

Gabriel Makhoul: Publication of the Financial Stability Review 2026:1

Opening remarks by Mr Gabriel Makhoul, Governor of the Central Bank of Ireland, on the publication of the Financial Stability Review 2026:1, Dublin, 27 May 2026.

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Good morning and welcome to the launch of our first [Financial Stability Review of 2026](#).

During 2026, risks facing the domestic financial system from the global environment have intensified. In 2025, the origin of external risks related primarily to swings in global trade policy. This year, the origin relates to the pricing, and the sustainability of global energy supplies, following the start of the war in the Middle East. This shock, coming less than a year after the previous trade shock, and with no immediate sign of a resolution, increases the potential for tail systemic risks.

The global growth outlook has weakened, while inflationary pressures have increased. Financial markets have continued to function in an orderly manner, although the contained reaction, has been noticeably at odds with economic narratives, on the increasing risks posed by a prolonged energy price shock. This enhances the risk of a sudden tightening of global financial conditions, with a wider reappraisal of risk, amplifying any economic downturn. The growing role of highly leveraged, global, non-bank financial intermediaries in key financial markets compounds this amplification channel.

If the conflict persists for longer-than-expected, the economic and financial consequences could trigger the simultaneous materialisation of one, or more, preexisting risks. Growing sovereign debt limits fiscal capacity to absorb the materialisation of such shocks. Such pressures come at a time, when governments must also continue to adjust to new trading norms, and build long-run productive capacity, including preparing for the climate transition. Additionally higher yields and uncertainty in sovereign bond markets can, in turn, impact broader financial conditions.

Prior to the war, other fragilities were already apparent across the international financial system and remain relevant. High valuations for AI-related stocks, buoyed by strong reported earnings, raise the potential for a market correction, or sector-level disruption, if the global macro-financial outlook deteriorates or if earnings disappoint. The increasing use of debt and circular deals to fund large AI investment plans further raise financial stability concerns. Additionally private and public credit markets are being used by software and AI companies creating contagion channels across sectors and markets. Private credit markets, themselves, are also subject to much scrutiny at present, particularly in the United States. Such markets provide finance outside of traditional channels but are opaque, and concerns on valuations, asset quality and liquidity have led to a spike in redemptions in some US private credit funds. A marked slowdown in global economic activity combined with tighter financial conditions could trigger a reappraisal of risk pricing in either AI-related investment or in private credit markets, or in both given the interlinkages.

Further, heightened geopolitical tensions and rapid developments in artificial intelligence create an evolving cybersecurity landscape. The financial system has

bolstered its operational resilience in recent years but will need to continue to evolve with technological changes to ensure limited disruption to core financial services, which could have wider economic consequences.

Therefore, our assessment is that the risks posed by the external environment remain elevated and have intensified since the last Review. {The European Central Bank also releases its Financial Stability Report this morning and similarly highlights that financial stability vulnerabilities in the euro area remain elevated.}

Countering these higher external risks, is the accumulated resilience currently evident across the domestic financial system, with strong aggregate balance sheets and modest leverage. Growth in the underlying domestic economy, in tandem with strong performance of the internationally orientated multinational sector, has provided a strong buffer in recent years. But an uncertain external environment creates risks to the outlook. We will be presenting our next Quarterly Bulletin in June with our updated economic forecasts. Any fiscal response to deal with the distributional consequences of the current energy shock needs to be time bound and tailored to those most affected. From a financial stability perspective, sustainable fiscal policy is needed to support broader macro-financial resilience.

The Central Bank, through our prudential policies and guidance, promotes the preservation of financial system resilience, to both traditional financial risks and emerging non-financial risks. Continued focus on operational resilience, prudent lending standards and maintaining buffers of loss-absorbing capital and liquidity remain important foundations for limiting the amplification of external shocks through the financial system. Based on internal estimates, the domestic banking system has limited direct exposures to core private credit activities or to US large technology company equities. However, the sector would not be immune to second-round effects from shocks in these markets, or to a deterioration in borrower resilience if economic conditions worsen. Therefore, we are maintaining the Countercyclical Capital Buffer rate at 1.5 per cent to preserve resilience.

Finally, these uncertain times with many potential cross-border systemic risks, underscore the importance of preserving the core benefits of global regulatory standards and maintaining international financial stability cooperation.

Our Director of Financial Stability, Mark Cassidy, will now cover the assessment underpinning the main messages of our Financial Stability Review.