology stocks appear to be elevated compared to long-run averages. Increasing concentration of the portfolios of NBFIs in a relatively small number of technology stocks has increased vulnerability to sharp repricing. This, coupled with the strong interconnectedness of the non-bank sector, could lead to spillovers to other key markets. The Irish economy is vulnerable to shocks to growth in the technology sector given the presence of many key technology multinational enterprises here.

Chart 5: Credit spreads are falling, exposing markets to risks from higher interest rates

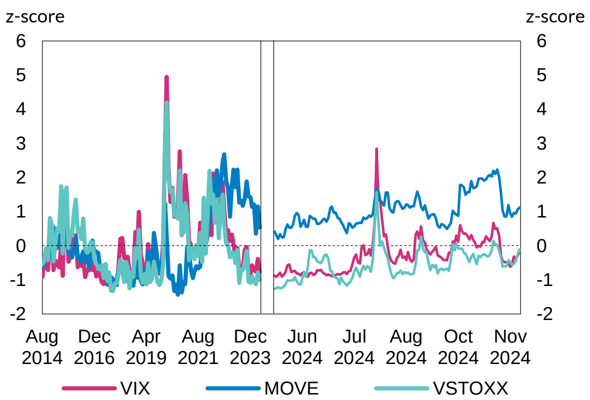
High-yield corporate bond spreads



Source: Ice Data Indices via Federal Reserve Bank of St Louis.
Notes: ICE BofA Option-Adjusted Spreads on below investment grade corporate bonds. Dashed lines indicate historical averages since April 2012. EME refers to emerging market economies. Last observation 20th November 2024.

Chart 6: Market volatility had a spike in August and still remains elevated in debt markets

VIX, VSTOXX and MOVE z-scores



Source: Chicago Board Options Exchange and Merrill Lynch via Bloomberg.
Notes: Z-score based on mean and standard deviation of end-of-month observations between August 2014 and June 2024. 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. Left panel shows long term data up to June 2024. Right panel shows the last 6 months. Last observation is 20th November.

Vulnerabilities in parts of the NBFI sector could heighten the impact of market shocks. Vulnerabilities in the NBFI sector may amplify adverse market dynamics through forced asset sales, lowering of market liquidity and/or pro-cyclical selling behaviour, thereby exacerbating the risk of disorderly corrections in financial markets.[5] The gilt market turbulence in September 2022 highlights how rapidly such risks can materialize, posing broader financial stability threats from unexpected quarters. Furthermore, the recent unwinding of yen-funded carry trades by leveraged hedge funds and other market participants contributed to significant market volatility. While markets recovered quickly, such shocks have the potential to spread through the financial system through growing interconnectedness between banks and non-banks (Chart 7).

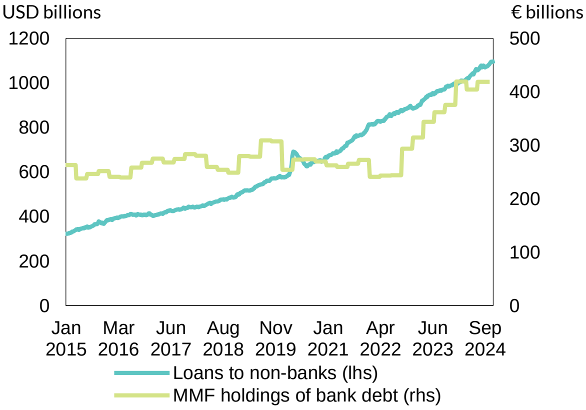
Intensified geopolitical tensions could lead to commodity price rises, weaker GDP growth and increased likelihood of cyber-attacks on critical financial infrastructure. The ongoing war between Russia and Ukraine has had considerable economic consequences in Europe, resulting in higher inflation and weaker GDP growth.[6] Additionally, the conflict in the Middle East, (a region that is crucial to the supply of oil and gas to Europe), has shown further signs of escalation into

[5] See Central Bank of Ireland Discussion Paper 11: An approach to macroprudential policy for investment funds.
[6] For more, see SUERF Policy Brief 'The economic impact of Russia's invasion of Ukraine on European countries'.

neighbouring regions since the last *Review*. This conflict has the potential to further impact supply chains, causing shortages and upward price pressures on key commodities (Chart 8).[7] Geopolitical tensions have also raised the likelihood of cyber-attacks on critical financial infrastructure which could result in market disruptions (for more detail see *Box A*).

Chart 7: Increasing interconnectedness between banks and non-banks could be a source of contagion

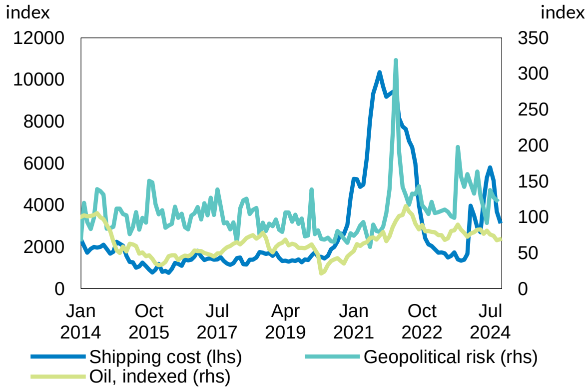
US commercial bank loans to non-banks and euro area MMF holdings of MFI debt securities



Source: Federal Reserve and ECB.
Notes: Loans to non-depository financial institutions from commercial banks in the US. Holdings of debt securities issued by euro area MFIs reported by MMFs in the euro area (stocks). Last observation for Federal Reserve data is 6th November 2024. Last observation for ECB data is provisional data for 2024Q3.

Chart 8: Recent geopolitical tensions increase the risk of higher input costs

Geopolitical risk index, oil prices and shipping costs



Source: Bloomberg, Drewry via Bloomberg and Caldara, D. and Iacoviell, M.
Notes: The World Container Index reports actual spot container freight rates. The composite indicator used here represents a weighted average of 8 shipping routes by volume. The geopolitical risk index is a measure of adverse geopolitical events based on news articles covering geopolitical tensions. Brent crude oil price is indexed to January 2014. Last observation for geopolitical risk is 1st October 2024. Last observation for oil and shipping is 31st October 2024.

After a year of particularly low trade growth in 2023, trade policy uncertainty remains at historical highs. Global trade growth in 2023 was at its lowest in the past 50 years (outside global recessions). Trade growth has shown an uptick in 2024 thus far. However, this recovery is at risk as trade policy uncertainty has reached this century's highest level.[8] This is in large part due to the many elections that have been taking place this year in an already unstable geopolitical environment. The outcomes of these elections have led to concerns of a possible shift towards more protectionist trade policies. This increased protectionism risks a fragmentation of the world into blocs, which could result in a trade war and a 'race to the bottom' in tariffs. Ireland, as a small, open economy, is exposed to lower international trade and lower foreign demand and investment.

Supply side shocks from geopolitical tension and climate change may disrupt the global disinflation process. Supply shocks related to geopolitical tensions and climate change, particularly those to energy commodities, could prolong and complicate the stabilisation of inflation and lead to increased uncertainty around the path of interest rates. As EU Member States moved away from Russian gas, the increase in prices of energy and energy-sensitive goods and services contributed around 6 percentage points to euro area inflation at its peak in October 2022.[9] Furthermore, climate-related risks, such as extreme weather events, can lead to supply-side shocks and increased energy costs. For example, droughts in the Panama Canal last year led to restricted passage and rerouted traffic from this key shipping lane, increasing shipping costs globally. More

[7] The global security situation has impacted shipping costs (Baltic Dry Index), which increased by over 9 per cent between early June and late September.
[8] For more, see World Bank Global Economic Prospects, June 2024.
[9] Lagarde (2024) Central banks in a changing world: the role of the ECB in the face of climate and environmental risks.

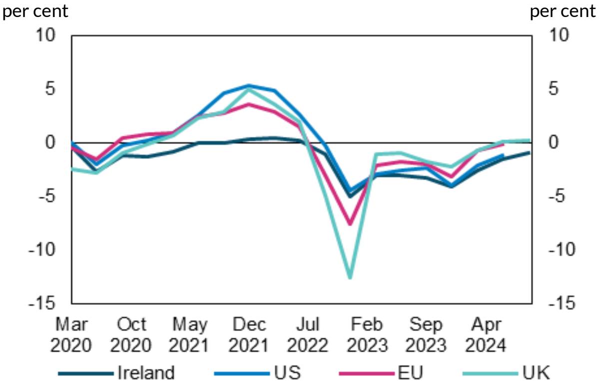
recently there has been the severe impacts of floods in Spain, the longer term impact of which remains uncertain. (For a discussion on flood risk in particular, see *Box B*.)

Some euro area governments need to strengthen fiscal fundamentals to ensure capacity is available to respond to future shocks. The euro area is vulnerable to the aforementioned geopolitical threats to GDP growth and the disinflation process. Furthermore, debt-to-GDP levels in many countries have increased in recent years. This, along with higher interest rates and weak economic growth in the euro area, raises concerns over the ability of governments to support households and businesses in the face of future adverse shocks. Structural reforms to lower this risk are required in the near future.[10] While a number of euro area countries are currently implementing policies to lower their overall government debt levels, fiscal space may remain limited in the medium-term. Indeed, expansionary fiscal policies have the potential to disrupt the disinflation process, possibly adding further uncertainty to the monetary policy path.

Global CRE markets have been adjusting as higher borrowing costs and weak demand are factored into price declines. High borrowing costs and weak demand have seen prices across the real estate sector decline in many regions, but the pace of this slowdown has moderated at the beginning of 2024 (Chart 9). Although conditions in CRE markets have shown signs of stabilisation (see the *Risks: Domestic* for CRE market conditions in Ireland), it remains uncertain whether the full scale of the correction has been reflected in the data. Structural changes to post-pandemic demand add to uncertainty in the office sector as many employers are still deciding their "steady state" need for office space. CRE borrowers are vulnerable and the difficulties they face refinancing existing loans can accumulate as long as rates remain high, adding to overall price pressures.[11]

Chart 9: CRE price declines show signs of bottoming out

Global commercial real estate price growth



Source: MSCI.
Notes: Quarterly percentage change. Last observation for EU and US is June 2024. Last observation for UK and Ireland is September 2024.

Uncertainty persists regarding the full impact of the CRE adjustments on global banks' balance sheets. While euro area banks have seen only limited losses so far, credit quality in CRE loans is decreasing with NPL ratios increasing marginally.[12] However, global banks – particularly smaller regional US institutions – are facing asset quality pressures from CRE exposures. A further decline in CRE prices or a rise in borrower defaults could intensify market concerns, heightening investor uncertainty, especially for credit institutions with significant CRE exposures.

[10] See "The future of European competitiveness" by Mario Draghi, September 2024.
[11] In Europe, an estimated €110 billion of outstanding corporate bonds is due to mature up to 2026. For more, see ESMA, Real estate markets – risk exposures in EU non-bank financial markets, January 2024.
[12] NPL ratio for significant institutions in the SSM edged up from 2.27 per cent in 2023Q£ to 2.3 per cent in 2024Q3. Stage 2 impaired loans and advances as per cent of all loans and advances went up from 9.29 to 9.45 in the same period.

Domestic Risk Assessment

The expected path for the Irish economy is one of continued growth and further moderation in inflation. However, against this relatively benign backdrop, risks remain. As a small open economy, ongoing geopolitical tensions and rising trade fragmentation threaten to undermine Irish growth. Medium term risks, on balance, appear to have increased given pre-existing capacity constraints, expectations of a further easing in monetary policy and an expansionary fiscal policy. This is most evident in residential real estate price growth, which has accelerated, supported by strong household demand. In contrast, CRE prices continue to fall, and an increase in office vacancy rates may put further downward pressure on prices. While the domestic banking system has benefited from robust profits, valuations suggest markets are expecting lower future profitability.

The latest macroeconomic projections for the Irish economy point to continued growth over the medium term, supporting the financial position of borrowers and lenders. Since the last *Review*, the Central Bank's forecast for economic output has been revised upwards as further government stimulus is expected to add to demand.[13] In contrast, inflation, which peaked at 8.1 per cent for the year 2022, is projected to decline to a rate of 1.7 per cent for 2024. While there has been a broad-based easing in inflation, price pressures remain for some segments of the economy, with an easing of core inflation expected to lag the wider inflation measure. Labour market conditions are expected to remain favourable with the unemployment rate predicted to remain low and forecast wage growth of over 4 per cent per annum expected. Though the outlook for the economy is favourable, risks remain. At the present juncture, immediate risks to economic growth relate mainly to international developments (see *Risks: Global*). However, medium-term capacity constraints and the potential for overheating dynamics in the economy remain risks.

The small highly open nature of the domestic economy and internationally-orientated elements of the financial sector leaves Ireland exposed to both the international macro-environment and ongoing geopolitical tensions. FDI and the role of MNE activity within the State is central to the domestic economic model and make an important contribution to economic activity (Chart 10). However, the reliance on international investment at a time of increased trade restrictions and tensions leaves Ireland susceptible to unfavourable international developments (see *Risks: Global*).[14, 15] Other structural issues such as the dominance of certain sectors in exports and the concentration of corporation tax in a small number of foreign owned MNEs further highlight the sensitivity of domestic activity to global developments (see *Resilience: Sovereign*).

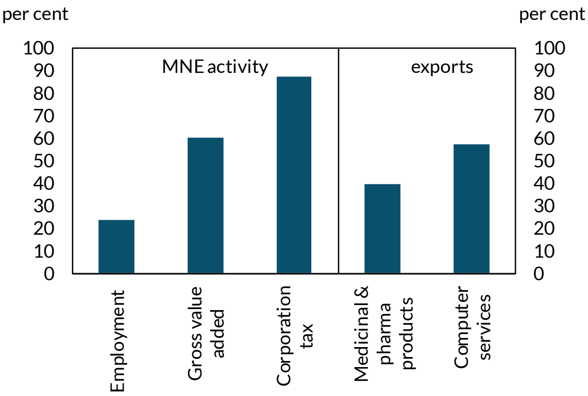
The risks relating to medium-term growth could increase should the economy continue to grow at or above capacity. Revised data show that the economy grew faster than previously reported in 2023. Estimates of compensation per employee were also revised sharply upwards. Strong nominal wage growth may, in part, reflect a rebuilding of households' earnings following a period of real wage erosion. However, a tight labour market, coupled with a large divergence in perceived inflation, could drive a deviation of future wage-price dynamics from the rest of the euro area (Chart 11). An expansionary fiscal stance –in part driven by high corporation tax receipts – and

[13] Domestic demand is expected to increase by 2.4 per cent and 3.1 per cent in 2024 and 2025, respectively.
[14] FDI flows remain concentrated among a number of countries, in particular the US. As a consequence investment in Ireland may be particularly sensitive to any changes in US policy relating to the treatment of US firms operating abroad.
[15] See Central Bank Quarterly Bulletin, QB3 / September 2024, Box C for more on the role of MNEs in shock transmission.

expectations of an easing in monetary policy could aggravate existing domestic imbalances.[16] Though not currently forecast by the Central Bank, a prolonged period of rapid growth – over and above what is sustainable by long-run economic fundamentals - is often associated with the misallocation of resources such as labour and capital and risk-taking behaviour leading to unsustainable growth dynamics.

Chart 10: Structural factors such as a large MNE sector and concentration in export sectors are evident

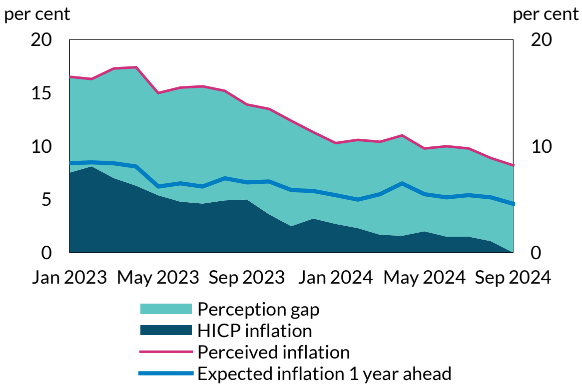
Share of MNE contribution to various measures of activity and the importance of certain sectors for Irish exports



Source: CSO, Eurostat, The Revenue Commissioners and Central Bank of Ireland calculations.
Notes: Data for MNE activity are for 2022. Computer services exports are expressed as a percentage of total service exports. Medicinal and pharma products are expressed as a percentage of total goods exports. Services exported and goods exported are for 2022 and 2023, respectively.

Chart 11: Domestic inflation has fallen but perceptions of inflation remains elevated

Actual and perceived inflation expectations



Source: ECB and CSO.
Notes: Expectations and perceptions are based on mean reported data taken from Consumer Expectations Survey (CES). Perception gap is the difference between actual and perceived inflation. Last observation September 2024.

An ongoing deficit in housing, arising in part from economic capacity constraints, continues to drive residential property price growth. The latest CSO data indicates annual residential property price growth of 10 per cent as of September 2024 (Chart 12). The renewed pick-up in residential property price growth occurs against the backdrop of an ongoing imbalance in the supply and demand of housing. Reflecting the shortage in supply, the volume of annual housing transactions declined in the year to June.[17] The current number of annual transactions equates to a housing turnover rate of approximately 3 per cent.[18]

Underlying demand for housing is estimated to have risen due to the combined effects of a decade of under-supply and population growth in excess of previous expectations. Estimates based on updated population projections and the accumulated pent up demand indicate that around 52,000 new homes may be needed per year (Chart 12).[19] In the short term, nominal income growth, supported by strong employment dynamics, coupled with fiscal supports and expectations of a loosening of monetary policy are also likely to support housing demand. While housing supply has picked up in recent years, the delivery of new residential units has slowed a little during the first 3 quarters of 2024, with the rolling annual total of housing completions below the level recorded

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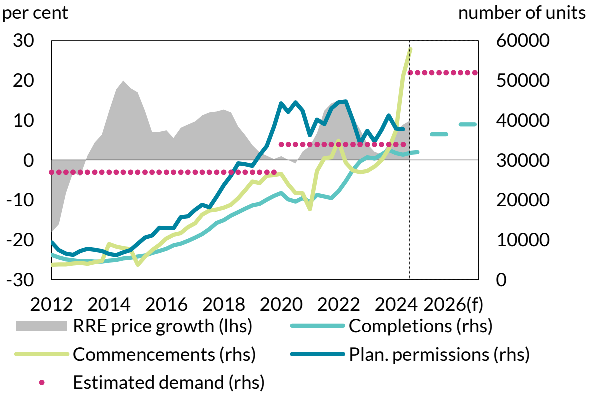
[16] A significant proportion of current corporate tax receipts cannot be explained by developments in the real economy. The impact of these windfall gains are considerable. When adjusted for estimates of excess corporation tax receipts, the forecast government balance for 2024 would move from a surplus of 3.5 per cent of GNI* to a deficit of 1.2 per cent.
[17] According to CSO data, the number of RRE transactions that took place in the 12 months to June 2024, (just over 61,500) was 3 per cent lower than the equivalent figure a year previous.
[18] This is broadly in-line with a sample of 21 countries for which data are available.
[19] For more information on updated Central Bank of Ireland estimates of housing demand see Quarterly Bulletin, QB3 / September 2024 Signed Article: "Economic policy issues in the Irish housing market".

during 2023.[20] Overall, housing completions are expected to remain largely static in 2024, before increasing (Chart 12). Over the past decade, a period of persistent excess demand relative to supply has resulted in house price growth outstripping the rate of increase in average household incomes – creating affordability pressures. In recent years, however, income has grown faster than house prices but supply shortages create housing availability issues. There are no signs to date of a significant increase in mortgage credit growth.[21] The mortgage measures remain an essential macroprudential policy instrument to safeguard economic and financial stability (see *Policy: Mortgage measures*).

Chart 12: Demand for residential property continues to outstrip supply driving robust increases in house prices

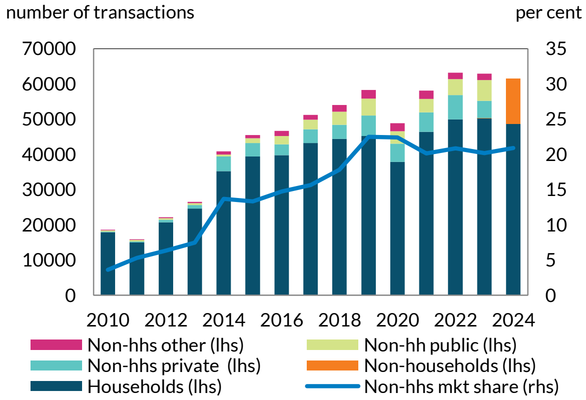
RRE prices, supply and estimated demand (rolling annual total)



Source: CSO, Department of Housing, Local Government and Heritage and Central Bank of Ireland calculations.
Notes: Last observations for planning permissions 2024Q2, and for annual house price growth, commencements and completions 2024Q3. Chart also includes latest Central Bank of Ireland housing completion forecasts for 2024, 2025 and 2026, as well as updated estimates of annual housing demand.

Chart 13: Purchases of RRE by publically funded non-households have increased in recent years

Breakdown of RRE transactions by household and non-household buyers



Source: CSO.
Notes: Non-households (public) consists of purchases by entities classified as NACE code: O/P/Q. Non-households (private) consists of purchases by entities classified as NACE code: F/K/L. Non-households (other) consist of purchases by entities classified as NACE code: U and "other". Last observation is rolling annual total as of June 2024, at which stage no further breakdown of non-households' transactions is yet available.

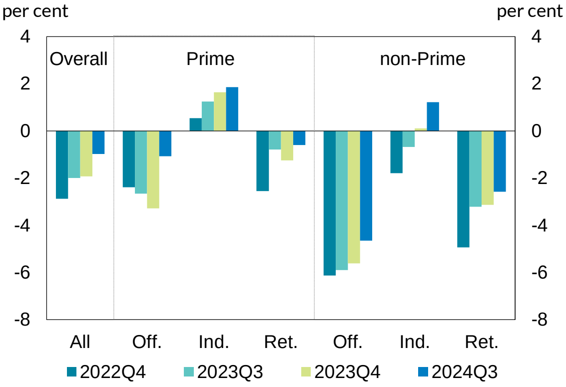
A broad pool of market participants are contributing to RRE demand. The "non-household" sector, which consists of private institutional investors as well as publically financed entities, acquired about 20 per cent of the RRE units sold in the past year. There has been a significant rise in purchasing activity from the public sector in recent years (Chart 13), with a particular focus on the acquisition of new residential units.[22, 23] The overall impact of these participants on the market is likely to depend on a range of factors. For example, stable non-household demand may support new housing construction and has the potential to act in a countercyclical manner. However, where such market participation is speculative, transitory in nature or strongly correlated with household finances, it can amplify cyclical developments and potentially add to price volatility.

[20] A total of 32,548 housing units were delivered in 2023, compared to a rolling annual total of 31,857 units as of 2024Q3.
[21] Annual mortgage credit growth was 2.3 per cent in September 2024.
[22] Publically funded non-household entities acquired over 5,900 units during 2023, almost one-third higher than in 2022. Meanwhile, privately funded non-household RRE acquisitions decreased by almost 30 per cent to approximately 4,900 units over the same period. Of the RRE units obtained by the public sector element of the non-household category in 2023, 70 per cent were new properties, while just over 40 per cent of the homes obtained by private non-household entities were recently completed.
[23] State involvement in the Irish housing market is not limited to the direct purchasing of properties. It also provides support for household purchasers through a series of tax expenditures and reliefs, including the Help to Buy and First Home Schemes which are available to qualifying first time buyers of new homes.

Irish CRE prices continue to adjust to both structural and cyclical developments. CRE capital values have declined by almost 30 per cent from their pre-pandemic peak. However, there has been some moderation in the pace of decline of late.[24] Survey data indicate that market participants expect further, albeit less acute, declines in capital values over the coming year, with a continuation of the bifurcation seen in some sectors between prime and non-prime assets (Chart 14).

Chart 14: The extent of expected capital value declines are less severe in prime CRE markets

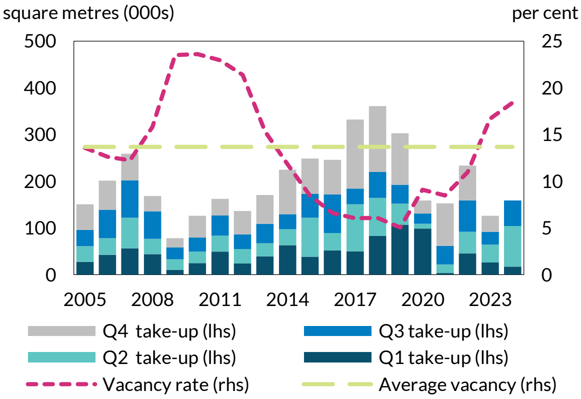
CRE capital value growth expectations – one year ahead



Source: RICS Global Commercial Property Monitor survey.
Notes: Data from the past four RICS Q3/Q4 GCPM surveys, on the extent of expected CRE capital value growth for the year ahead amongst survey participants. Last observation 2024Q3.

Chart 15: Take-up of Dublin offices during the first three quarters of 2024 has surpassed the volume of leasing activity for the entirety of 2023

Dublin office stock take-up and vacancy rate



Source: CBRE Research.
Notes: Last observation 2024Q3.

Commercial property rents have been broadly stable; however, office vacancy rates in Dublin continue to increase. A combination of factors including robust economic growth and the prevalence of pre-pandemic rental agreements have helped to support current rents. Increased letting activity during the second and third quarters of the year by professional and financial services firms and the public sector in particular, has seen the level of Dublin office space taken-up to date in 2024 outstrip the total for the entirety of 2023 (Chart 15). Evidence of a greater willingness to offer inducements to tenants, such as rent-free periods, as an alternative to cutting headline rents, however, points to an underlying imbalance between supply and demand. A surplus of vacant and, in some instances redundant, older and less energy efficient office stock remains a challenge. The delivery of significant volumes of new office space already this year has more than offset the pick-up in leasing activity.[25] As a result, the office vacancy rate in the capital has increased further to well over 18 per cent (Chart 15).[26] While additional office stock is due for completion before the end of the year, making 2024 one of the busiest of the last decade in terms of the delivery of new space, no new projects commenced in 2024Q3 and a slowdown in delivery is expected over the next few years which should see some easing in the vacancy rate.

While there are some early signs of a stabilisation in capital values, such developments need to be viewed in the context of low market activity and limited price discovery.[27] Total investment

[24] The annual decline in CRE capital values eased from 13.9 per cent in 2023Q3 to 8.7 per cent in 2024Q3.
[25] While elevated vacancy rates could serve to aggravate ongoing adjustments in the CRE market, indications are that the pipeline of office stock under construction has dried up.
[26] According to CBRE Research, the Dublin office vacancy rate reached 18.4 per cent in 2024Q3, the equivalent of approximately 900,000 square metres of stock. This figure is estimated to include about 220,000 square metres of "grey space", i.e. accommodation that is leased by a tenant but surplus to their current requirements and available for sub-let.
[27] For instance, the quarterly change in CRE capital values has eased from a decline of 3.8 per cent in 2023Q4 to a decline of 0.9 per cent in 2024Q3.

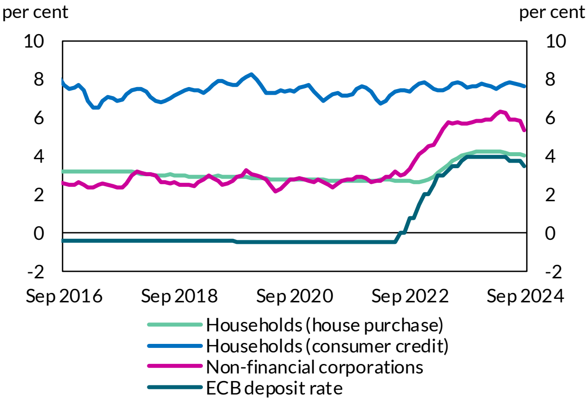
expenditure in the domestic CRE market during the first three quarters of the 2024 amounted to €1.3 billion, a similar figure to that in the same period in 2023, but about half of the average spend in the equivalent quarters between 2015 and 2022. There are some signs that the recent lull in investment activity may be starting to bottom out. The €600 million invested in 2024Q3 made it the busiest quarter since 2023Q1 and the fourth busiest third quarter of the past decade, in terms of the level of expenditure on CRE assets.

It remains the Central Bank's judgement that the domestic banking system currently has the capacity to absorb – rather than amplify – the current CRE downturn. Domestic banks' CRE exposures are now a considerably smaller share of total lending compared to the pre-GFC period. Moreover banks' buffers of loss-absorbing capital are also much larger (see *Resilience: Domestic banks*).[28] In addition, new sources of global CRE funding, which were not a feature of the Irish CRE landscape prior to the last decade or so, have served to mitigate risks to financial stability through increased international risk-sharing and diversification.

Retail interest rate increases have largely plateaued in 2024 and while the cost of financing is likely to remain higher than in recent years, loan delinquencies are expected to remain low. Rates across new lending have remained relatively stable since the last *Review* (Chart 16). Central banks have started to cut policy rates, which will lead to an easing in retail rates for many categories of loans (for more see *Risks: Global)*. The October Bank Lending Survey (BLS) results indicated that Irish banks' credit standards for firms and for residential mortgages remained unchanged, while credit standards for consumer loans eased. The Survey found that credit standards are not expected to change in the short term. While market expectations are for an easing in monetary policy, the cost of financing for households and firms are likely to remain high when compared with much of the last decade.

Chart 16: Retail interest rates have stabilised as ECB rates start to decrease

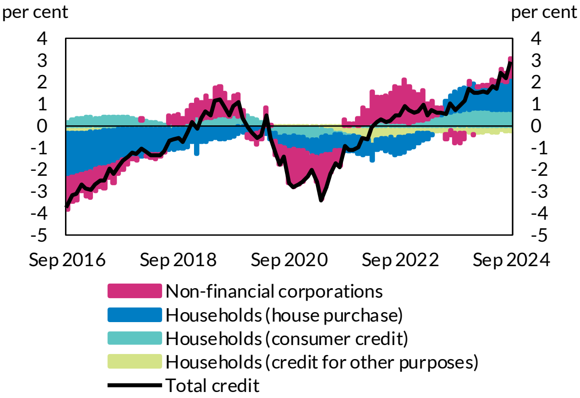
Interest rates on new lending by loan type



Source: Central Bank of Ireland Credit and Banking statistics and ECB.
Notes: The chart shows 3-month rolling averages. Last observation September 2024

Chart 17: Credit growth has accelerated, with a recent upturn in lending to NFCs

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 2024.

Private-sector credit growth has strengthened since the last *Review*, but remains moderate. Annual credit growth reached 2.9 per cent in September (Chart 17). Lending to households for house purchases remains the largest contributor to credit growth. However, an upturn in NFC credit since July has also been evident, contributing to a stronger rate of private-sector credit growth. Firm-

[28] For more on the Central Bank's assessment of the CRE market see FSR Special Feature, June 2024.

related lending is typically volatile and it can take time observe clear trends in the data. However, looking at the SME sector, data for the first half of 2024 would point to a modest strengthening in dynamics. In the year to end-2024Q2 new lending to SMEs amounted to €4.2 billion (up from €3.9 billion a year previously) contributing to the annual rate of credit growth turning positive for the first time since late-2022.[29] In contrast, credit growth to large enterprises has weakened in 2024. The central outlook for the economy would indicate a continuing demand for credit, with data pointing to a pipeline of credit demand for the months ahead, in particular relating to FTB mortgage credit.[30]

The domestic financial system has evolved since the GFC with an increased involvement from the NBFI sector. Non-banks act as both competition to and substitutes for the domestic banking system. In some markets, for example CRE-related financing, specialist property lenders now account for a large share of the sector's funding. Although the Irish economy has benefited from NBFI involvement in the domestic market, this sector can also contribute to systemic risk. While the NBFI sector is broad and diverse with numerous heterogeneous business models, a common theme is the reliance on leverage.[31] If not properly managed, leverage can contribute to pro-cyclical lending and can amplify shocks to the financial system (see *Risks: Global*). Unlike credit institutions, the development of macroprudential tools to help mitigate such risks remain in their infancy (for more see *Policy: Non-banks*).

The Irish banking system has grown in size over the past year, but concentration risk remains evident. The Irish banking system can be divided into two distinct parts: a retail banking category – which includes the three domestic banks and a number of additional providers that intermediate banking services with the private sector – and a number of international-focused banks.[32] While overall banking sector assets have increased, such asset increases were driven by international banks within the system. The domestic banking sector remains highly concentrated in a small number of providers. Latest estimates show that five banking groups account for over 90 per cent of lending to households and firms in Ireland.

A high degree of commonality across exposures – as is the case with the domestic banking sector – could lead to the amplification of shocks from the financial sector to the real economy. Geographically the three main Irish banks are largely exposed to counterparties located within Ireland and to a lesser extent the UK. At the same time, property-related lending – in particular, residential real-estate - accounts for 63 per cent of total non-financial private-sector lending within the State. The retail-funded commercial banking model operated by domestic banks has proven very profitable in recent years. The increase of interest rates and access to relatively cheap and stable customer deposits have seen the banks report substantial increases in profits (see *Resilience: Domestic banks*). However, market valuations of the three domestic banks, relative to book value of assets, continue to trade below parity. The disconnect between recent profitability metrics and valuations could imply that market participants remain sceptical about some aspect of banks' business models and the capacity to sustain such profits into the future. Markets may also be pricing in the need for investment by the banks and the need to improve operational efficiency.

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[29] Excluding financial intermediation.
[30] BPFI Mortgage Drawdowns - Q3 2024 October 2024. The BPFI mortgage approvals data include banks and non-banks.
[31] For more see Moloney et al (2023) "Non-bank lenders to SMEs as a source of financial stability risk – a balance sheet assessment' Financial Stability Notes Vol. 2023, No.11, Central Bank of Ireland.
[32] The latter group, while located in Ireland, primarily conduct activities and provide banking-related services to counterparties outside of Ireland. These international focused banks are also relatively more interconnected in comparison with domestic banks.

Operational and cyber risks remain ongoing challenges in a fast changing digital world. Against the backdrop of increasing complexity, the domestic financial system continues to benefit from new technologies to both improve efficiency, as well as expand activities. However, the implementation of new technologies, especially the integration with existing infrastructure, can lead to heightened execution risk. The adoption of new technologies, for example AI, may have unintended consequences like increased herd behaviour and in turn greater market volatility. The recent CrowdStrike incident is an example of how a firm-specific event can cascade through a network of clients and disrupt the provision of financial services. Heighted geopolitical tensions have contributed to an increase in cyber-attacks (for more see *Risks: Global*). For more on the challenges associated with increased digitalisation see *Box A.*

All parts of the macro-financial environment will face some element of climate risk in the near term. Ireland is legally bound to achieve carbon neutrality by 2050. Failure to meet this objective, or the intermediate targets, could lead to significant environmental and economic damage – as well as increased financial penalties for the Irish Government. The risks from climate change fall under two categories. The first is 'physical risks', which result from the increased incidence or severity of extreme weather events as well as gradual and structural shifts in the environment. Financially, physical risks are particularly relevant for insurance claims and their negative impact on collateral values and business disruption (see Box B for more on flood risk).[33] Secondly, as the economy transitions to net zero – 'transition risk' - policy outcomes will affect macroeconomic and financial outcomes, altering the underlying structure of the economy. In the face of long-term adaptation requirements some asset classes may face significant write-downs while some sectors – in particular carbon intensive sectors – are likely to face costs in meeting decarbonisation targets. This could lead to increased credit risk among exposed firms as well as households employed by these at-risk sectors.

[33] Recent analysis by the Central Bank has found that 1 in 20 buildings have limited access to flood cover and this gap is likely to grow in future.

Box A: Digital operational resilience and financial stability

Aoife Langford and Sarah Downes (Resolution and Crisis Management)

Increasing digitalisation and interconnectedness in the financial sector, coupled with increasing third party dependencies, means that safeguarding the digital operational resilience of the financial system has become more important to support the continuity of essential services and maintain financial stability. The importance of digital operational resilience will only continue to grow as developments in technology play a greater role in the provision of financial services and business models evolve.

While firm-level operational, including cyber, resilience has been under increasing focus over the past number of years, the resilience of individual firms alone may not be sufficient to ensure broader financial stability. An operational incident could cause system-wide financial stability risks by disrupting the provision of essential services either directly because of the disruption itself, or indirectly through impacts on systemic firms or markets. The types of vulnerabilities that can exist at system-wide level include those arising from:

(1) Interconnectedness: Financial sector firms can have dependencies on each other, which means disruption in one firm can affect the services provided by another;
(2) Concentration: If a large number of financial firms are dependent on a small number of third party providers for a service, an incident in one provider can have a disproportionate effect on the financial system. Vulnerabilities can be further amplified if there is a lack of substitutability for the service or provider;
(3) Common vulnerabilities: A reliance on common technologies across the financial system and economy means multiple entities can be affected at the same time by a disruption. Similarly, vulnerabilities can exist if firms rely on common contingency plans that cannot support a system-wide disruption in multiple firms; and
(4) Data dependence: Vulnerabilities arising from loss, availability, or integrity of essential financial system data. For example, disruption to time sensitive data for systemic markets.

Incidents arising from these types of vulnerabilities could be amplified by transmission channels of contagion and spread across the financial system leading to potential disruptions to financial stability.[1]

Recent operational incidents, such as the CrowdStrike incident in July 2024, reveal the potential system-wide and cross-sectoral impact an operational incident can have due to a common vulnerability. The threat of cyber-attacks on a system-wide basis also remains prevalent in the EU given current heightened geopolitical tensions, where hybrid threats that use a combination of measures (e.g., cyber-attacks, misinformation and industrial espionage) are also being monitored. Irish financial institutions need to remain alert to threats to their operations and ensure they are resilient to cyber-attacks, including Distributed Denial-of-Service and ransomware attacks, so that they can withstand them and bend without breaking.

Enhancing the system-wide operational and cyber resilience of the financial sector has been a strategic objective of the Central Bank. Some of the Central Bank's work to support system-wide operational resilience has included introducing a voluntary framework for threat led penetration testing (TIBER-IE), establishing a cyber-intelligence and information sharing initiative (CIISI-IE) and conducting crisis simulation exercises to assess readiness to respond to operational disruptions in the financial system. In January 2025, the Digital Operational Resilience Act (DORA) comes into application, providing a harmonised framework for digital operational resilience in financial entities across the EU. DORA will build operational resilience in firms and also address some system-wide risks by establishing an oversight regime for the most critical ICT third party providers in the EU financial system.

DORA will provide a solid foundation for the future work required to develop additional tools, such as cyber resilience stress tests, to support system-wide operational resilience as technology and the financial system evolves.

[1] For further information, see the ESRB's report on systemic cyber risk (February 2020) available here and the Bank of England's macroprudential approach to operational resilience (March 2024) available here.

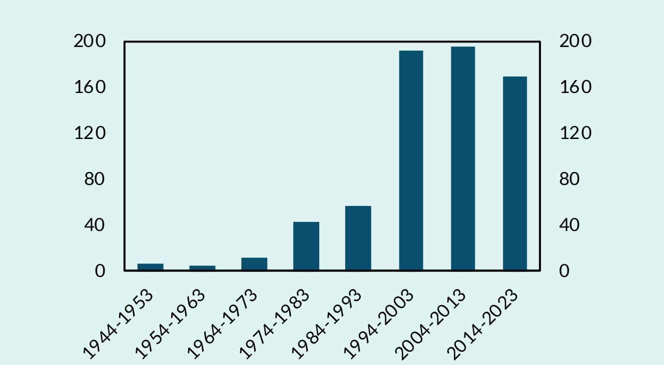
Box B: Flood Damages and Financial Sector Linkages

By James Carroll (Climate Change Unit)

Europe has experienced an increase in the severity and likelihood of flooding events since the mid-20th century (Chart A). This trend has continued in the most recent data, with the *International Disaster Database* (EM-DAT) recording 24 major flood events in the euro area since January 2023, affecting over 1.5 million people in Spain, Italy, Slovenia, France and Greece. Recent catastrophic events in Valencia (October, 2024) also demonstrate the very severe impact of flooding on lives, communities and livelihoods, and the subsequent need for state emergency relief (€10.6 billion. allocated by government to date). Ireland has also experienced some large flood events, for example Storm Babet caused approximately €200m. in damages to 400 homes and 300 businesses in 2023.[1]

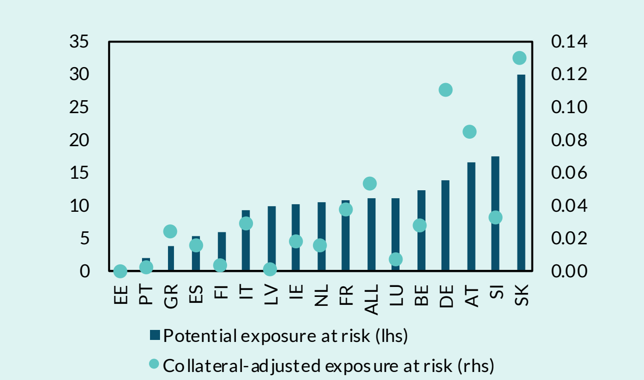
Climate forecasts show that the impact of flooding will rise further without substantial and permanent climate mitigation. To limit temperature increases to 1.5°C above pre-industrial levels, global emissions will need to half by 2030 (relative to 2020) and reach "net zero" by 2050.[2] Even if this target is met, countries and communities will need to adapt to increased future flood risks, which implies major public and private investments into infrastructural defences to protect against extreme weather events. However, adaptation will become extremely challenging above 1.5°C, given the increased probability of irreversible climate tipping points at these temperatures.

Chart A: Flood events, euro area



Source: Author's calculation using EM-DAT (link) for euro area.
Notes: A disaster is only registered if there are at least 10 deaths, at least 100 affected or a call for international assistance or an emergency declaration. Pre-2000 data is subject to bias.

Chart B: Exposure at risk to flooding, euro area



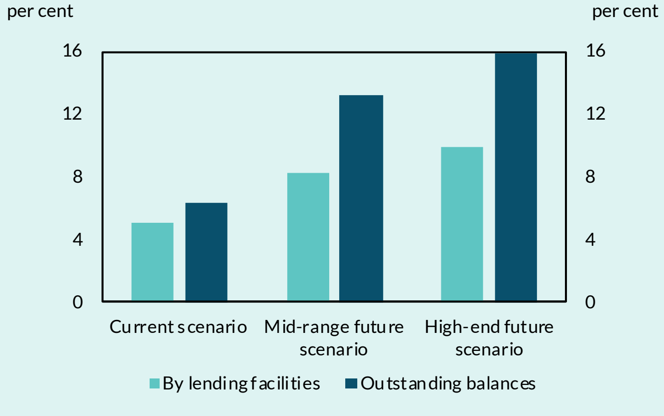
Source: Author's calculation using ECB (link).
Notes: Chart uses ECB coastal and fluvial estimates for 2050 (RCP 4.5). See source for PEAR (potential exposure at risk) and CEAR (collateral-adjusted exposure at risk) methodologies.

For businesses, flood events can affect resilience through changes in costs, profitability and/or asset values. Such effects, when large, can raise credit risk in the banking sector through increases in default probability and declines in collateral values. The ECB's analytical indicators on physical risk (Chart B) show that *potential exposure at risk* (PEAR) to flooding is approximately 10% in Ireland. While such economic effects are potentially significant, the ECB show that collateral can insulate bank portfolio losses from flood risk – the ECB's *collateral-adjusted exposure at risk* (CEAR) is less than 0.02% in Ireland (Chart B).[3] However, second-round (post-event) impacts of flooding are less clear, and it is possible that affected businesses may experience declines in insurance availability and affordability, and tighter lending conditions, particularly if collateral values are lowered. Broader second-round macro-financial linkages are also uncertain, for example, through acute regional flooding affecting wider economic conditions and supply chains.

Central Bank analysis of domestic business loans shows that corporate flood risk exposures across Ireland are heavily concentrated, with risks likely to increase under climate change projections. While the national share of loans (by value) at risk is 6.3%, there is considerable heterogeneity across counties and areas with significantly higher risk – Cork (12.6%), followed by Wicklow (12.4%), Louth (9.9%), Limerick (8.7%), Clare (8.4%), and Dublin (7.2%). Over time, flood risk is expected to rise to 8.3% ("mid-range" scenario) and 9.9% ("high-end" scenario) for the country as a whole (Chart C).[5]

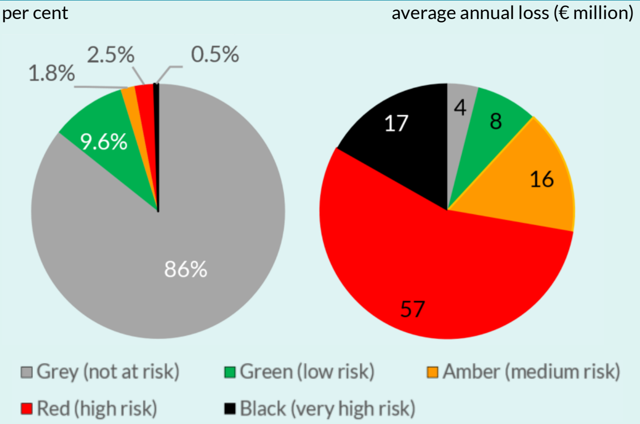
Around 1 out of every 20 properties (residential and commercial) in Ireland has limited access to flood cover today, and the estimated cost of inland flooding is €101m annually (Chart D). Central Bank analysis has employed commercial flood maps (those utilised by the majority of domestic insurers) to quantify the flood protection gap in Ireland, which is defined as the difference between insured and uninsured losses.[5] Similar to other findings, it is clear that risks are highly concentrated – 54% of the protection gap is located in Dublin, Cork, Louth, Clare and Kildare. The likelihood of extreme events doubles by 2050, increasing the number of potentially uninsured properties by 13% and raising annual expected uninsured losses by 37%.

Chart C: Exposure to flood risk in domestic NFC lending



Source: Author's calculation using AnaCredit and OPW flood maps (link) where geocoding was possible (50% of loans).
Notes: Chart based on all types of lending facilities. Mid-Range/High-End anticipates 20%/30% elevation in peak rivers flows and 50cm/100cm sea level rise.

Chart D: Flood risk shares (left) and average annual losses (right)



Source: Central Bank analysis (link)
Notes: Flood risk is categorised by: grey (no risk), green (low), amber (medium), red (high) and black (very high). Insurance availability is expected to be limited at amber or above. Losses based on inland impacts only (coastal excluded).

There is evidence of material flood risk concentrated in certain areas of Ireland, but further work is required to fill data gaps and quantify the scale of losses for the financial system. While projects to date have begun to bring new, financially relevant insights, further physical risk analytics will be required for a full appraisal of financial system risks. Residential properties are similarly exposed to the risks described here, but future work will refine estimates of mortgaged properties at risk and link to plausible banking system losses under a range of climate change scenarios.

[1] See World Weather Attributer.
[2] See Climate Action Tracker.
[3] Based on ECB coastal and fluvial estimates for 2050 (RCP 4.5)
[4] This analysis uses Office of Public Works (OPW) 1-in-100 return period for fluvial flooding and 1-in-200 for coastal (link). Analysis accounts for OPW defences. Mid-Range/High-End anticipates 20%/30% elevation in peak rivers flows and 50cm/100cm sea level rise.
[5] See the Central Bank's Flood Protection Gap Report, October 2024.

Resilience

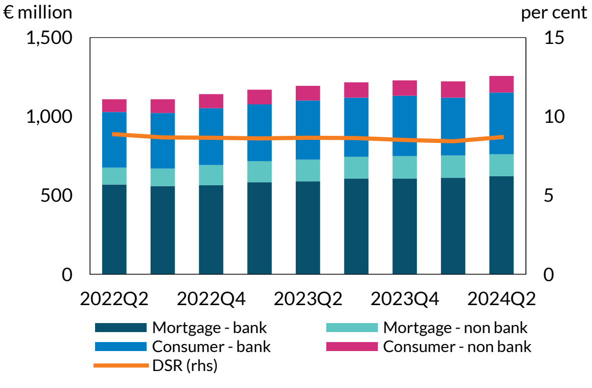
Households

Households have broadly come through the cost-of-living shock and period of higher interest rates in a resilient financial position, supported by a robust labour market and strong balance sheets. Following a long period of deleveraging since the GFC, the aggregate debt service burden of the household sector remained stable between 2022 and 2024 due to rising incomes and moderate interest rate pass-through to household loans. Mortgage repayment increases since 2022 have been manageable for most borrowers, although small cohorts of borrowers have experienced more significant changes. Flows into mortgage arrears have ticked down and remain most evident among loans originated prior to 2008. Households are exposed to geopolitical risk due to Ireland's substantial global trade exposure. Nonetheless, leverage remains moderate and households are better placed to absorb an adverse balance sheet shock than in the past.

The aggregate debt service burden of the household sector has remained stable since 2022, with higher loan repayment amounts being offset by rising incomes (Chart 18). Household debt repayments rose from €1.1 billion in 2022Q2 to €1.3 billion in 2024Q2 – an increase of 13 per cent. Mortgage repayments are the largest component in these totals, though consumer loans account for 40 per cent of repayments due to their short terms and higher interest rates.[34] While debt repayments have clearly increased over this period, household incomes have also risen strongly. As a result, the debt service ratio for the household sector – the ratio of debt repayments to total disposable income – has remained stable at approximately 9 per cent. This follows a period of household deleveraging and a substantial decline in mortgage interest expenses between the GFC and 2022, which resulted in a lower burden of debt repayments relative to incomes.[35]

Chart 18: The aggregate debt service burden of households has remained stable since 2022

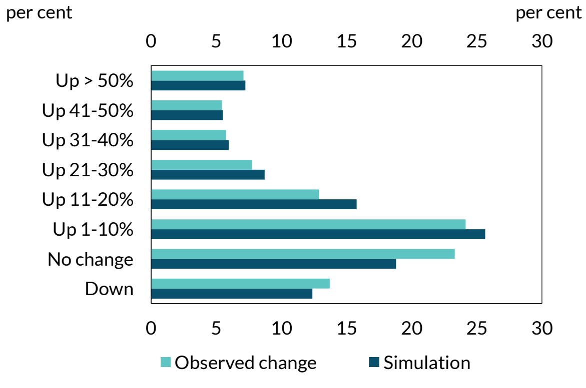
Household quarterly loan repayments by loan and lender type and the aggregate household debt service ratio



Source: Central Credit Register and CSO.
Notes: The quarterly sum of PDH residential mortgage and consumer credit loan repayments by loan and lender type. 'DSR' is the household debt service ratio calculated as the ratio of loan repayments to total disposable income for the household sector.

Chart 19: Mortgage repayment changes have been manageable for most borrowers

The distribution of observed mortgage loan repayment changes and a simulation to June 2025



Source: Central Credit Register.
Notes: The distribution of observed PDH residential mortgage loan repayment changes between June 2022 and June 2024. A simulation of repayment changes between June 2024 and June 2025 under a scenario of no further declines in ECB policy rates.

Mortgage repayment changes have been manageable for most borrowers, although small cohorts of borrowers have experienced more significant increases (Chart 19). In the period June 2022 to

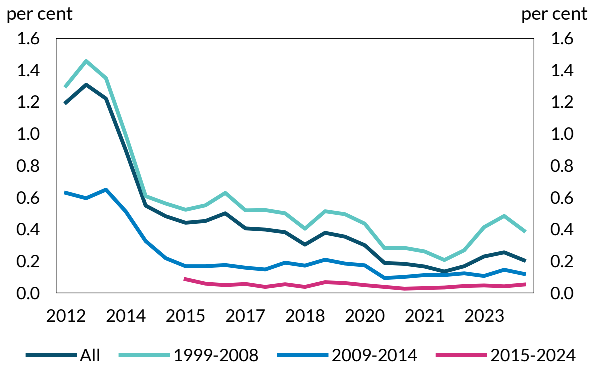
[34] See Gaffney and Lyons (2024) for more analysis of the consumer credit market in Ireland.
[35] See the Central Bank of Ireland's Financial Stability Review 2024:I. See also *Policy: Mortgage measures* for a description of loan service burdens for new mortgage borrowers.

June 2024, a majority of residential mortgage loans experienced an increase of no more than 10 per cent in their repayment amount. A quarter of loans – typically contracts with fixed interest rate agreements – experienced no change in their repayments. A further 14 per cent saw their repayment amount decline. The most common increase was in the range of 0 to 10 per cent, while another fifth of loans saw their repayments rise by between 10 and 30 per cent. A smaller cohort of loans – mainly with tracker rates – experienced increases of more than 30 per cent. A simulation exercise suggests that repayment changes between June 2024 and June 2025 will remain moderate on average, even if there are no further cuts to ECB policy rates. While the aggregate and typical impact of higher interest rates on mortgage repayments has been modest, there are a minority of cases where repayment amounts have stepped up significantly.

Flows into mortgage arrears have ticked down and remain most evident among loans originated prior to 2008 (Chart 20). The rise in interest rates in 2022 and 2023 coincided with an increase in the number of early mortgage arrears cases among both bank and non-bank borrowers.[36] The rise in early arrears at domestic banks is explained mainly by tracker rate borrowers and borrowers with a history of repayment difficulties (Shaikh et al., 2023). Borrowers in this cohort faced larger increases in interest rates and entered the period in a position of relative vulnerability. Data to June 2024 show that new flows into arrears of over 90 days have ticked down and remain most evident among loans originated prior to 2008. If ECB policy rates continue to move downwards, then repayment burdens for borrowers – particularly tracker rate borrowers – will ease further.

Chart 20: Flows into mortgage arrears have ticked down and remain most evident among pre-GFC loans

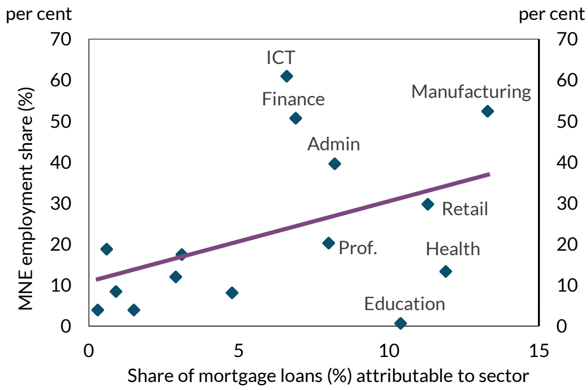
Share of mortgage loans transitioning to arrears of over 90 days by loan origination period



Source: Central Bank of Ireland.
Notes: The share of domestic bank Irish PDH residential mortgage loans transitioning from less than 90 days-past-due (DPD) to over 90 DPD by loan origination period. Last observation June 2024.

Chart 21: Household borrowers are exposed to geopolitical risk through Ireland's global trade exposure

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



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

While a strong labour market is supporting household finances, borrowers are exposed to geopolitical risks through Ireland's global trade exposure (Chart 21). Employees within eight sectors of the economy account for approximately three quarters of outstanding mortgage loans and a similar share of aggregate employment. Four of these eight sectors – Manufacturing, ICT, Financial Services, and Administrative & Support Services – have relatively high shares of MNE employment. A shock to MNE activity could be transmitted to household finances through channels such as investment retrenchment in the event of an equity market correction, wider cyclical pressures on global trade and services demand, or a more structural shifts in the factors determining MNE activity in Ireland (see *Risks: Global*). Given the high share of MNEs in

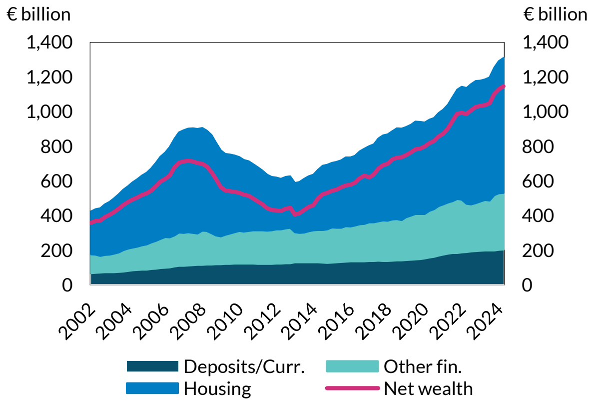
[36] See the Central Bank of Ireland's residential mortgage arrears and repossessions statistical release.

employment and mortgage exposures for some sectors, a severe shock could have implications for the ability of borrowers to make repayments.

Household net wealth has risen substantially over the last decade and provides a significant financial cushion for households in the event of an adverse shock (Chart 22). Housing, deposit, and other financial asset values all grew strongly in the period 2014 to 2024. In contrast, the financial liabilities of households – mainly comprising of residential mortgages – fell in the post-crisis period of deleveraging. As a result, net wealth has increased strongly. While some households' assets are relatively illiquid (e.g., pension and private business assets), households have also added to their stock of liquid deposits considerably since the onset of the pandemic in 2020. This balance sheet position provides households with a strong starting point in the event of an adverse shock.

Chart 22: Household net wealth has risen substantially over the last decade

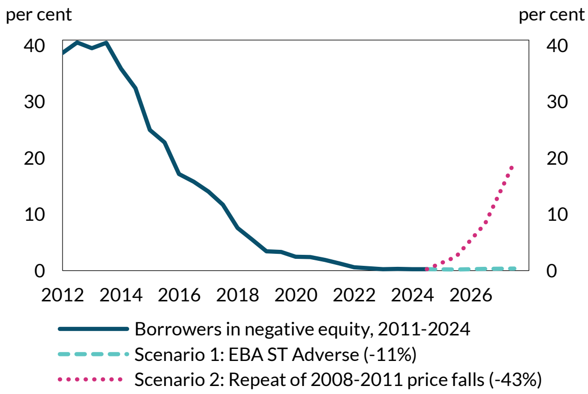
Household assets and net wealth



Source: Central Bank of Ireland.
Notes: Deposits and currency, other financial assets (primarily pension, life assurance assets, and annuities), 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 23: Mortgage borrowers are better placed to absorb an adverse balance sheet shock

Share of domestic bank mortgage loans in negative equity by scenario



Source: Central Bank of Ireland.
Notes: Scenario projections are as at 30 June from 2024 to 2027. In each scenario, loans amortise on schedule and new loans are originated at comparable LTVs and volumes to recent periods. Scenario 2 reflects the largest 3-year decline in residential prices during the GFC period.

Mortgage borrowers are better placed to absorb a shock to house prices than in the past (Chart 23). While mortgage borrowers are exposed to global macroeconomic developments and geopolitical risks, household balance sheets appear robust even in the face of a severe adverse shock. Central Bank analysis estimates that in a severely adverse scenario with the largest three-year house price decline observed during the GFC (43 per cent), the share of domestic bank mortgage borrowers in negative equity would be about half of the realised outcome in 2012. This suggests considerable improvement in the balance sheet position of mortgaged households. Moreover, in a more plausible downside scenario, where house prices decline by 11 per cent in line with the adverse scenario assumption of the EBA 2023 stress test, the change in share of loans in negative equity from current levels is negligible.

Non-financial corporations

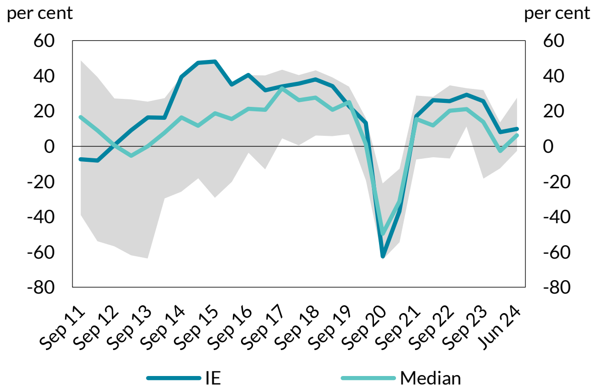
Trading conditions for Irish NFCs remain relatively strong, underpinned by strong consumption demand. SME turnover growth appears to have moderated in 2024, while strong wage growth may be starting to weigh more on profitability. Export-orientated SMEs have greater exposure to geopolitical risk through both trade and input cost channels. Loan vulnerability and distress measures are contained overall, but remain relatively high for CRE borrowers. Insolvency figures continue to rise and are particularly elevated among Accommodation & Food and Other Services firms, though aggregate employment and new company registrations in these sectors remain robust.

Consumer demand indicators remain strong in the Irish economy, resulting in good trading conditions for domestic firms. Following a robust 2023, retail sales volumes remained stable through the first half of 2024.[37] Online and point-of-sale card payments also continued their upward trend in data to July 2024.[38] Furthermore, consumer expenditure is projected to continue to grow steadily out to 2026, with both unemployment and inflation expected to remain low and steady.[39]

SME turnover growth appears to have moderated in the first half of 2024 (Chart 24). The net share of Irish SMEs reporting increased turnover remained largely unchanged within the first half of 2024 – at around 8 to 10 per cent. However, this represents a decline of around 16 percentage points compared with turnover growth in the six months to September 2023. This decline is similar to trends observed across the euro area and follows a period of robust growth. Furthermore, this measure of Irish SME turnover growth has remained at or above the euro area median in recent periods.

Chart 24: SME turnover growth appears to have moderated in 2024

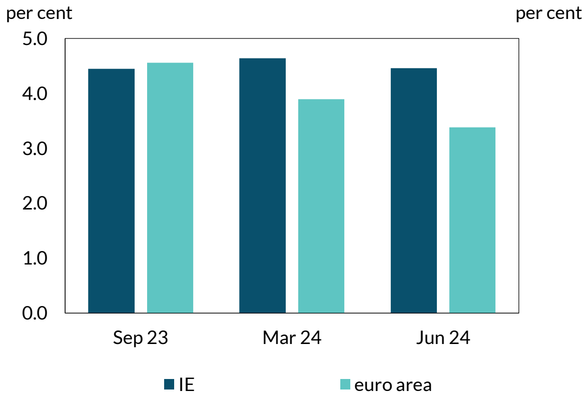
Net share of firms reporting increased turnover



Source: ECB SAFE.
Notes: Net share of firms reporting increased turnover. Grey lines refer to other euro area countries. Sep 23 cover the six-month period to September 2023, while Mar 24 and Jun 24 cover the three-month period to March and June 2024 (respectively).

Chart 25: SMEs expected wage cost growth to remain relatively high

Average expected increase in wage costs



Source: ECB SAFE.
Note: Average expected increase in wage costs over the coming 12 months. Sep 23 cover the six-month period to September 2023, while Mar 24 and Jun 24 cover the three-month period to March and June 2024, respectively.

Irish SMEs have not revised down their expectations of wage cost growth, in contrast to their euro area peers (Chart 25). The one year ahead wage expectations of Irish SMEs in 2024Q2 was an average increase of around 4.5 per cent – similar to their expectations as of 2024Q1 and

[37] See the CSO Retail Sales Index.
[38] See the Central Bank of Ireland's Card Payment Statistics.
[39] See the Central Bank of Ireland's Quarterly Bulletin QB3 / September 2024.

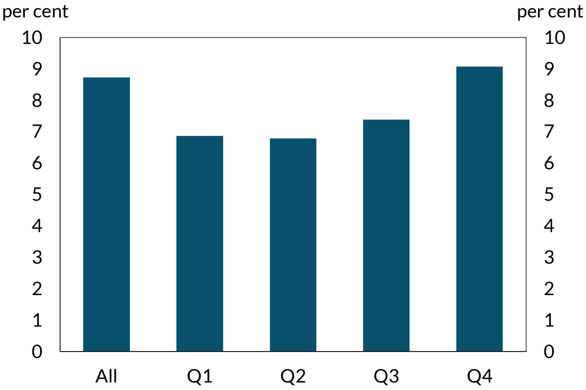
September 2023. In contrast, euro area SMEs have cut their expectation by 1.2 percentage points over the same period. Moderating turnover growth combined with strong upward pressure on wage costs may weigh on profitability, unless SMEs can offset this through other cost reductions.

SMEs are exposed to geopolitical risk through a combination of trade and energy cost exposure, with export-orientated firms having greater exposure to energy inputs (Chart 26). Continuing war in Europe and the Middle East, as well as a series of key global elections and financial market volatility have the potential to create spillovers to Irish SMEs through trade and input cost channels (see *Risks: Global*). Overall, around a tenth of Irish SME cost expenditure relates to utilities. Consequently, higher energy prices would increase cost pressures and putting downward pressure on profits. This pressure would be more acute for export-orientated firms, which have a greater share of costs expenditure associated with energy. These export-orientated firms are also naturally exposed to broader trade and geopolitical risks.

NFC borrower vulnerability indicators appear contained overall, but remain elevated for CRE borrowers (Chart 27). Firms that breach multiple financial thresholds – such as high leverage, poor interest coverage ratios, and weak profitability – are more likely to encounter loan repayment difficulty and broader financial distress.[40] The debt-weighted share of Irish NFC borrowers breaching two or more key thresholds[41] was approximately 5 per cent in 2023, down on recent periods. The equivalent share for CRE borrowers in 2023 was over 10 per cent. CRE borrowers continue to stand out as a pocket of vulnerability in the real economy (see *Risks: Domestic*) and in the financial sector (see *Resilience: Domestic banks* and *Resilience: Non-banks*).

Chart 26: Exporting firms are exposed to geopolitical risks through several channels, including energy costs

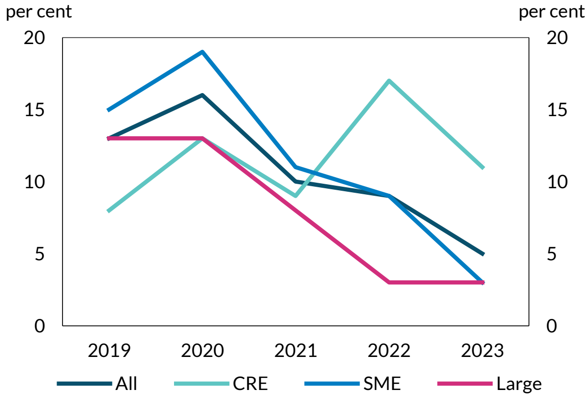
Utilities share of expenditure by export share of turnover quartile, among all SMEs



Source: Department of Finance Credit Demand Survey.
Notes: Utilities share of expenditure for all SMEs and per exporter turnover quartile. Data refer to survey responses for 2023.

Chart 27: CRE borrowers are more likely to have weak financial characteristics than other NFC borrowers

Debt-weighted proportion of firms that simultaneously breach two finance risk metrics



Source: AnaCredit and Dun and Bradstreet.
Notes: Debt-weighted proportion of firms that simultaneously breach two finance risk metrics. The CRE cohort refers to borrowers in the construction or real estate sectors. The SME and Large Corporate cohorts exclude CRE borrowers.

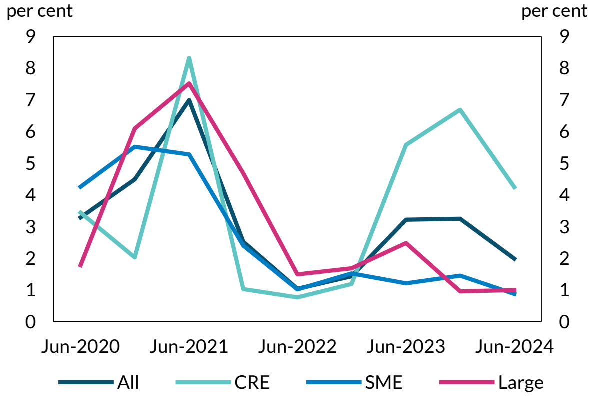
Irish CRE borrowers continue to display weaker loan performance than other NFCs (Chart 28). A summary indicator of deteriorating loan quality shows CRE borrowers standing out among NFCs. The transition rate of domestic bank CRE loan balances either to arrears, forbearance, or NPL status began to rise significantly in the second half of 2022 and remained elevated at approximately 4 per cent in the six months to June 2024. In contrast, the share of non-real estate SME and Large Corporate loan balances entering any of these three states was substantially lower at approximately 1 per cent over the same period. CRE borrowers are clearly demonstrating

[40] See, for example, the Bank of England FSR December 2023.
[41] Book leverage>0.8, interest coverage ratio <1.5, liquidity<1.1 and RoA<0.

greater vulnerability than other NFC borrowers. Nonetheless, the count of receivership initiations among CRE companies has not increased significantly. This suggests that lenders are not yet seeking to secure possession of underlying collateral assets on a wide basis.

Chart 28: CRE borrowers continue to display weaker loan performance than other NFCs

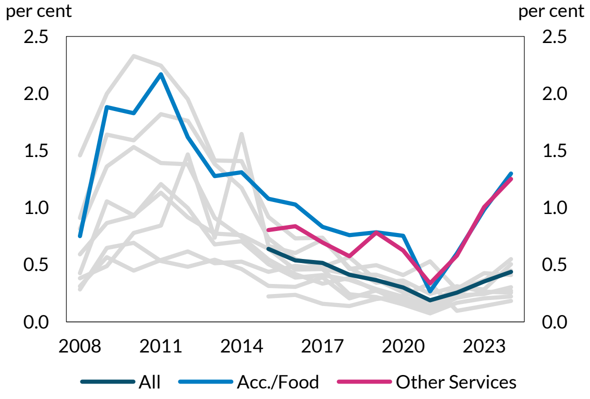
Transition rate of performing NFC loan balances to weaker loan performance states by borrower cohort



Source: Central Bank of Ireland.
Notes: The share of performing domestic bank Irish NFC loan balances transitioning to arrears, forbearance, or non-performing status in each six months by cohort. Last observation June 2024.

Chart 29: Corporate insolvencies continue to rise

Insolvent liquidation rate by sector



Source: Companies Registration Office, CRIF Vision-Net and CSO.
Notes: The annualised share of active companies entering insolvent liquidation from 2008 to 2024H1 by sector. Active company counts are available from 2015 for all sectors. Last observation 2024H1.

Corporate insolvencies continue to rise, particularly in the Accommodation & Food and Other Services sectors (Chart 29). The share of active companies entering insolvent liquidation rose again in the first half of 2024 to an annualised rate of approximately 0.5 per cent – equivalent to its pre-pandemic level. The Accommodation & Food and Other Services[42] sectors stand out as having particularly elevated insolvency rates. While failure rates in these sectors are typically higher than in other sectors, they are clear outliers at present.[43] Elevated insolvency figures provide clear evidence of financial distress, but aggregate employment in these sectors appears stable or even increasing in the year to June 2024,[44] and new company registrations also remain robust. While financially vulnerable firms in these sectors appear to be exiting the market, the remaining incumbents and new entrants are helping to maintain aggregate activity levels.

[42] Other Services sector companies include a variety of service-orientated enterprises, including hairdressing and beauty treatment.
[43] Accommodation & Food also stands out as having a relatively high share of loan balances displaying a significant rise in credit risk (see *Resilience: Domestic banks*).
[44] See the CSO Labour Force Survey 2024Q2.

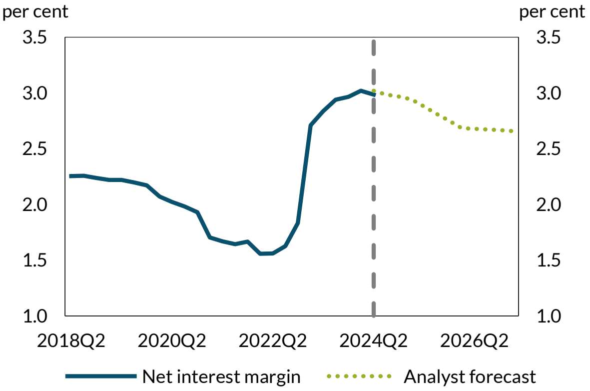
Domestic banks

The aggregate CET1 ratio for the domestic banks remains above regulatory minimum requirements, providing loss-absorbing capacity in the event of adverse shocks. Domestic bank profitability has likely peaked, with net interest margins expected to fall in a loosening monetary policy environment, and this will be a key factor underpinning developments in domestic banks' capital ratios. Net interest income, the main source of profitability for Irish banks is likely to decline as ECB policy rates continue to fall. Deposit funding costs may continue to track upwards given their low starting point and greater competition. While loan asset quality remains robust, with NPL ratios declining to 2 per cent in 2024Q2, pockets of vulnerability exist among NFC exposures. IFRS9 stage 2 ratios are elevated among CRE and Accommodation & Food borrowers.

Domestic bank profitability has likely peaked, with net interest margins (NIMs) expected to fall in an easing monetary policy environment (Chart 30). Profitability in the sector rose markedly between 2022 and 2024, with interest income rising significantly due to higher interest rates on retail loans and central bank deposits. Interest expenses rose much more modestly over this period, allowing the aggregate NIM to rise to approximately 3 per cent in 2023 and early 2024. Reductions in ECB policy rates since June 2024, expectations of further cuts, and growing competition are likely to weigh on profitability. Market analysts expect the NIM to decline in the second half of 2024 and in subsequent years, but to remain above pre-pandemic levels.

Chart 30: Domestic bank profitability has likely peaked, with net interest margins expected to fall

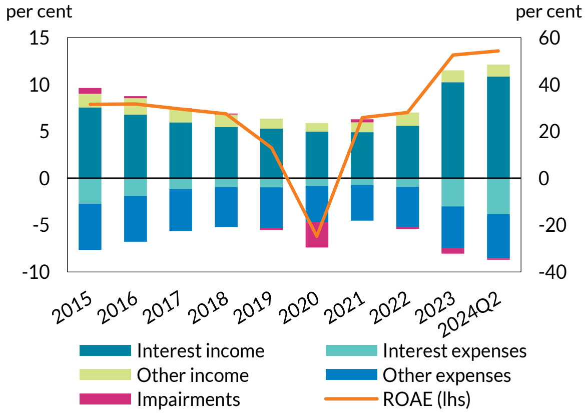
Aggregate net interest margin and analyst projections



Source: Bloomberg and Central Bank of Ireland.
Notes: Net interest margin of the three domestic banks. 'Analyst Forecast' refers to Bloomberg Professional Forecasters series.

Chart 31: Interest income growth explains much of the variation in domestic banks' return on equity

Return on average equity and its decomposition



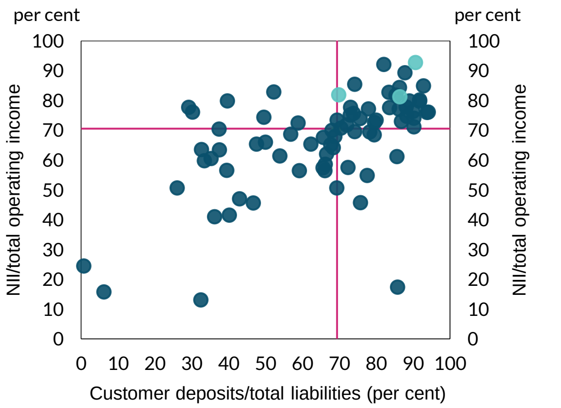
Source: Central Bank of Ireland.
Notes: Annualised data. Other income encompasses net fee and commission income and other operating income. Other expenses encompasses other operating expenses, other continuing operations, staff expenses and tax expenses.

Interest income growth explains much of the variation in domestic banks' return on equity (Chart 31). The strong growth in interest income, accompanied by only modest changes in credit impairments, has boosted overall domestic bank profitability. The aggregate return on average equity for the domestic banks more than doubled from 6.5 per cent in 2021 to 13.6 per cent in 2024Q2. Interest income growth has been the dominant factor in the change over this period. Interest expense has weighed somewhat on return on equity, but the effect of credit impairments has been very slight.

Domestic banks rely more on net interest income and customer deposits than European peers (Chart 32). As a result, their profitability is relatively sensitive to declining ECB policy rates. Domestic banks remain predominately funded by deposits, particularly low cost overnight deposits. 88 per cent of household deposits at the domestic banks are held in overnight accounts, compared with an EU average of 54 per cent. If customers continue to migrate from overnight accounts to higher yielding alternatives, then funding costs may continue to track upwards given their low starting point. This dynamic could further weigh on profitability. In a lower profitability environment, structural cost issues are likely to come back to the fore.[45]

Chart 32: Domestic banks rely more on net interest income and customer deposits than European peers

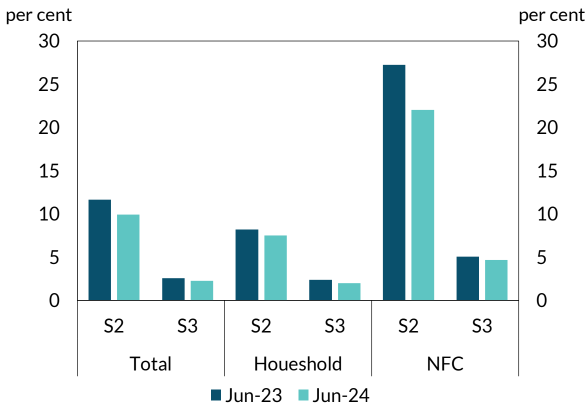
Net interest income to operating income and customer deposits to total liabilities



Source: BankFocus.
Notes: Purple lines refer to medians across all supervised EU institutions. The three points highlighted are the three domestic Irish banks. NII refers to Net interest income. End-2023 values.

Chart 33: Loan asset quality remains robust, though pockets of vulnerability exist among NFC exposures

IFRS9 Stage 2 and Stage 3 share of outstanding balance by counterparty type



Source: Central Bank of Ireland.
Notes: The share of domestic bank outstanding balances classified as IFRS9 stage 2 (S2) or stage 3 (S3) by counterparty type. 'NFC' refers to Non-Financial Corporation.

Loan asset quality remains robust, although pockets of vulnerability exist among NFC exposures (Chart 33). Non-performing loan (NPL) ratios – equivalent to IFSR9 stage 3 – continue to decline and stood at 2 per cent in 2024Q2. This decline is despite the cost-of-living and interest rate shocks experienced by household and NFC borrowers, as well as the structural post-pandemic shifts facing some NFCs. The share of loan exposures classed as IFRS9 Stage 2 – meaning that they have experienced a significant increase in credit risk since origination – is also declining and stood at 10 per cent in 2024Q2. This ratio remains elevated for NFC exposures at 22 per cent, albeit down from 27 per cent in 2023Q2.

CRE and Accommodation & Food firms appear relatively more vulnerable among NFC borrowers (Chart 34). Approximately 30 per cent of loan exposures in each of these sectors are classed as IFRS9 Stage 2. The CRE sector is also the largest individual NFC sector by outstanding balance, meaning it is the largest contributor to the high Stage 2 share among NFC exposures. Both sectors faced major cyclical headwinds during the pandemic, while the CRE sector also faces a structural shift in demand associated with changing patterns of work. Accommodation & Food firms are also experiencing a significant rise in corporate insolvencies (see *Resilience: Non-financial corporations*).

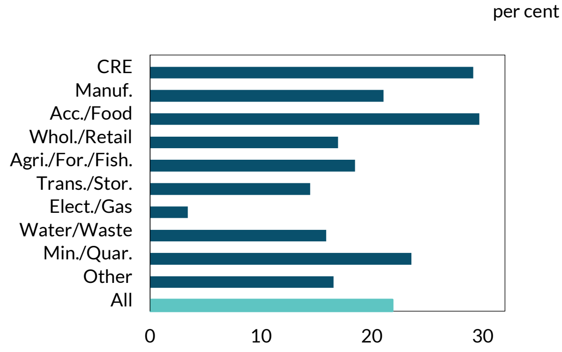
The aggregate CET1 ratio for the domestic banks remains above regulatory minimum requirements (Chart 35). This ratio stood at 14.9 per cent in 2024Q2, with the decline from 16.2 per cent in 2021 due principally to banking market consolidation and the distribution of increased profits. CET1 ratios in the EU have broadly been ticking upwards recently, with the average rising from 13.9 per cent in 2021 to 14.4 per cent in 2024Q2. The CET1 position of the domestic banks allows for significant capital depletion in the event that adverse shocks materialise. For context,

[45] The domestic bank cost-to-income ratio has historically been high relative to other euro area banks. It stood at 77 per cent in 2019Q4. Income growth has outpaced cost growth since 2022, pushing the ratio down to approximately 50 per cent in 2024Q2. However, declining profitability could see this ratio rise again.

the average CET1 depletion experienced by domestic banks in the most recent EBA stress tests was 5.2 percentage points. The EBA will conduct its next stress test of capital adequacy for EU banks in 2025, but a CET1 depletion similar to past exercises would preserve domestic banks' headroom over minimum capital requirements.[46]

Chart 34: IFRS9 stage 2 exposures are more evident among CRE and Accommodation & Food borrowers

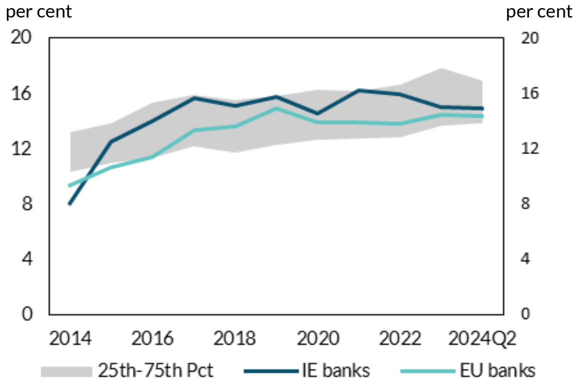
IFRS9 Stage 2 share of outstanding balances by sector



Source: Domestic bank pillar 3 disclosures.
Notes: The share of domestic bank NFC outstanding balances classified as IFRS9 stage 2 by sector as at end-2023.

Chart 35: CET1 capital ratios remain above regulatory minimum requirements

Fully-loaded CET1 ratios



Source: BankFocus and Central Bank of Ireland.
Notes: IE banks is the aggregate domestic banks' fully-loaded CET1 capital ratio. EU Average: fully-loaded CET1 capital ratio for all EU supervised institutions. 25th to 75th percentile range of fully-loaded CET1 capital ratios for EU institutions.

Additional regulations are due to become applicable for banks in 2025 and will support banking resilience. The new Capital Requirements Regulation (CRR III, Regulation (EU) 2024/1623) will, for the most part become applicable from 2025 and be fully phased in by 1 January 2033.[47] It introduces amendments to the current capital requirement regulation framework in the EU, and is designed to ensure the framework fully complies with Basel III requirements. It will entail an increase in the use of the standardised approach for credit risk, a limitation on the use of internal rating-based models (in particular, the output floor will ensure results of internal models lead to sufficient levels of capital), substantial changes in the management of market and operational risks, and a broadening of disclosure requirements, notably by integrating ESG risk into the prudential framework. Once implemented, Basel III is expected to strengthen the resilience of the system to adverse shocks.

[46] This equates to the sum of Pillar 1 and Pillar 2 requirements, i.e. excludes any combined buffer requirements. Minimum capital requirements are often referred to as Pillar 1 requirement only, however, banks are also subject to Pillar 2 or bank specific capital requirements, determined as part of the Supervisory Review and Evaluation Process (SREP).

[47] The majority of the amendments to CRR will take direct effect from 1 January 2025, however the amendments to the calculation of own funds requirements for market risk regime have been postponed for one year until January 2026. The latest EBA monitoring assessment notes: "Overall, the results of the mandatory Basel III monitoring exercise show that European banks' minimum Tier 1 capital requirement would increase by 7.8% at the full implementation date in 2033.". In contrast to this aggregate assessment, some banks may see a fall in capital requirements via lower RWAs following implementation of output floor.

Non-bank financial sector

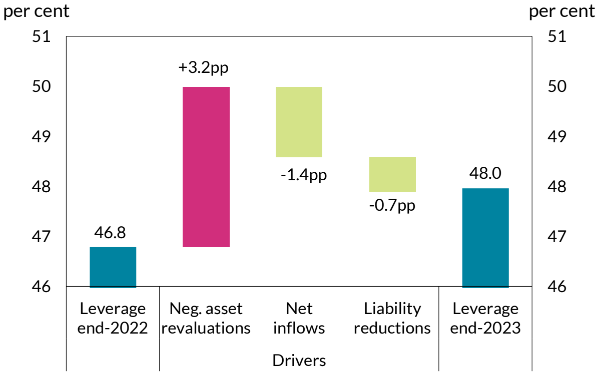
Investment funds and non-bank lenders [48]

Pockets of vulnerability exist amongst Irish property funds that are highly leveraged and exposed to weakness in the CRE market, particularly funds invested in non-residential sectors such as office and retail. Nonetheless, leverage among residential and non-residential funds increased only marginally in 2023. Although negative asset revaluations put upward pressure on leverage, this was largely offset by net inflows and the conversion of shareholder loans to equity. Funds that invest mainly in the residential sector continued to purchase assets, while those focusing on non-residential sectors mainly used net inflows to deleverage. Non-bank lenders can be split into asset finance lenders, general lenders and specialist property lenders. The share of total non-bank lending to SMEs over total lending remained relatively stable in 2023, accounting for around one third of new lending overall and approximately half of new lending to real estate SMEs. Non-bank lenders are part of the private credit markets, which is potentially exposed to concentration risk, opaque valuations and layers of leverage.

Falling CRE prices led to reductions in Irish property funds' valuations of real estate assets over 2023. The value of Irish property funds' holdings of real estate decreased 2.3 per cent from €29.3 billion in 2022 to €28.6 billion in 2023. Exposure to non-residential CRE assets decreased the most as a result of significant write downs in valuations and, to a lesser extent, property sales. Retail and office properties were most affected, with valuations falling by 8 and 10 per cent, respectively, though these declines were less than the fall in market indices.[49]

Chart 36: The impact of revaluations on Irish property fund leverage was largely offset by other factors

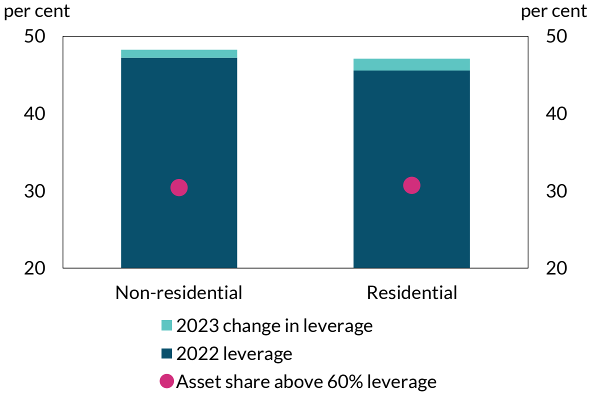
Weighted average leverage at end-2022, end-2023 and breakdown of the drivers of the increase in leverage



Source: IPF returns and Central Bank calculations.
Notes: Figures are weighted averages. Asset revaluations based on total assets of property funds, including CRE and non-CRE assets. Revaluations are calculated as the change in stocks minus the transactions in the period. Net inflows refers to the net subscriptions received. Liability reductions refers to funds decreasing the level of debt. Last observation end-2023.

Chart 37: Leverage among Irish property funds increased marginally across all fund categories

Leverage at end-2022, end-2023 and share of AuM of funds with leverage greater than 60 per cent, by fund cohort



Source: IPF returns and Central Bank calculations.
Notes: Leverage is the ratio of non-equity liabilities (including liabilities to related parties) over assets, estimated on consolidated basis. Funds are categorised as non-residential and residential according to the asset category in which they have more than 50 per cent of exposures. Last observation end-2023.

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[48] Analysis includes NBFIs with important links to the Irish economy and pose risks to domestic financial stability. For analysis of Ireland's internationally-focused market based finance sector, see Central Bank's Market Based Finance Monitor.

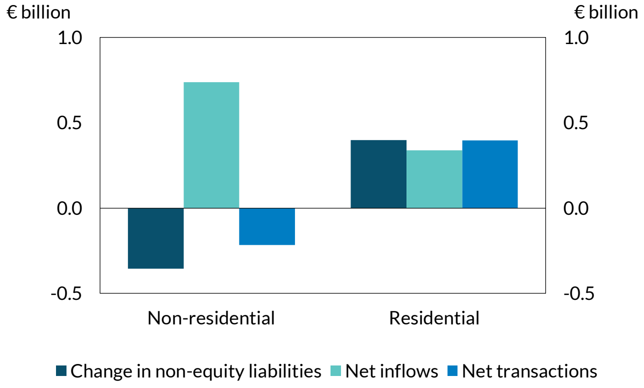
[49] According to MSCI Ireland Quarterly Property Indexes, prices of retail and office properties fell 9 and 17 per cent respectively. This discrepancy could be due to differences between the type of properties included in the MSCI index and those in the investment portfolio of Irish property funds, or due to difficulties in accurately valuing assets due to the low liquidity in the market.

Overall leverage increased marginally across the sector in 2023, as falling asset values were partly offset by inflows and liability reductions. Leverage increased marginally across all Irish property fund categories between 2022 and 2023, increasing the overall leverage of the sector by 1.2 percentage points (Chart 36).[50] This increase was mainly driven by asset revaluations, as reductions in the value of office and retail properties in particular more than offset increases in the value of residential assets. However, the increase in leverage over the period was somewhat offset by net inflows and the conversion of shareholder loans into equity. These actions made the funds' balance sheets more resilient to the falls in CRE prices that occurred over 2023. Nonetheless, around a third of both residential and non-residential property funds' assets under management still belongs to funds with leverage above 60 per cent (Chart 37).

Irish non-residential property funds have used proceeds from net inflows to deleverage rather than finance new purchases. Non-residential property funds (those that focus on office, retail, and industrial sectors) received around €0.7 billion in net inflows in 2023. Proceeds from net inflows as well as from net sales of €0.2 billion of assets have primarily been used to pay off debt (Chart 38). Indeed, non-residential property funds' debt decreased by 6 per cent compared to 2022, partially offsetting the increase in leverage due to negative asset revaluations. A reduction in the level of shareholder loans accounts for a significant portion of the decrease in debt (Chart 39). Industry engagement suggests that reduction in shareholder loans largely relates to loans being converted into equity.[51] Further CRE price falls, especially if coupled with increased redemption requests, could lead to forced selling of assets by highly-leveraged non-residential funds.

Chart 38: Non-residential funds experienced strong net inflows and reductions in debt

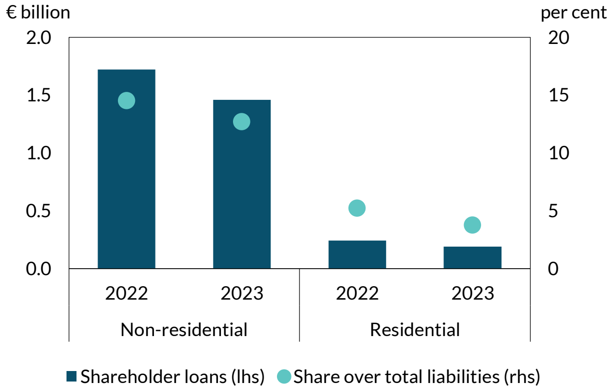
Notional amounts of change in liabilities, net inflows and net transactions at end-2023, by fund cohort



Source: Central Bank of Ireland.
Notes: Funds are categorised based on the approach undertaken in Chart 37. Change in non-equity liabilities refers to the difference in debt between 2022 and 2023. Net inflows refers to subscriptions minus redemptions. Net transactions refer to purchases minus sales of Irish property assets.

Chart 39: Funds' shareholder loans decreased, suggesting some were converted into equity

Share of shareholder loans over total liabilities, by fund cohort



Source: Central Bank of Ireland.
Notes: Funds are categorised based on the approach undertaken in Chart 37.

Residential property funds increased their debt to fund transactions, with the impact on leverage partially offset by positive asset revaluations and net inflows. Residential property funds received approximately €0.3 billion in net inflows over 2023. Some of these subscriptions might have been due to shareholder loans being converted into equity, as shareholder debt decreased by 22 per cent compared to 2022 (Chart 39). Despite the conversion and positive asset revaluations in 2023, leverage in residential funds increased by 1.5 percentage points. The increase in leverage was

[50] This iteration of the FSR includes an update to the leverage methodology in order to account for the leverage of related parties in the leverage calculation.
[51] For more information on the conversion of shareholder loans, see Box 1 in the Central Banks' Financial Stability Review on 'New insights on Irish Property Funds', June 2024.

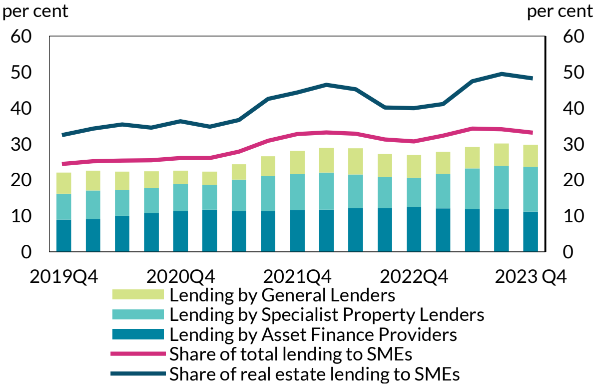
mainly driven by rising debt over 2023, which was used alongside subscriptions to fund net purchases of approximately €0.4 billion. Leverage also increased in many residential funds whose leverage was already higher than 60 per cent at end-2022. However, the increase in these highly-leveraged funds was primarily driven by negative asset revaluations rather than increases in debt. Rising leverage coupled with the increasing interconnectedness to Irish banks, to which they owe 25 per cent of their debt, would exacerbate spillover risks should the funds be subject to shocks.[52]

Non-bank lenders are part of the private credit markets. Non-bank lenders are loan-originating entities that are not banks, credit unions or government entities.[53] Their activities are part of the private credit markets. The IMF April 2024 Global Financial Stability Report identifies private credit as a potential financial stability risk as credit provision to the real economy migrates from the banking system towards more opaque, and less regulated non-banks. Valuation uncertainty, multiple layers of leverage and complex international financing chains increase financial stability risks in the sector.[54]

The share of non-bank lending to Irish SMEs has remained relatively stable over 2023. The share of new lending provided by non-bank lenders to Irish SMEs has slightly increased since 2022, from 31 per cent of total (bank and non-bank) lending in 2022Q4 to 33 per cent in 2023Q4 (Chart 40).[55] Asset Finance Providers and Specialist Property Lenders (SPLs) remain the largest providers of non-bank lending, together covering 24 per cent of total lending to Irish SMEs. Given that SPLs lend nearly exclusively to real estate companies, these lenders are subject to greater concentration risk. They are also more sensitive to interest rate changes than banks due to their reliance on third-party funding.[56]

Chart 40: The share of non-bank lending to SMEs has remained relatively stable across 2023

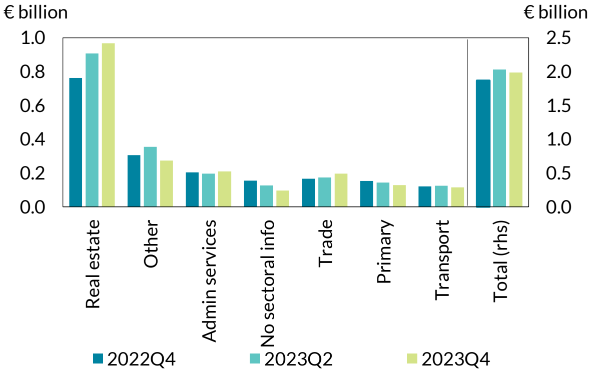
Share of lending to SMEs by non-banks, with breakdown by lender and borrower category



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. 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. Last observation 2023Q4.

Chart 41: Non-bank lending to real estate SMEs increased the most since 2022

Volume of new lending to SMEs by non-banks



Source: CCR and Central Bank calculations.
Notes: Non-bank lending for each period outlined shows lending for the previous 4 quarters up to the date mentioned, e.g., 2023Q4 shows the amount of new credit provided for the 2023Q1-2023Q4 period. The real estate sector includes SMEs in real estate activities and construction. Last observation 2023Q4.

[52] Loans from Irish retails banks to residential property funds increased from €1.9 billion in 2022 to €2.0 billion in 2023.
[53] Non-bank lenders are categorised into Asset Finance Providers, General Lenders, Specialist Property Lenders and Other using an activity-based approach. Lending activity is measured by whether a non-bank lender has a high concentration of lending in one specific sector or whether it has a high concentration in the product types they offer. See Moloney et al (2023) for more information on the categorisation of non-bank lenders.
[54] See IMF 2024.
[55] Changes in the time series of non-bank lending to SMEs arise from delayed reporting by non-banks to the CCR and improvements in rules enriching the data. A 9-month lag is thus used when reporting new lending for non-banks.
[56] See Moloney et al 2023.

The volume of new lending to real estate SMEs has continuously increased since 2022. SMEs in the real estate sector continue to receive the largest volume of new credit from non-banks. While non-bank lending to a number of sectors (such as primary and transport) decreased since 2022, loans to real estate SMEs increased by 27 per cent (Chart 41). The share of non-bank lending to real estate SMEs reached nearly 50 per cent of total lending in 2023, increasing by 8 percentage points compared to 2022 (Chart 40). Indicators of borrowers' inability to repay loans have remained at low levels throughout 2023. In particular, the share of non-bank loans currently in distress or restructured remained stable at 0.4 per cent and 0.9 per cent, respectively, which may in turn explain the resilient growth in new lending to SMEs.

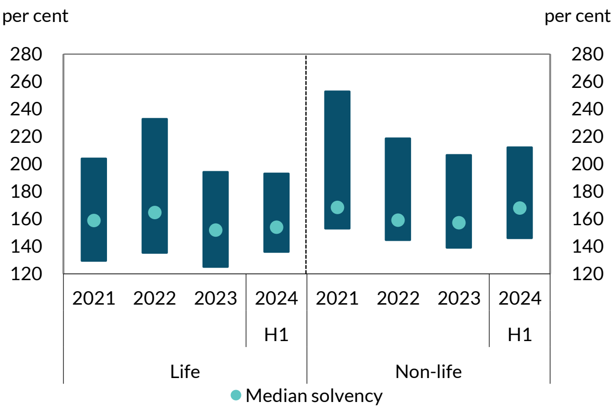
Insurance firms

The aggregate solvency position of the Irish insurance sector has remained stable despite several headwinds experienced in recent years. While the vast majority of firms hold capital buffers well in excess of regulatory requirements, insurers operate in an increasingly uncertain world. The geopolitical, macroeconomic, and financial market environments have the capacity to adversely impact the sector, though Irish firms have demonstrated good resilience to the developments of recent years. Irish firms have a relatively low risk investment profile, though significant bond holdings generate credit spread risk which is somewhat offset by the relatively high quality of bonds held. Within the Irish motor market, premiums have begun to rise following several years of sustained declines. Meanwhile, insurers continue to enhance their understanding and management of uncertain climate change risks, but there is concern about growing protection gaps.

The aggregate solvency of Irish (re)insurers has remained stable and well in excess of regulatory requirements. The (re)insurance sector[57] has continued to navigate challenges including uncertainty over inflation, periodically volatile financial market conditions, and the impacts of climate change, while maintaining stable solvency coverage[58]. The sector's aggregate solvency coverage ratio was 187 per cent of regulatory requirements at 2024Q2, while the median was 198 per cent. More than 99 per cent of the sector's liabilities are held by firms with solvency coverage ratios above 130 per cent, while all of the larger domestically-focused retail firms also have ratios above 130 per cent (see Chart 42).

Chart 42: Domestic insurers' solvency positions remain robust and above regulatory requirements

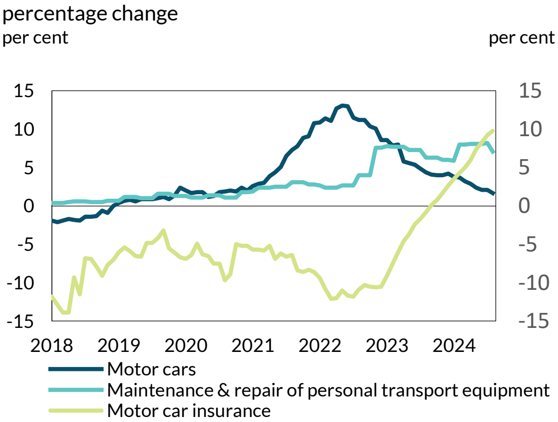
Solvency coverage of domestic life and non-life insurers



Source: Central Bank of Ireland.
Note: The box at each point shows the maximum and minimum range. Sample is time varying comprising the largest domestically-focused life and non-life insurance firms (i.e., those primarily underwriting domestic risks). Last observation 2024Q2.

Chart 43: Irish motor insurance premiums are rising while some components of claims costs have been rising for some time

Consumer price sub-indices for motor insurance – annual percentage change



Source: CSO.
Notes: The chart shows monthly data for the percentage change over the previous 12 months for selected CPI sub-indices.

The rapidly evolving geopolitical environment is a key driver of several risks that could impact (re)insurers to varying degrees and over various time horizons. Geopolitical developments have a considerable capacity to harm the (re)insurance sector. Likely effects of a significant geopolitical deterioration include: corrections of global financial markets; higher inflation causing uncertainty for the future costs of insurance claims; impacts on business models due to effects on economic activity, access to markets, and capital flows; as well as actual insurance claims that could arise

[57] The sector includes all firms authorised by Central Bank of Ireland to carry on insurance or reinsurance business. This includes firms underwriting domestic and/or international (re)insurance risks.
[58] Solvency coverage is measured as each firm's available capital (known as "own funds" under Solvency II) as a percentage of its solvency capital requirement.

from unexpected sources. Irish (re)insurers have been resilient to the geopolitical events of recent years, but the current environment of escalating conflicts, humanitarian crises, interrupted trade routes, political change, and general fragmentation of the prevailing norms ensures the continuation of significant uncertainty and the need for careful risk management.

Inflation and other macroeconomic variables represent important risks to (re)insurance business models. Although inflation has reduced, the risk outlook is more uncertain due to the geopolitical environment. Inflation risk remains a highly relevant challenge for (re)insurers. While general measures of inflation have receded, many insurance claims costs are influenced by specific price factors whose behaviour can be volatile and poorly correlated with general inflation. Interest rate risk also requires careful management given the typical (re)insurers' balance sheet is dominated by interest-sensitive assets and liabilities and there is the prospect of significant changes to interest rates. Economic activity faces important downside risks and low economic growth may challenge (re)insurance business models, primarily via reduced demand for insurance and poorer investment prospects. Irish (re)insurers have demonstrated resilience to the macroeconomic challenges of recent years, though continued vigilance will clearly be required.

(Re)insurers have exposure to market risk through their considerable investments in financial markets and the sector as a whole holds a high proportion of non-linked assets in relatively low risk asset categories. With more than half of (re)insurers' non-linked assets in bonds and market pricing of credit risk appearing to be compressed, the sector is exposed to a general widening of credit spreads, though the relatively strong credit quality of Irish (re)insurers' holdings would contribute to resilience against a spread shock. Direct exposure to private debt and equity type investments is limited among Irish firms, while property exposures[59] continue to be small. Considering unit-linked funds investing in property[60], a number of firms continue to apply deferral periods on withdrawals, though the liquidity positions of these funds has been improving.

CSO data show that motor insurance premiums in the Irish market are rising (Chart 43). Motor insurance premiums decreased between 2018 and mid-2023 due to reduced claims costs and competitive pressures in a profitable market, but have recently trended upwards. The cost of motor damage repairs had previously risen while claims frequencies[61] have increased more recently, though the Personal Injury Guidelines have reduced personal injury claim costs.

Climate change continues to be a significant risk for the insurance sector. (Re)insurers' resilience to climate change risks remains uncertain. Reinsurance is widely used as a risk mitigation tool, while firms are improving their understanding of climate risks and underwriting practices. The increased frequency of severe weather events will impact the cost and availability of property (re)insurance and certain regions or events may become uninsurable. A 2024 examination of the Irish flood protection gap[62] found that 1 in 20 buildings has limited access to flood insurance. Climate change is projected to increase this gap and the Central Bank has engaged with the insurance industry and with government to encourage action to reduce the flood protection gap.

[59] Property related investments include: directly owned property; investments in real estate funds; equity of real estate related corporations; mortgages; real estate based collateralised securities; and, structured notes on real estate risk.
[60] As at 2024Q2 the value of direct investments in Irish property by unit-linked funds was approximately €2.3 billion. This represents just 9 per cent of the total value of Irish property held by Irish investment funds at 2023Q4.
[61] See the National Claims Information Database: 2024 – Private Motor Insurance Mid-Year Report 2
[62] See the Flood Protection Gap Report

Sovereign

The outlook for public debt in Ireland is more favourable than in other advanced economies, but the uncertainty around future revenue is significantly higher. Geopolitical risks have the potential to impact tax revenues, particularly those tied to MNE activity and employment. If windfall revenue related to corporation tax is excluded, then successive governments have continuously ran deficits since 2008. To reduce the risk of sudden increases in borrowing due to a loss of corporation tax revenue, alternative measures should be considered, and fiscal buffers should be increased.

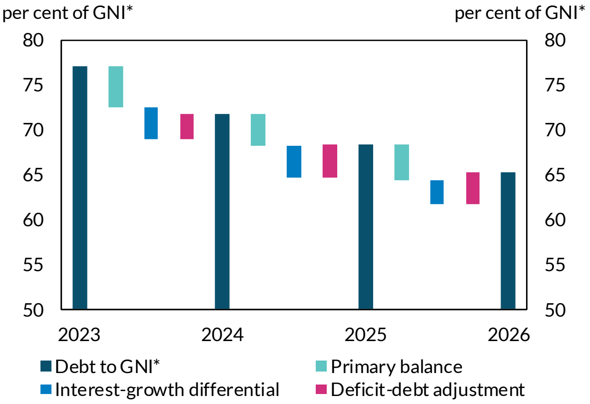
The favourable debt dynamics experienced since the pandemic are projected to continue. Since reaching 110 per cent of GNI* in 2020, the Irish debt-to-GNI* ratio has fallen by 33 percentage points to 77 per cent of GNI* as of end-2023. Headline surpluses played a role in reducing the debt ratio, but the main contributor to its decline was the pace of economic growth since the pandemic. Continued surpluses combined with economic growth and an improved funding environment are expected to facilitate a fall in the debt ratio to 65 per cent of GNI* by 2026 (Chart 44).

The tax revenue that supports these surpluses remains highly concentrated, particularly with respect to Corporate Tax (CT). Approximately 60 per cent of CT revenue collected in Ireland comes from just ten multinational firms. In addition, the revenue growth experienced since 2015 has been increasingly disconnected from developments in the real economy, making it subject to a sudden reversal. The Irish underlying deficit – which excludes windfall CT revenue - is projected to widen between now and 2026, implying that reduced spending or alternative revenue raising measures would be required to reduce risks to the public finances (Chart 45). It is also possible that a reduction in CT revenues could occur at the same time as spending pressures related to ageing and climate investment increase.

Making payments into the Government saving funds will improve resilience, but less than half of excess CT is currently being transferred. The transfer to the Future Ireland Fund amounts to 0.8 per cent of GDP per year and the transfer to the Infrastructure, Climate, and Nature Fund is set at €2 billion. Taken together, these payments amount to around 37 per cent of CT on average each year until 2030 based on Department of Finance projections. The strength of the macroeconomic outlook presents on opportunity to build significant fiscal buffers for use during future downturns.

Chart 44: Debt dynamics are expected to remain favourable over the medium term

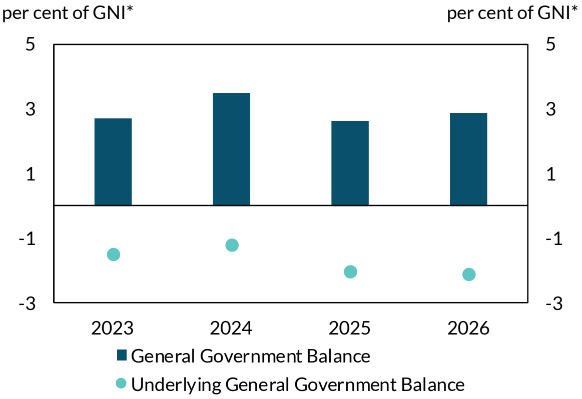
Factors driving change in general government debt



Source: Central Bank of Ireland.

Chart 45: Excluding 'excess' CT receipts the budget outlook would be much less favourable

General Government Balance forecast



Source: Central Bank of Ireland.
Note: The observed and projected GGB, with and without 'excess' corporation tax revenue.

Macroprudential policy

The Central Bank's macroprudential policies aim to promote resilience, proportionate to the risks faced by the financial system. The Central Bank undertakes regular monitoring and assessment of each of its macroprudential policies to ensure its policy stance remains appropriate for the prevailing systemic risk environment. This chapter presents an update on the Central Bank's current macroprudential policies (summarised in Table 1) across the three broad pillars of its macroprudential policy framework: macroprudential capital buffers for banks, the mortgage measures, and policies relating to non-banks, in particular investment funds.

Table 1 | Summary of macroprudential policies[63]

	Instrument	Policy stance	Additional information
Macroprudential capital buffers for banks	• **O-SII buffer** – aims to safeguard resilience of systemically important institutions.	• 6 O-SIIs identified • Institution specific buffer rates range between 0.5% - 1.5%	• No change to existing policy stance • PTSB's buffer will take effect on 1 Jan 2025
	• **CCyB** – aims to safeguard resilience of the banking sector as a whole, with a view to facilitating a sustainable flow of credit to the economy through the financial cycle.	• 1.5%	• 1.5 per cent CCyB rate on Irish exposures has applied since 15 June 2024.
Mortgage measures	Aims to ensure sustainable lending standards in the mortgage market. • **LTV** - provides a buffer against the risk of house price falls, which could leave borrowers in negative equity. • **LTI** – provides a long-term link between developments in the housing market and the real economy.	• LTV: 90% for PDH loans, 70% for BTL loans • LTI: 3.5 times for SSB loans; 4 times for FTB lending • 15% of new FTB & SSB lending segment is allowed above the limits. 10% in the case of BTL lending	• Current calibration has applied since 1 Jan 2023. • Measures apply to mortgage lending, provided by a regulated financial services provider, secured on residential property in the State.
Policies relating to non-banks	**Irish property funds** – aims to safeguard resilience of the sector, reducing the risk that financial vulnerabilities might amplify adverse shocks in future periods of stress. • **Leverage limit** • **Liquidity guidance**	• Leverage limit: 60% total debt to total assets ratio • Liquidity guidance: property funds should provide for a liquidity timeframe of at least 12 months	• Applies to funds domiciled in Ireland, investing over 50% of their portfolio in either directly or indirectly held Irish property assets. • Measures have applied to newly authorised funds since Nov 2022. • For existing funds, the leverage limit is effective from Nov 2027, with the liquidity guidance effective from May 2024.
	Irish authorised GBP-denominated LDI funds – measures aim to strengthen resilience of these funds to sudden increase in UK yields.	• 300 bps minimum yield buffer.	• Measures have applied to newly authorised GBP LDI funds in Ireland since 29 April 2024. • Existing GBP LDI funds had a three-month implementation period from the announcement of the measures, i.e. until 29 July 2024.

[63] Further information on the Central Bank's macroprudential policies can be found here.

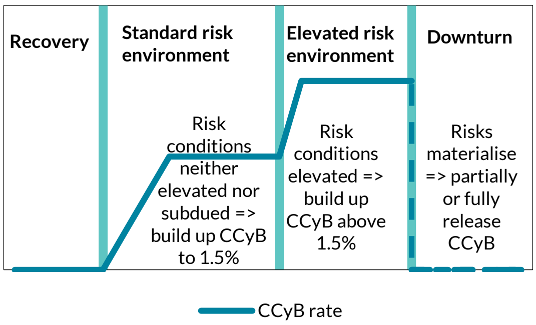
Macroprudential capital buffers

Countercyclical capital buffer

The Central Bank is maintaining the CCyB rate at 1.5 per cent, judging this rate remains appropriate given the prevailing macro-financial risk environment. Under the Central Bank's strategy for the CCyB, 1.5 per cent is the rate it expects to maintain when risk conditions are deemed to be neither elevated nor subdued. Future CCyB rate decisions will be based on macro-financial conditions in a manner consistent with this strategy.

No change is being made to the CCyB rate of 1.5 per cent on Irish exposures. Under the Central Bank's framework, this is the rate that it expects to maintain where risks are neither elevated nor subdued (Chart 46). The Central Bank judges that the current CCyB rate remains appropriate, based on the assessment of the macro-financial environment in this Report, and a change in the CCyB rate is not deemed warranted at this time. To date, cyclical dynamics do not indicate broad based elevated cyclical risks which would motivate an increase in the CCyB rate. At the same time, a rationale for releasing the CCyB rate is also not evident, in particular given the strong position of the banking sector (See *Resilience: Domestic banks*).

Chart 46: The calibration of the CCyB at 1.5 per cent reflects the Central Bank's strategy for the buffer
The Central Bank's high-level strategy for the CCyB



Source: A framework for macroprudential capital.
Note: Stylised representation, does not refer to specific figures.

While the economy is operating at capacity, domestic credit dynamics remain moderate. With the domestic economy growing more strongly than previously anticipated, greater focus has been brought to the fact that the economy is operating at or indeed above its potential (*See Risks: Domestic*). While driven by the structural imbalance in supply and demand for housing, annual growth in residential real estate prices has been strengthening, with recent data indicating double-digit rates of growth. Credit dynamics too have strengthened somewhat in recent months (Chart 17 in *Risks: Domestic*), albeit remain moderate and come following a period where aggregate credit growth has been muted for a number of years. At the same time, CRE prices continue to adjust to both cyclical and structural factors. In addition, as a small open economy Ireland is sensitive to external developments where heightened geopolitical and macro-financial uncertainty in particular pose macro-financial risks (*See Risks: Global*) While judging risks overall in the context of the CCyB to be neither elevated nor subdued at this point in time, these (contrasting) dynamics across different segments will continue to be assessed carefully.

Future CCyB rate decisions will be based on macro-financial conditions in a manner consistent with the Central Bank's strategy for the CCyB. The CCyB would be increased above 1.5 per cent were the Bank to deem that cyclical risks (reflected in indicators across credit, the economy and asset prices) were becoming elevated. On the other hand, having the CCyB in place provides scope for its release, 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.[64]

Buffers for systemically important institutions

Arising from the Central Bank's 2024 Other Systemically Important Institution (O-SII) review, six institutions - AIB Group plc (AIB), Bank of America Europe DAC (BofAE), Bank of Ireland Group plc (BOI), Barclays Bank Ireland plc (BBI), Citibank Europe plc (CEP) and Permanent TSB Group Holdings plc (PTSB) – are identified as systemically important and are required to maintain an associated supplementary capital buffer. The outcome represents no change relative to last year's review. This policy stance remains appropriate in the context of the systemic footprint of the six institutions and how this has evolved since the last O-SII review. The underlying systemic importance of these institutions, taking account of their size, EBA score and domestic market activities, has not changed to the extent that would warrant a recalibration of the O-SII buffer rates.

The objective of the O-SII buffer is to reduce the probability of failure of a systemically important institution, given the potentially greater impact of failure of those institutions. Institutions that are systemically important to the domestic economy or to the economy of the EU are referred to as O-SIIs.[65] The failure of one of these systemically important institutions would have a greater impact on the financial system and economy than the failure of a non-O-SII. Higher capital requirements for these institutions, in the form of O-SII buffers, aim to reduce the probability of their potential failure.

The Central Bank's approach to the application of the O-SII buffer acknowledges the distinct features of the Irish banking system.[66] As noted in *Risks: Domestic*, the Irish banking system is composed of two distinct groups, one serving the domestic economy and the other serving mainly European or global economies. This heterogeneous make-up of the banking sector has implications for the distribution of risk across the banking system as the channels through which these different types of institutions can affect systemic risk vary. Some institutions are more relevant from the perspective of the domestic economy, while others are more relevant from the perspective of their interconnectedness with the broader financial system and/or the overall European economy. As such, the Central Bank considers measures of systemic importance relating to institutions' linkages with the domestic economy as well as broader measures that would be relevant from the perspective of European financial stability.

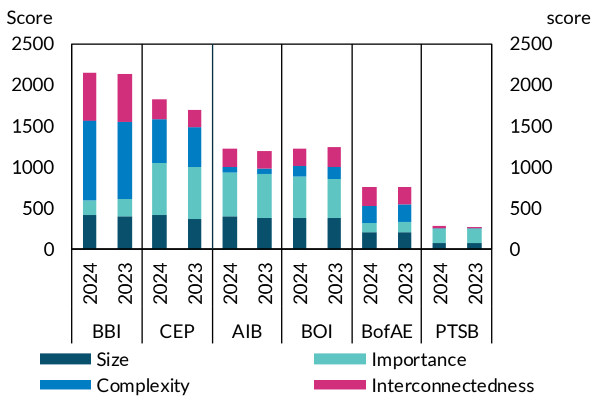
Six institutions are categorised as O-SIIs with corresponding capital buffers applied reflecting their important to domestic and European financial stability. The Central Bank's 2024 O-SII assessment has reaffirmed previous policy decisions. Namely, six institutions – AIB, BofAE, BOI, BBI, CEP and PTSB – have been identified as O-SIIs. Five institutions – AIB, BofAE, BOI, BBI and

[64] See the Central Bank's Framework for Macroprudential Capital and the Central Bank's Framework for Macroprudential Capital: CCyB addendum for more information regarding the Central Bank's CCyB strategy and the factors which go to inform judgements around the risk environment.
[65] Differentiating these institutions from institutions that are systemically important at a global level, referred to as G-SIIs.
[66] Further detail on the approach is set out in Central Bank's Framework for Macroprudential Capital.

CEP – were identified on the basis of the mandatory EBA scoring methodology.[67] In addition, PTSB, has again been designated as an O-SII on the basis of supervisory overlay. The list of O-SIIs and their associated scores arising from the mandatory EBA methodology are laid out in Chart 47. Each institution is required to hold an additional capital requirement in the form of an O-SII buffer. Institution buffer rates reflect the relative systemic importance of each institution and the channels through which the institution is interconnected with both the domestic and international economy as well as the broad financial system. The ECB has set out a floor methodology which sets a minimum expected buffer rate based on each institution's EBA identification score. All buffer rates comply with the buffer floor methodology developed by the ECB (Chart 48).[68] All buffer rates are currently in effect, with the exception of PTSB, which comes into effect on 1 January 2025.

Chart 47: Channels of systemic importance differ across identified institutions

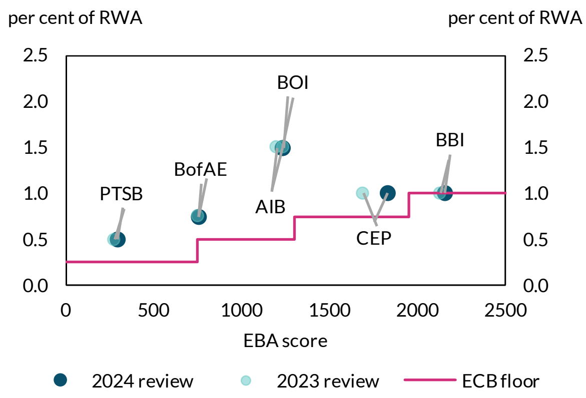
EBA O-SII score and category contributions



Source: Central Bank of Ireland.
Notes: Data are contributions to overall EBA score. For each year only data for identified O-SIIs are shown.

Chart 48: O-SIIs and corresponding buffers have remained the same for the six identified institutions

O-SII buffer rates and ECB floor



Source: Central Bank of Ireland and ECB.
Notes: For each year only data for identified O-SIIs are shown. RWA refers to risk-weighted assets.

[67] For more on the EBA scoring methodology see the EBA O-SII guidelines. For the 2024 assessment, scores were calculated based on end-2023 data, with the standard 350 basis point threshold applied.
[68] The floor methodology was designed to ensure a minimum level of harmonisation in O-SII buffer setting within the SSM. Under the methodology, minimum buffers rates are based directly on their EBA score. See ECB Macroprudential Bulletin, June 2017 for details of the initial approach and the Governing Council statement on macroprudential policies for the most recent amendments to the floor methodology.

Macroprudential mortgage measures

Mortgage measures

Recent developments in new mortgage lending indicate that the mortgage measures framework continues to meet its objective of ensuring sustainable lending standards. In 2024H1, the shift in lending towards the new limits continued. At the same time, lending at LTI and LTV ratios above the limits remains contained. Higher interest rates, coupled with a larger share of lending at LTIs between 3.5 and 4, have seen an increase in the share of lending with a higher Loan Service to Income (LSTI) but the share of new lending in categories that could be considered riskier remains contained.

The Central Bank considers the mortgage measures to be permanent in nature and their calibration to be largely driven by slower-moving forces. The refreshed framework for the mortgage measures came into effect on 1 January 2023.[69] The Central Bank is committed to undertaking monitoring, analysis, engagement and communication around the measures on an ongoing basis. Alongside this continual monitoring, the Central Bank will undertake periodic reviews of the strategy around the measures.

Overall new mortgage lending declined in 2024H1 compared with 2023H1 with FTB lending the only category to grow. A total of €5.2 billion of new mortgage lending originated in 2024H1, a decrease of nearly 8 per cent compared with the same period in 2023. FTB lending accounted for over 60 per cent of this new lending, at €3.3 billion, a 3.5 per cent increase on the value of FTB lending in 2023H1 (Chart 49). For all other lending types, new lending in 2024H1 was lower than in the equivalent period in 2023. In aggregate, the profile of mortgage borrowers along a number of key characteristics is comparable to previous years.[70] For FTBs, average loan sizes, property values and incomes continue to increase, in a continuation of the trend over the last number of years. Likely reflective of the evolution of the interest rate environment, the declining share of fixed rate loans, having peaked in late-2022/early-2023, continued. Fixed rate loans in 2024H1, accounted for 81 per cent of FTB lending (down from over 90 per cent in 2023) and 66 per cent of lending to SSBs (down from approximately 85 per cent in 2023).

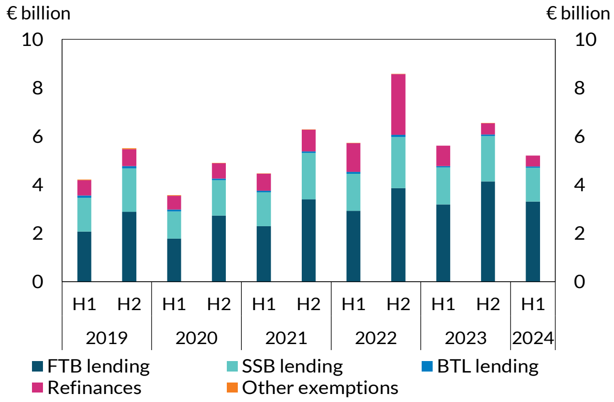
Developments in new lending for FTBs have been broadly in line with what was expected prior to the recalibration of the measures: as the market has adjusted to the refreshed framework, increasing shares of FTB lending are being originated at LTIs between 3.5 and 4, while lending above 4x LTI has been very limited. The share of FTB lending with an LTI between 3.5 and 4 increased from 8 per cent in 2022H1, to 28 per cent in 2023H1 and stood at 48 per cent in 2024H1 (Chart 50). There was a corresponding decrease in the share of lending clustered around the previous LTI limit of 3.5, declining from 57 per cent in 2022H1 to 24 per cent in 2024H1. Considering the upper end of the LTI distribution, the share of FTB lending with an LTI above 4 declined from 10 per cent in 2022H1 to 5 per cent in 2023H1 and remained stable at 5 per cent in 2024H1. This shift in the distribution, since 2022, has resulted in a small increase in the median FBT LTI, from 3.4 to 3.5 and in the 90th percentile from 3.8 to 4. Taking a longer time horizon, average LTIs and the share of PDH lending taking place at higher LTIs continues to be materially

[69] Over the course of 2021/22, the Central Bank conducted a comprehensive review of the mortgage measures framework. The conclusions of the review are set out in The Central Bank's framework for the macroprudential mortgage measures.
[70] Detailed information on new mortgage lending for 2024H1 is published on the Central Bank website - new mortgage lending data.

below the levels seen during the mid-2000s (Chart 51). Box C presents a borrower-level assessment as to how different cohorts of borrowers were impacted by the change in FTB LTI.

Chart 49: FTB lending performing strongest in an otherwise muted new lending market in 2024H1

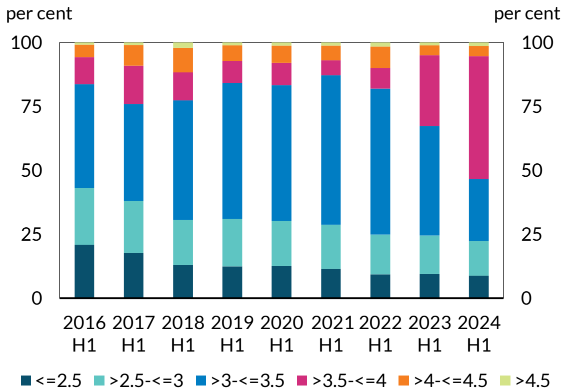
Breakdown of new lending volumes by type



Source: Central Bank of Ireland Monitoring Templates Data.
Notes: Includes all new loans. Refinances category includes loans both in and out-scope of the mortgage measures. 'Other' refers to out-scope negative equity, title transfer and restructured loans.

Chart 50: Increasing shares of FTB lending are being originated at LTIs between 3.5 and 4, while lending above 4x LTI remains limited

FTB LTI Categories, 2016 H1-2024H1



Source: Central Bank of Ireland Monitoring Templates Data.
Note: Share of value. FTB in-scope new property purchase and self-build loans only.

Higher interest rates, coupled with a larger share of lending at LTIs above 3.5, has led to an increase in the share of FTB lending with a higher Loan Service to Income (LSTI). In 2023 and 2024H1 approximately 19 per cent of FTB lending occurred where the estimated LSTI was between 30 and 35 per cent (Chart 52), increasing from 5 per cent prior to 2023.[71, 72] This increase in LSTI can be attributed in part to the interest rate environment, with increasing rates affecting all borrowers, alongside a larger number of borrowers now borrowing in the range of 3.5-4x income. The average FTB interest rate for in-scope loans increased from 2.6 per cent in 2022 to 3.9 per cent in 2023 and 4.2 per cent in 2024H1. Considering a rule of thumb benchmark of 35- 40 per cent, beyond which financial distress becomes more likely, less than 10 per cent of lending occurred over 35 per cent, with only 2 per cent of lending at an LSTI above 40 per cent. As discussed in *Resilience: Households*, mortgage repayment changes have been manageable for most borrowers, and households, on aggregate, remain resilient.

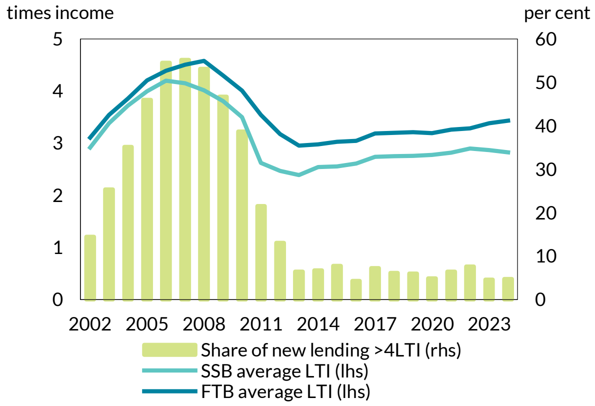
The distribution of LTV for SSBs has also shifted to the right, with a larger share of loans now being originated between 80 and 90 per cent LTV. Almost a third of SSB lending originated in 2024H1 had an LTV between 80 and 90 per cent (Chart 53), reflecting movement toward the new calibration of the SSB LTV limit. However, no new loans were originated at LTVs greater than 90 per cent. There was a decrease in the share of loans with LTVs between 70 and 80, falling from 35 per cent in 2023H1 to 24 per cent in 2024H1. Since the recalibration, the 90th percentile of the SSB LTV distribution has increased from 80 per cent to 90 per cent however the median LTV declined slightly between 2023 and 2024H1. The SSB LTI distribution has been largely consistent

[71] LSTI is computed as the ratio of the annual loan servicing costs and borrower after-tax income. For the purposes of this analysis, the LSTI is calculated using a proxy of net income. After-tax income is estimated by deducting an approximation of income taxes, social security contributions and tax credits from the gross income figures reported by lending institutions in the context of the mortgage measures monitoring templates. LSTI figures refer to fully amortising loans (with a monthly repayment schedule) for new property purchase and self-build only.
[72] The mortgage measures framework document noted that typically a repayment burden of 35-40 per cent of monthly net income is considered a threshold beyond which financial distress becomes more likely.

since the framework review. As with FTB lending, average LTIs for SSB loans have not returned to the levels seen during the mid-2000's (Chart 51).

Chart 51: Average LTIs and share of lending at high LTIs remain well below pre-crisis levels

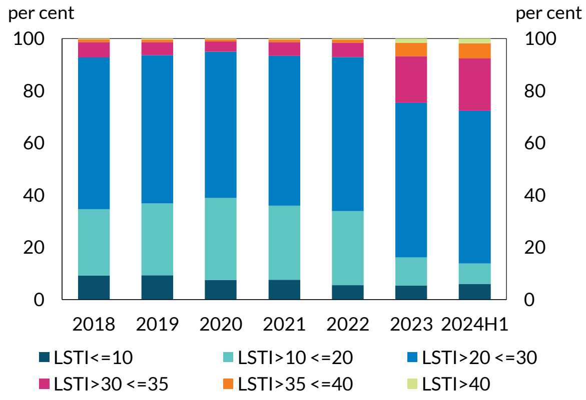
FTB and SSB average LTI and share of PDH lending above 4xLTI, 2002- 2024 H1



Source: Central Bank of Ireland Loan level data 2002-2014 and Monitoring Templates Data 2015-2024H1.
Notes: New property purchase/self-build loans only. Loans in-scope of the mortgage measures only included from 2015-2024H1. Loans originated in January 2015 with pre-implementation approval are excluded. Loans at LTI ratios above 10 are assigned an LTI of 11, to avoid distortions by extreme outliers in data prior to 2015. Average LTIs are value weighted average. High LTIs refers to those loans originating with an LTI of >4.

Chart 52: Increased shares of new FTB lending are being originated at higher LSTIs in 2023 and 2024H1

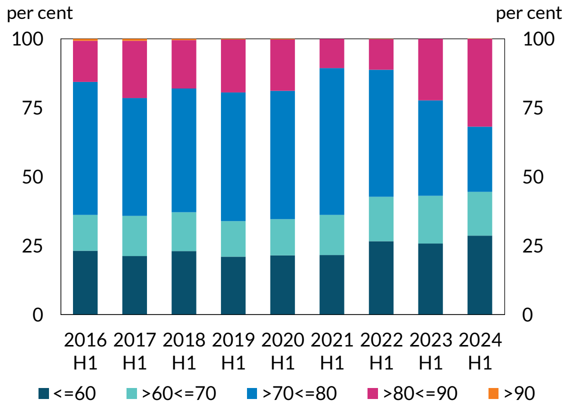
FTB net LSTI categories, 2018 – 2024H1



Source: Central Bank of Ireland Monitoring Templates Data.
Note: FTB in-scope new property purchase and self-build loans only, share of value.

Chart 53: Higher shares of SSB lending are being originated at LTVs above 80 per cent

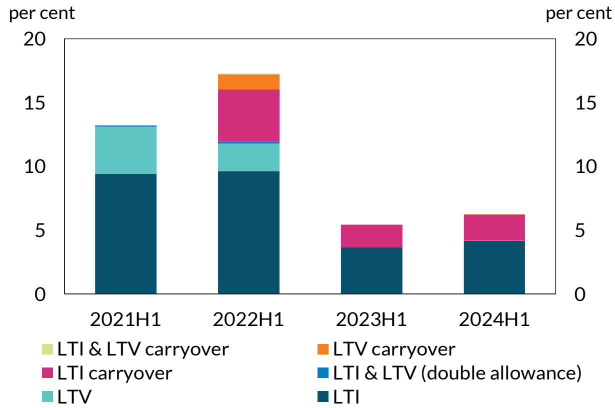
SSB LTV Categories, 2016-2024 H1



Source: Central Bank of Ireland Monitoring Templates Data.
Notes: Share of value. SSB in-scope new property purchase and self-build loans only.

Chart 54: The share of lending originated in 2024H1 above the limits remained well below that provided for within the mortgage measures framework

Share of PDH Lending with an allowance, 2021H1 – 2024H1



Source: Central Bank of Ireland Monitoring Templates Data.
Note: Share of value. New In-Scope PDH loans only.

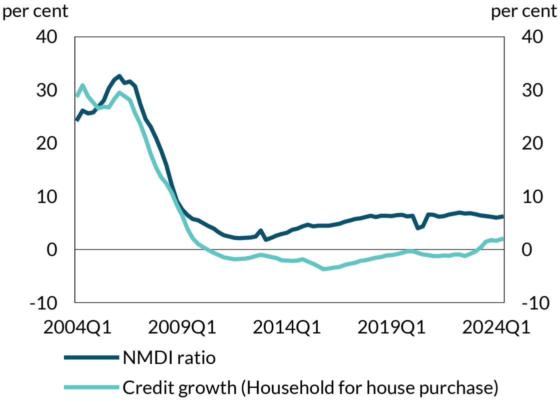
The share of lending originated in 2024H1 above the LTV and LTI limits remained limited. Such lending was comprised almost exclusively of allowances to exceed the LTI limit. Overall, 6 per cent of total PDH in-scope lending, by value, had an allowance, a slight increase on the 5 per cent observed in 2023H1 (Chart 54). A higher share of SSB lending was originated with an allowance, at 8 per cent, compared to 5 per cent for FTBs. The characteristics of borrowers with an allowance in

2024H1 are similar to those observed in 2023H1. About one-third of allowance lending in 2024H1, was categorised as carry-over and so from a compliance perspective relates to 2023.[73]

Growth in house prices observed in 2024 has not been driven by excessive credit growth - with the housing market continuing to be characterised by demand/supply imbalances. Mortgage credit growth remains modest (Chart 55) indicating that mortgage credit does not appear to be the main driver of recent house price acceleration rather continued supply/demand imbalances. New mortgage lending in aggregate appears to remain supported by incomes (Chart 55). Favourable domestic economic conditions, rising demographic needs and the prospect of less restrictive monetary policy will likely drive housing demand over the near term further exacerbating imbalances given the uncertain supply response (*See Risks: Domestic*).

Chart 55: Mortgage credit growth muted; new mortgage lending supported by incomes in aggregate

Year-on-year bank mortgage credit growth and new mortgage lending to disposable income ratio



Source: Central Bank of Ireland, BPFI, CSO and Central Bank calculations.
Notes: Mortgage credit growth refers to credit growth to household for house purchase in line with the Central Bank's Money and Banking statistics. NMDI shows new mortgage lending for transactions purposes from BPFI data as a ratio of household sector disposable income from the CSO institutional sector accounts – see Keenan & O'Brien 2018 for background. Last observation 2024Q2.

[73] Carry-over permits, within the specified limits of the measures, lenders who have allowance lending which has not been allocated in a given year to utilise this in the first half of the following year, on the condition that such lending was fully approved in the given year.

Box C: Borrower-level impact assessment of new LTI calibration

By Anuj Pratap Singh and Fang Yao (Macro Financial Division)

This box provides an initial assessment of the impact of the LTI recalibration on particular groups of borrowers. In January 2023, the refreshed framework for the mortgage measures came into effect. As part of this, the LTI ratio for FTBs changed from 3.5 to 4, but remained at 3.5 for SSBs. In addition to the changes to the measures, other relevant macroeconomic (i.e., interest rate and income changes) and broader housing market factors may have also affected borrowers since 2023 and it is challenging to dis-entangle the effects of these factors from the effect of the LTI change. This box summarises an initial analysis, which takes place at the borrower-level and seeks to control for such factors.

This initial analysis finds that the LTI recalibration led to an increase in credit for those borrowers likely most affected by the limit, but that this additional credit was used differently by Dublin vs non-Dublin borrowers. For borrowers outside of Dublin, this additional credit was used to reduce deposit levels relative to what they would have needed to post under the previous LTI regime, supporting households' liquidity position. For borrowers in Dublin, by contrast, the additional credit was used to purchase more expensive homes. In addition, lower income borrowers across the country had a higher probability of purchasing a new-build property after the increase in the LTI limit, suggesting the new LTI limit allowed some borrowers to reach the minimum purchase price for new properties, in conjunction with government supports.

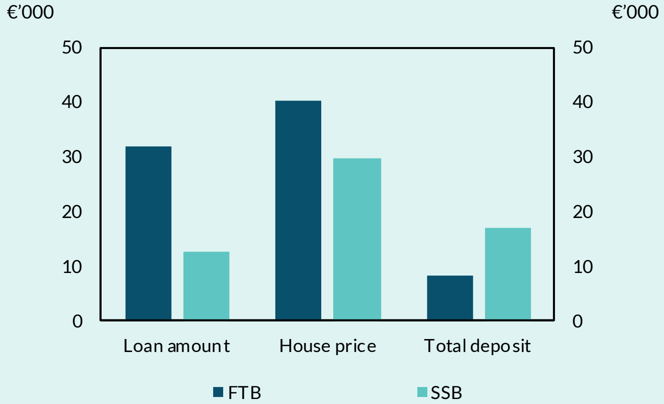
The approach taken in this analysis exploits the differential LTI regimes between FTBs and SSBs, focusing on new loans between 2022 and 2024H1. As a first step, it is important to identify the likely borrower group most impacted by the LTI change, as well as a group of potentially similar borrowers that may have not been affected by the changes. Outside of allowances, which were at lender discretion, the previous LTI regime was likely most binding for FTBs who borrowed closer to the LTI limit (between 3 and 3.5 times).[1] Post January 2023, the upper limit of the LTI ratio increased from 3.5 to 4. As a result, the FTBs borrowing between 3-3.5 and 3-4 under the old and new LTI regimes respectively would be the most exposed, termed as the treatment group.[2] These are compared to SSB borrowers (termed as the control group) with LTI 3-3.5, whose LTI limit remained unchanged, using a traditional difference-in-difference (DiD) estimator.[3]

This approach allows us to estimate the average change in the outcome of interest comparing the policy affected FTB treatment group with the unaffected counterfactual SSB group across two time periods, i.e., when the recalibration is in place (post) versus when the old policy prevailed (pre). The DiD approach controls for common confounding factors, e.g. interest rate changes, which took place during the same time period and may have simultaneously affected the outcomes within both control and treatment groups. While the groups (treatment and control) are quite different – most notably in that one group already owns a house, whereas the other does not – the DiD estimator only relies on the assumption that these differences follow the same trend over time.[4] Moreover, we can adjust the samples and apply robustness checks to ensure that the differences between the two groups remain broadly constant over time. However, any remaining unobserved factors between FTB and SSB borrowers could still affect the robustness of this analysis.[5]

We first examine simple comparative statistics across the two groups and find that there is a higher increase in loan size and property price for affected FTBs compared to SSBs over the relevant time period. Chart A shows a comparison of average changes in key borrower outcomes including loan-size, house-price and deposit across the affected FTBs and unaffected SSBs pre and post the LTI change.

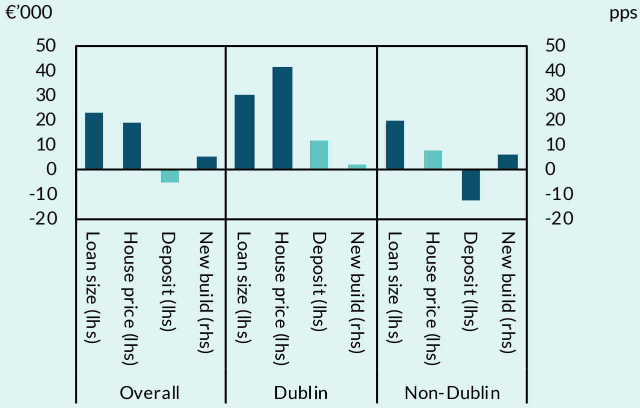
Between 2022 (pre) and 2023-2024H1 (post), on average, there is a higher increase in loan-size and house-price across policy affected FTB vis-à-vis the unaffected SSB borrowers. In contrast, there is a lower average change in deposits across the affected FTBs.

Chart A: Average change across FTBs (treatment) and SSB (control) pre and post LTI change



Source: Central Bank of Ireland
Notes: The bars in the chart are simple averages between the FTB and SSB borrowers across the two policy periods and do not employ weights obtained from matching.

Chart B: LTI recalibration (3.5 – 4) effects for FTBs versus the counterfactual SSBs across the two periods



Source: Central Bank of Ireland
Notes: Regressions employ weights obtained from matching. Dark teal bars show statistically significant coefficients from DiD regression while teal bars are not statistically significant. The coefficients in Chart B are subject to change as more data become available in coming months.

The patterns emerging in Chart A are tested formally using a traditional difference-in-difference (DiD) estimator. The main empirical findings are summarised as follows (see Chart B):

In aggregate, as would have been expected, there is a statistically significant increase in the average loan size among affected FTBs relative to the unaffected SSB control group as a result of new LTI calibration. This increase in mortgage borrowing, in part, translates into the purchase of more expensive properties.[6] In addition, there is a significant increase in the purchase of new builds among this group, compared with unaffected borrowers and relative to 2022. In aggregate, the econometric analysis suggests that the effect on the size of the deposit outlined in the comparative statistics above is not statistically significant.

These aggregate results, however, mask differing borrower responses to the higher LTI across regions and income groups. Only borrowers in Dublin (and in particular medium and high income borrowers) appear to have used the increase in credit to purchase more expensive properties. Indeed, the increase in the purchase price appears higher than the increase in the loan size, suggesting it was also accompanied by a higher deposit (although the latter effect is not statistically significant). By contrast, across non-Dublin counties, the relative increase in average loan size is translated into lower downpayments. So the additional borrowing did not result in the purchase of more expensive properties, but rather an enhanced liquidity position of borrowers compared to the previous LTI regime. [7] Finally, we find an increase in the likelihood of new-build purchase, driven by lower-income FTBs across the country. At the same time, there is also an increase in proportion of these borrowers' utilization of the Help to Buy (HTB) scheme. Together, these results could reflect that the increase in credit after new LTI limit allowed some lower income FTB borrowers to reach the minimum purchase price for new build properties in conjunction with the use of the government supports.[8]

This analysis focuses on one aspect of the impact of the recalibration, namely the heterogeneous impact of the changes on different groups of affected FTBs. This is separate to the macroeconomic assessment of these changes, which requires a different analytical approach. For example, the affected FTBs in the sample account for only around 11% of total housing transactions between 2022 and

2024H1. These results, however, serve to enhance our understanding of the balance of costs and benefits of the mortgage measures, supporting ongoing policy assessment of the measures.

[1] The framework did allow for up to 20 per cent of new lending to FTBs to exceed the LTI limit of 3.5 times.
[2] In the post period, mortgages in the treatment group originating with LTI between 3.49 and 3.51 are excluded to avoid instances of bunching around the old LTI policy limit. Finally, treated FTB sample excludes mortgages bunched at the upper cap of loan-to-value (LTV) ratio of 90 per cent to address LTV constrained bunching.
[3] Within the control sample, SSB mortgages at LTV ratio of 80 per cent or above are disregarded in both pre and post periods. This allows controlling for the effect of LTV revision introduced in tandem for the SSBs as part of macroprudential revision in the beginning of 2023. By omitting LTV affected borrowers in the control group, the authors distil the effect of only LTI revision across FTBs. Moreover, the control SSB sample fixes LTV<=79 per cent to remove borrowers that are bunched at upper cap of 80 per cent as they may not be a good comparison to assess LTI change by virtue of being restricted by LTV measure.
[4] This assumption- commonly referred to as the parallel trends assumption, is validated from the data.
[5] To ensure comparability, DiD regressions use weights from propensity score matching of FTB and SSB samples on observables such as borrower age, age square, total income, borrowing bank, channel of mortgage purchase, occupation and interest rate type, while also including borrower level control variables. The findings are robust to using weights from alternative matching method- *coarsened exact matching*, while also remain consistent across different compositions of policy affected treatment FTBs.
[6] This result relies on the assumption that the house prices across the treatment borrowers follow the same trend as the control in absence of the LTI recalibration (parallel trends assumption). However, it may be possible that the house-price outcome within the control group, in part, is also affected by this change. Therefore, our results could suffer from this potential bias.
[7] The absorption of extra credit towards enhanced liquidity in terms of smaller downpayment is in line with McCann and Singh (2023), which suggests a similar liquidity-effect from the enhancement in HTB scheme in July 2021. Similarly, Durante and McCann (2022) find that macroprudential loosening of LTV limits in 2017 led to a rebalancing channel whereby affected borrowers demonstrated preferences for cash-retention instead of purchasing houses that are more expensive.
[8] Looking at the distribution of Help to Buy (HTB) recipients, we find that within the lowest income group outside of Dublin, there was an increase in the share of HTB recipients from 14 per cent (372) to 22 per cent (630) over all other FTBs across the pre (2658) and post (2919) time periods. In Dublin, this was marginal, increasing from 0.5 per cent (4) to 2.8 per cent (27) over all other FTBs across the pre (688) and post (965) time periods. This indicates that the recalibration of LTI may have allowed increase in the use of HTB towards the purchase of a new-build, the latter confirmed from the DiD regression.

Macroprudential policy for non-banks

Reflecting the scale of the sector in Ireland and the growing connections to the domestic economy, developing a macroprudential framework for non-banks remains a key priority for the Central Bank. The focus for the Central Bank in recent years when developing and operationalising macroprudential policy for non-banks has been on the investment fund sector. This reflects the size of the investment fund sector resident in Ireland, its significant growth over the last decade and its interconnectedness to the wider financial system and in some cases the real economy.

The Central Bank remains focused on the implementation and monitoring of the two macroprudential measures relating to property funds and GBP-denominated liability driven investment (LDI) funds. In November 2022, the Central Bank announced the phased implementation of macroprudential limits on leverage of 60 per cent and new Central Bank guidance on liquidity timeframes for property funds. The Central Bank is currently focused on ensuring appropriate progress is being made throughout the implementation period. New macroprudential policy measures for Irish-authorised GBP-denominated LDI funds were announced at the end of April 2024 to make this cohort of funds more resilient to shocks to UK interest rates, by codifying and, in certain cases, augmenting the existing yield buffer measure.[74] Existing GBP LDI funds had 3 months to implement the measures.

The Central Bank continues to support the development of an overarching macroprudential framework for investment funds. The Discussion Paper on an approach to macroprudential policy for investment funds, which was published in July 2023, took a holistic perspective and set out what the Central Bank considered to be important elements in the development of a comprehensive macroprudential framework for the wider funds sector. The Central Bank published a Feedback Statement to the Discussion Paper in July 2024, following on from a related high-level conference held in May 2024. The Central Bank reflected on the feedback provided to the Discussion Paper and the international high-level conference, and responded across some of the key themes highlighted.

The Central Bank continues to engage actively in international work that seeks to strengthen the macroprudential lens of the regulatory framework for investment funds. The Central Bank plays an active role in several international and European workstreams in relation to macroprudential policy development of the investment fund sector. In December 2023, the Financial Stability Board (FSB) published a set of revised policy recommendations on liquidity risk management in open-ended funds (OEFs), with IOSCO concurrently publishing final guidance on liquidity management tools (LMTs). The recommendations for greater inclusion of price-based or anti-dilution LMTs in constitutional documents and their greater use and more consistent use in both normal and stressed conditions is supported by comprehensive guidance on their design and use as part of the liquidity risk management of their OEFs. The Central Bank believes these proposals would introduce a necessary level of resilience for liquidity management across the funds sector. The Central Bank is currently engaged in work domestically to understand better how price-based or anti-dilution LMTs are used in Irish-domiciled funds, as well as exploring some of the implementation challenges in order to inform operational discussions internationally. This includes work on issues such as incorporating market impact into swing factors; inconsistencies in the use of these tools; and use in normal as well as stressed conditions. The Central Bank has

[74] This yield buffer requires that Irish-authorised GBP-denominated LDI funds maintain resilience to a minimum of 300 bps increase in UK yields.

recently conducted a survey with Irish-authorised funds with regard to LMT availability and use, and will supplement this data with targeted follow-ups with industry in the coming months.

The Central Bank has recently published its response to the European Commission's targeted consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation (NBFI). The overarching response reflects the principles set out in the Discussion Paper outlined above, which also inform the Central Bank's key policy priorities for developing a macroprudential framework for the NBFI sector. These policy priorities, which are also consistent with the Eurosystem's response to the consultation, are organised under the following areas of focus: (1) implement internationally agreed reforms to enhance MMF resilience and address liquidity mismatch vulnerabilities for OEFs; (2) enhance the macroprudential toolkit; (3) ensure effective governance arrangements; (4) introduce system-wide stress testing for the EU; (5) enhance NBFI data and data sharing arrangements; and (6) monitor the regulatory perimeter.

Macroprudential measures for Irish property funds

The Central Bank is currently focused on monitoring the phased implementation of the macroprudential measures for Irish property funds, which were announced in November 2022. Irish property funds have been taking action to reduce leverage, mainly through adjustments to their liability mix, although the current deteriorating CRE market has partially offset these movements.

Irish property funds authorised prior to the announcement of the macroprudential measures have until November 2027 to comply with the limits on leverage of 60 per cent, while appropriate action in response to the Guidance on liquidity timeframe was expected by 24 May 2024.

Irish property funds remain a key participant in the Irish CRE market, with holdings of €28.6 billion in Irish CRE assets at end-2023, a decrease of €0.8 billion over the year, driven by falling asset values. On aggregate, Irish property funds held €21.7 billion of CRE properties directly, while €6.6 billion is held indirectly, i.e. through investments in subsidiaries or related entities. The reduction in the value of Irish CRE holdings over 2023 was driven by directly-held CRE investments, while indirect CRE holdings increased slightly. The decrease in asset valuations of CRE held by Irish property funds was less than was experienced by the wider CRE sector (see *Resilience: Non-banks*).

Since the announcement of the measures in late 2022, average leverage maintained by Irish property funds has increased marginally, mainly owing to deteriorating CRE market conditions. Leverage increased by approximately 1.2 per cent, to 48 per cent over 2023, mainly due to declines in asset values. The increase in leverage due to asset revaluations was partly offset by new equity injections, a reduction in non-equity liabilities (mainly via shareholder loan conversions), and a small number of property sales. The number of property funds in scope of the macroprudential measures has remained steady, with a number of new funds authorised over 2024.

The Central Bank is currently monitoring the phased implementation of the macroprudential measures and is closely examining how funds are managing leverage-related vulnerabilities. As outlined in the Central Bank's macroprudential policy framework for Irish property funds, the Central Bank expects property funds to reduce leverage in a gradual and orderly manner over the implementation period.[75] In this respect, further progress to gradually reduce leverage primarily through adjustments to funds' liability mix – as it has been the case to date – is more likely to

[75] See the Central Bank's macroprudential framework for Irish property funds.

facilitate an orderly adjustment. Irish property funds can seek to adjust their liabilities by, for example, converting shareholder loans to equity, which would significantly reduce excess debt in property funds without the need to sell property assets.

Macroprudential measures for Irish GBP liability driven investment funds

The Central Bank is currently focused on monitoring Irish-authorised GBP-denominated liability driven investment (LDI) funds compliance with the recently announced macroprudential measures. On 29 April 2024, the Central Bank outlined details regarding the codification, and in certain cases augmentation, of the existing yield buffer measure for GBP LDI funds. The macroprudential measures were announced in conjunction with the Commission de Surveillance du Secteur Financier (CSSF), given the cross-border nature of this cohort of funds, and came into effect on 29 July 2024.

Irish-authorised GBP LDI funds are an important investor in the UK gilt market, owning around 10 per cent of the total outstanding amount and they therefore played an important role during the gilt market crisis in 2022. In order to safeguard the resilience of GBP LDI funds such that they do not amplify stress in the gilt market, the Central Bank, in coordination with the Commission de Surveillance du Secteur Financier (CSSF), introduced macroprudential measures to indirectly limit leverage in these funds. The Macroprudential policy framework for Irish-authorised GBP LDI funds outlines the main elements of the final framework including its scope, buffer usability feature, and targeted guidance on liquidity.

The Central Bank is currently monitoring compliance of Irish-authorised GBP-denominated LDI funds with the macroprudential measures. Irish GBP LDI funds had three months to implement the new rules, i.e. until 29 July 2024. To enable effective monitoring of compliance with the measures, Irish-authorised GBP LDI funds have to report average and minimum yield buffer values on a monthly basis to the Central Bank. In addition to this, they are required to report relevant information on their asset allocation and additional metrics to track the sensitivity of the portfolio. As of the implementation date, no GBP LDI fund authorised in Ireland reported an average yield buffer below the regulatory minimum, i.e. 300bps, and the median value has now increased from 180bps during the crisis period to around 500bps.[76]

[76] See Dunne et al. (2023) on median yield buffer levels during the Gilt market crisis.

Abbreviations

Country and currency abbreviations follow the European Union standards.

AIB	Allied Irish Bank
AUM	Assets under management
BBI	Barclays Bank Ireland
BIS	Bank of International Settlements
BLS	Bank lending survey
BofAE	Bank of America Europe
BOI	Bank of Ireland
BPFI	Banking & Payments Federation Ireland
BTL	But-to-let
CBRE	Coldwell Banker Richard Ellis Group
CCR	Central Credit Register
CCyB	Countercyclical capital buffer
CEP	Citibank Europe
CET1	Common equity tier 1
CPI	Consumer price index
CRE	Commercial real estate
CSO	Central Statistics Office
EA	Euro area
EBA	European Banking Authority
ECB	European Central Bank
ESG	Environment, social and governance
ESRB	European Systemic Risk Board
EU	European Union
FDI	Foreign direct investment
FINREP	Financial reporting templates
FSR	Financial Stability Review
FTB	First-Time Buyer
GDP	Gross domestic product
GFC	Global Financial Crisis
GG	General government
GNI	Gross national income
HH	Households
HTB	Help-to-buy
ICT	Information and communication technology
IFRS	International financial reporting standard
IMF	International Monetary Fund
IPCC	Intergovernmental panel on climate change
LDI	Liability driven investment
LSTI	Loan service to income
LTI	Loan to income ratio
LTV	Loan to value ratio
MDD	Modified domestic demand
MFI	Monetary financial institution
MMF	Money market fund
MNE	Multi-national enterprise
MSCI	Morgan Stanley Capital International
NBFI	Non-bank financial intermediary
NFC	Non-financial corporation
NII	Net interest income
NIM	Net interest margin
NPL	Non-performing loan
OECD	Organisation for Economic Co-operation and Development
OPW	Office of Public Works
O-SII	Other Systemically Important Institutions
PDH	Primary dwelling house
PTSB	Permanent TSB
ROA	Return on assets
RRE	Residential real estate
RWA	Risk-weighted asset
SAFE	Survey on access to finance of enterprises
SME	Small and medium enterprise
SSB	Second and subsequent buyer
SSM	Single supervisory mechanism

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