

DNB's financial stability task

DeNederlandscheBank

EUROSYSTEEM



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Introduction

In its role as central bank and prudential supervisor, De Nederlandsche Bank (DNB) aims to safeguard financial stability in the Netherlands. This has become an official responsibility of DNB as of 1 January 2014, when the Banking Act (Bankwet) came into force. Against this background, DNB has more possibilities to promote financial stability in the Netherlands. One of DNB's key competences

is using macroprudential instruments to address risks to which the financial system is exposed. This brochure explains how DNB fulfils its new financial stability task. Specifically, it explains how DNB defines financial stability, how it analyses and assesses risks, and how it translates its analysis into policy.



1 The importance of financial stability

Financial stability is crucial to our welfare. A stable financial system supports the economy and is able to absorb shocks (box 1). The recent crisis showed that the costs associated with financial instability are enormous. In the Netherlands and many other countries, the financial system had to be supported by central banks and governments. The amount spent by the Dutch State on bailouts has passed the €130 billion mark.¹ Moreover, after 2008 the economy entered the longest recession since World War II: real gross domestic product (GDP) did not bounce back to its pre-crisis level until 2015. The major impact was due to the fact that the financial system plays a crucial role in enabling economic activity. If this key role is adversely affected and confidence is lost, there will be direct repercussions for the real economy.

Therefore, addressing systemic risks – threats to the financial system as a whole – is essential.

The policy aimed at addressing systemic risks can target various areas. It should be emphasised that financial crises in the future can never be fully ruled out. An analogy can be drawn with fire

hazards: while it is preferable to prevent any fire from breaking out (prevention), it is also important to ensure that any fires that do break out cannot spread rapidly (firebreaks) and are extinguished quickly (fire brigade). Similarly, the points of departure for policy making can be considered as lines of defence (Figure 1). The first line consists of preventive policy aimed at avoiding developments that pose a threat to financial stability. These include the emergence of asset bubbles in the financial markets, excessive credit growth and risks related to complex financial products. The second and third lines of defence are designed to make the system more resilient (e.g. by means of additional capital and liquidity buffers) or, where this is not sufficient, to limit the damage (e.g. by being able to intervene effectively when a bank gets into trouble without relying on the taxpayer to foot the bill).

In recent years, measures have been taken to help prevent crises or, at the very least, to manage them more effectively. These measures include the development of macroprudential instruments. At a global level, the Basel III Accord has increased banks' capital requirements. This includes additional capital buffers, which banks can use to absorb losses. These buffer requirements can be increased further if systemic risk is judged to be on the rise, e.g. in the event of a surge in

A breakdown of the financial system has direct repercussions for the real economy.

¹ This is the situation at the end of 2014, as reported by the Netherlands Court of Audit, see kredietcrisis.rekenkamer.nl. (available in Dutch only). Spending relates chiefly to capital injections, financial aid and the nationalisation of a number of major banks and insurers.

Box 1 Financial stability and systemic risk

DNB defines financial stability as follows:

A stable financial system ensures an efficient allocation of resources and is well able to absorb shocks so that they do not have a disruptive effect on the real economy.

A stable financial system supports sustainable economic growth. This means, among other things, that productive investment projects can be financed, market prices accurately reflect the underlying value of securities, and payments are settled smoothly. A stable system is not a flawless system, however, as investments may fail, companies may go out of business, and a payment system that never breaks down is inconceivable. That said, the system must be resilient enough to absorb shocks so that financial services are not adversely affected.

Systemic risk is the risk of developments that threaten the system as a whole and ultimately cause severe damage to the economy. Systemic risk can take numerous forms, and a key distinction is often made between the time versus the structural dimension:

- The time dimension relates to imbalances that are built up during a specific period, such as bubble forming in the housing market or persistently high rates of credit growth. Such developments reinforce one another and hence form the boom phase of a financial cycle, which is often followed by a downward correction.
- Systemic risk may also be structural in nature, such as a large and concentrated banking sector or a high level of interconnectedness between institutions.

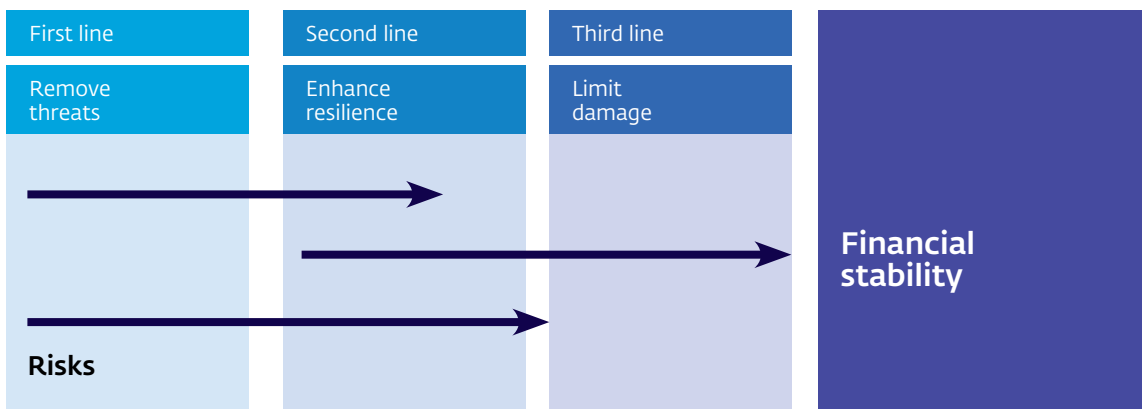
It is important to note that both cyclical and structural risks are monitored by DNB using a wide range of indicators (see Chapter 2).

bank lending. These requirements are an example of macroprudential instruments, which have been especially developed to address systemic risk. Macroprudential policy is, therefore, an important supplement to micro-prudential supervision, which focuses primarily on the idiosyncratic risks of individual financial institutions. Against this background, additional capital requirements for banks that are of crucial importance to the financial system (systemically-important institutions) are needed to make them more resilient and, in crisis situations, makes it easier to intervene without relying on the taxpayer. This is because systemic banks are considered too-big-to-fail, and, as such, have an incentive to take excessive risks.

Macroprudential policy is primarily aimed at addressing systemic risk.

New institutions have been created in the European Union with the aim of timely identification and mitigation of risks to the financial sector. In this context, the European System of Financial Supervision (ESFS) was established, under which there are three sectoral supervisory authorities that cover: (i) banks, (ii) institutional investors, and (iii) financial markets. The ESFS also includes the European Systemic Risk Board (ESRB), which is tasked with overseeing the

Figure 1 Lines of defence against systemic risk



financial system as a whole and plays a leading role in the development of macroprudential policy in the European Union. For that matter, the analytical framework for assessing financial stability in the Netherlands is largely based on ESRB's recommendations.

Furthermore, the Banking Union has been launched in the euro area. As a consequence, the European Central Bank (ECB) is now ultimately responsible for the supervision of euro area banks and a European resolution mechanism has been established to intervene when banks face difficulties. The rules applying to all euro area banks are being harmonised to a large degree. At the same time, the banking union is a means of breaking the adverse sovereign-bank nexus during a crisis. The experience gained in the recent European debt crisis showed that some countries were only able to solve their banking sector problems with the assistance of the other euro area countries. The banking union should make it easier to manage such crises as risks are shared more widely.

Since 1 January 2014, protecting financial stability has been an official task of DNB under the Banking Act. The introduction of this Act has given DNB more powers to safeguard financial stability in the Netherlands. One of DNB's key responsibilities is

The policy aimed at safeguarding financial stability was strengthened substantially in recent years.

the mandate to use macroprudential instruments (see Chapter 3). In addition, DNB's other duties (relating to the monetary system, microprudential supervision, payment system and resolution) contribute to financial stability, and in some cases this is also specifically enshrined in the law. According to national legislation, supervision by DNB must focus on both the soundness of individual institutions and the stability of the financial system as a whole. DNB's new resolution responsibility is also linked to financial stability. This new mandate increases possibilities to intervene whenever financial institutions get into trouble. This should help limit the impact of a crisis. Meanwhile, as a member of the Eurosystem, DNB has to contribute to financial stability in the euro area, provided that this does not pose a threat to the primary goal of monetary policy, i.e. price stability in the medium term.

The enhanced opportunities for addressing systemic risks are a major step forward; the challenge now is to use them effectively. Financial stability is a new policy area in which there is little experience to draw on and complex decisions need to be made. In contrast to price stability, which can be measured through consumer inflation, financial stability cannot be measured using a single, simple measure and has to be pursued amid great uncertainty. This is because crises do not occur frequently and are often linked to new developments such as financial innovations. DNB takes this fact into consideration in various ways. For example, DNB considers a large number of indicators when analysing systemic risk (see Chapter 2).

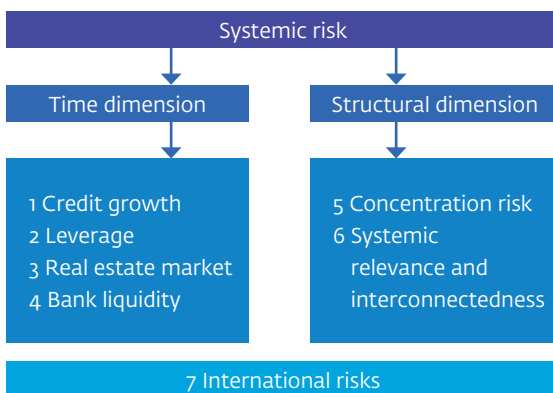
Moreover, besides devoting attention to prevention, DNB also focuses specifically on increasing resilience to shocks and capacity for recovery. This enables unforeseen developments to be dealt with more effectively (see Chapter 3). It may also be necessary to take certain precautionary measures before it is completely clear whether a specific risk will actually materialise.

DNB focuses on both the soundness of individual institutions and the stability of the financial system as a whole.

2 How does DNB assess the stability of the system?

DNB focuses on a number of areas in order to assess the stability of the financial system. Systemic risk does not materialise frequently and takes various forms. In view of this, DNB monitors a large number of indicators covering both the structural as well as the time dimension, which have been divided among seven 'focus areas' (Figure 2). By using a broad set of indicators, DNB can form a better understanding of each of these areas. See the Financial Stability webpage in DNB.nl. Vulnerabilities in these focus areas are not independent of one another and may actually reinforce each other.

Figure 2 Dimensions of systemic risk and focus areas



The build-up of systemic risk is often accompanied by excessive credit growth, sharp rises in real estate prices and loose lending standards.² The 'credit gap', which is the difference between the credit-to-GDP ratio and its long-term trend, is a reliable indicator of excessive credit growth and the emergence of asset bubbles.³ Many crises in the past have been preceded by a surge in credit growth. When an economy experiences a sharp increase in real estate prices in combination with excessive credit growth, this is a strong indication of growing imbalances (Chart 1). Against this backdrop, trends in the real estate markets are important for the stability of the financial system (see Box 2). Loose lending standards for mortgages, such as very high loan-to-value (LTV) ratios for first-time home buyers, is also an indication of such vulnerabilities.⁴

Risks can also arise because the financial system is not sufficiently resilient to shocks.

The easing of lending standards during the boom phase of a financial cycle may, for example, lead to an increase in the financial leverage of households, non-financial firms and banks. A high degree of leverage reduces the buffers available for absorbing losses and therefore increases

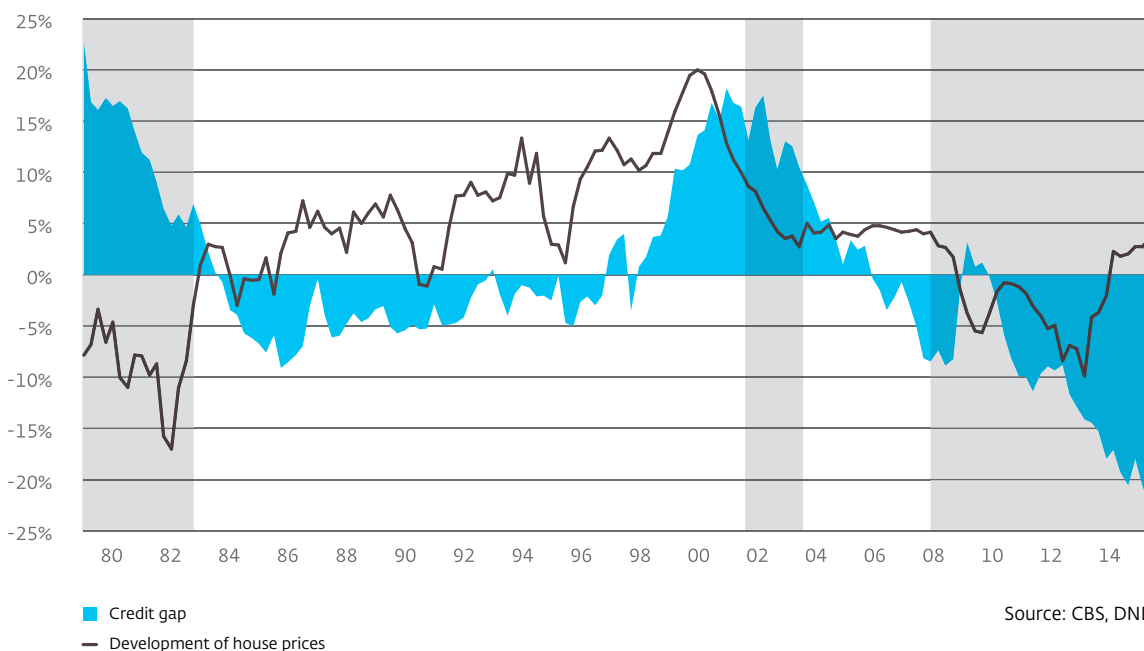
² This section draws on information contained in the ESRB Handbook on Operationalising Macro-prudential Policy in the Banking Sector, published in 2014.

³ This indicator plays a central role in the countercyclical capital buffer framework, see Basel Committee on Banking Supervision (2010): Guidance for national authorities operating the countercyclical capital buffer, December.

⁴ De Nederlandsche Bank (2014), Risks in the Dutch mortgage portfolio, Overview of Financial Stability, Spring 2014; De Nederlandsche Bank (2015a), Effects of further reductions in the LTV limit, Occasional Studies Vol. 13-2

Chart 1 The credit gap and trends in house prices in the Netherlands

The credit gap is the difference between the credit-to-GDP ratio and its long-term trend (% of GDP). Development of house prices in % per annum. The grey areas indicate financial crisis periods.



vulnerability during a downturn. The leverage of households and non-financial firms is calculated as the ratio of their debt to GDP. In the case of banks, capital ratios are used as a measure of leverage. Another example that illustrates how banks have become less resilient to shocks is their dependence on short-term wholesale financing. This makes banks susceptible to shocks in the financial markets. Indicators of such vulnerability, such as the ratio of loans to stable deposits, often increase in the run-up to a financial crisis.

The vulnerability of a financial system is determined in part by its structure. A large, concentrated and highly interconnected banking sector can increase the likelihood and impact of a systemic crisis. Consequently, the banking sector is systemically important, which means that it determines the stability of the system. As the systemic importance of the banking sector often goes hand in hand with other vulnerabilities, such as a high degree of leverage (Chart 2), the impact of the crisis is even larger. DNB monitors such

Box 2 Real estate markets and financial stability

Real estate markets (both residential and commercial) have a major influence on financial stability. Falling real estate prices often lead to financial crises, particularly when the correction occurs after a long period of sharp increase in prices and lending. This is partly because the purchase of real estate is often largely debt-financed. Real estate is also used as collateral for loans. Sharp fluctuations in the housing market, therefore, have a major impact on the financial system. During boom phases, the increase in real estate prices, the greater availability of credit and the expectation of further price rises reinforce each other. Once this virtuous circle turns out to be unsustainable, falling prices can result in losses for banks and other investors. In addition, the drop in household wealth and the reduced availability of credit hold back economic growth. As a consequence, recessions brought about by real estate crises tend to be particularly costly and protracted. They are often accompanied by further losses for banks, and, as a result, pose a significant threat to financial stability.

The real estate market also plays a key role in the Netherlands. There has been a sharp rise in mortgage lending since the 1990s. Consequently, the Netherlands now has the second highest level of household mortgage debt in the European Union. Such a high debt level makes households vulnerable to both income and house price shocks. Between 2008 and 2013, house prices fell by over 20%, at which point more than 1.3 million residential mortgage loans were 'under water' (i.e. value of debt exceeded the value of the property). This is one of the reasons for the slow pace of the Dutch economic recovery following the financial crisis. At the same time, there was a sharp increase in commercial real estate prices partly because of the ample availability of financing prior to the crisis. Dutch banks faced severe losses following the collapse of this market after 2008.

In the Netherlands, various measures have been recently taken to reduce the risks presented by real estate markets to financial stability. As part of this, mortgage lending standards have been tightened and tax-deductibility of mortgages is being cut back gradually. In May 2015, the Dutch Financial Stability Committee (FSC) argued for a further reduction in the LTV limit to 90%. In FSC's view, a lower LTV limit would result in a more stable housing market and hence a more stable financial system. The rules for valuing commercial real estate have become stricter as well. DNB and the ECB have also carried out detailed examinations of the real estate loans of Dutch banks. These asset quality reviews resulted in an increase in provisions and capital requirements for real estate loans.

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vulnerabilities through a number of indicators such as the size of the banking sector as a proportion of domestic GDP, sectoral and geographical concentration indicators of banks' exposures, and interbank exposures.

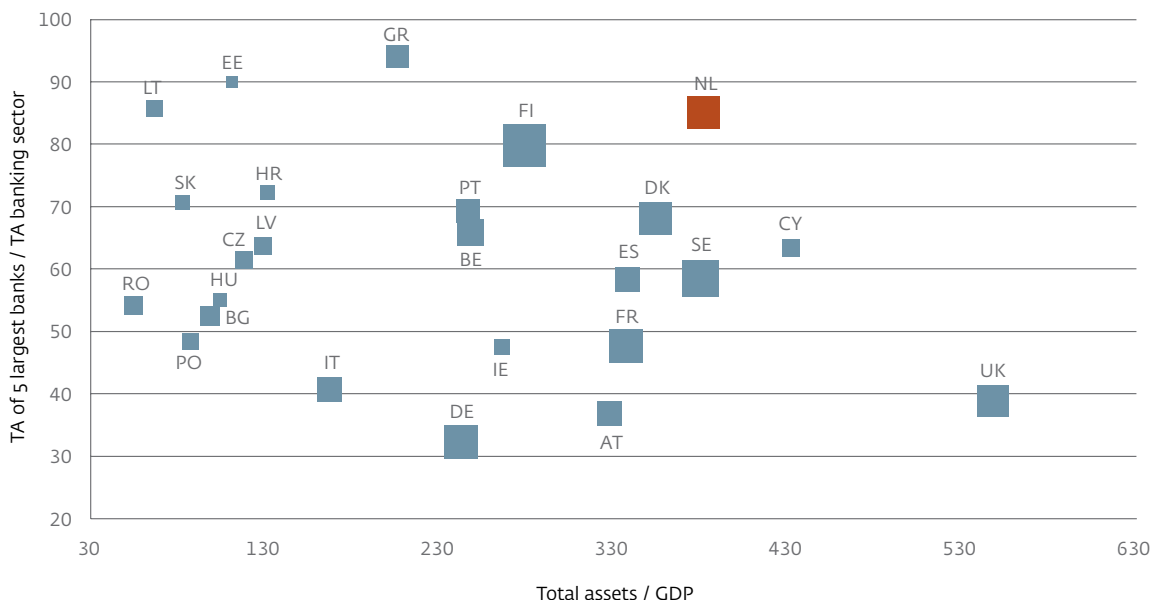
A large and concentrated banking sector increases the likelihood and impact of a systemic crisis.

Finally, DNB also monitors risks at an international level, since such risks can pose a threat to domestic financial stability. Risks that emerge in other countries can affect Dutch institutions through their foreign exposures, for example. If these risks spread

to the Netherlands through the global financial markets, this may make it harder for banks to obtain wholesale financing. These risks are monitored using figures on growth in global lending and real estate prices, and risk premiums in financial markets.

Chart 2 Size, concentration and leverage of banking sector

EU Member States, 2014. TA = total assets. The size of the square indicates the degree of leverage. Leverage is defined as total assets divided by the total capital of the banking sector.



Source: ECB

DNB selects the indicators for monitoring purposes on the basis of two criteria: timeliness and accuracy.

It is important that an indicator signals the build-up of vulnerabilities in the time dimension at an early stage, owing to the delayed effect of macroprudential policy. An indicator must also be accurate: it must not give signals too often, in order to reduce the likelihood of false alarms. Besides time-related indicators, there are also indicators that signal vulnerabilities in the structural dimension. These are usually relevant for indicating the impact of systemic risks.

The indicators have a signalling function: DNB examines how they develop over time and in comparison with other countries. If an indicator points to vulnerabilities, this gives DNB grounds to analyse the potential systemic risks in further detail. These indicators and their trends are published in the form of charts on DNB's website.

DNB also uses quantitative models to identify risks.

When several indicators point to vulnerabilities at the same time, this may indicate the build-up of systemic risk. DNB uses early warning models to identify such risks.⁵ What's more, DNB also estimates the potential impact of risks on financial institutions, using stress tests and macroeconomic models. The stress test

models are specifically geared to the situation in the Netherlands, and DNB is actively involved in the stress tests conducted by the ECB and the European Banking Authority (EBA). DNB's macroeconomic models, such as DELFI, can then be used to assess the impact of an impending crisis on the real economy.

DNB also regularly analyses the structural characteristics of the Dutch financial system.

Structural indicators typically indicate the impact of a crisis and not the likelihood of a crisis occurring. Using EBA's methodology, DNB analyses the systemic importance of Dutch banks every year in order to determine the systemic buffers (see Box 3).⁶ Other examples of structural analyses include examinations of the characteristics of the Dutch mortgage portfolio or the structure and size of the Dutch banking sector.⁷

If an indicator points to vulnerabilities, DNB analyses potential systemic risks in further detail.

5 For a description of models of this kind, see ESRB (2014), Operationalising the countercyclical capital buffer: indicator selection, threshold identification and calibration options, Occasional Paper No. 5 and Alessi, Lucia and Carsten Detken (2011), Quasi real time early warning indicators for costly asset price boom/bust cycles: A role for global liquidity, European Journal of Political Economy.

6 See <http://www.dnba.nl/en/about-dnb/duties/financial-stability/index.jsp>

7 De Nederlandsche Bank (2015b), Perspective on the structure of the Dutch banking sector.

These analyses result in a systemic risk assessment, which is published in the Overview of Financial Stability twice a year. The risk assessment is based on macroprudential indicators, supplemented by analyses of specific risks. Furthermore, DNB communicates the results of its systemic risk analyses in publications such as Occasional Studies and DNBulletins through its website. DNB then uses these analyses as a basis for adopting macroprudential instruments or other measures (see Chapter 3).

For an overview of DNB publications in this field, see the Financial Stability webpage in DNB.nl.

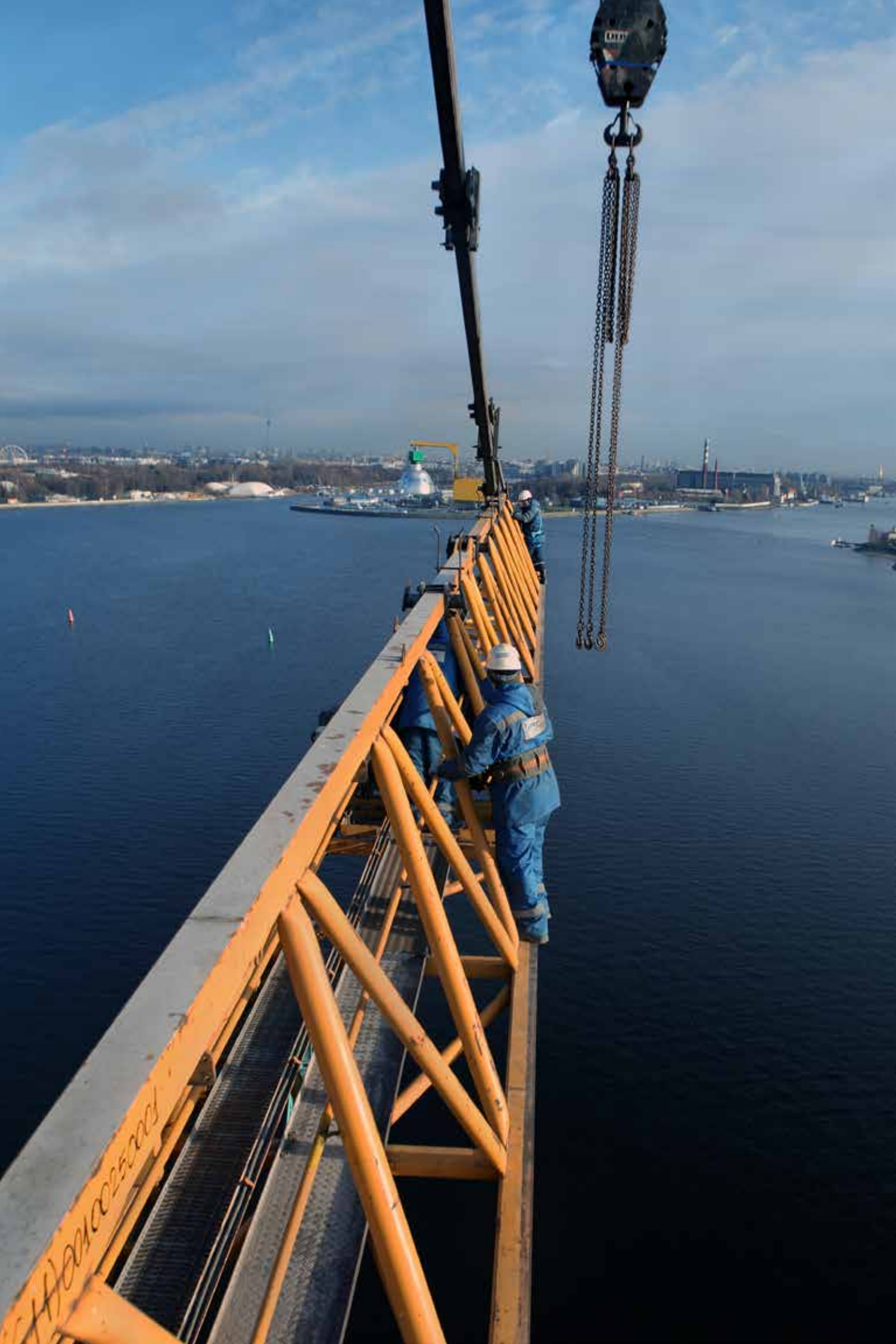
Box 3 The assessment of systemically important institutions by DNB

DNB's systemic importance framework is in line with the EBA's guidelines on the identification of systemically important institutions (O-SIIs). Similar identification processes are followed in all EU Member States. This identification process consists of two steps. In the first step, scores for ten indicators relating to size, substitutability, complexity/cross-border activities and interconnectedness are obtained for all banks. Banks scoring above a certain threshold are automatically identified as systemically important. In the second step of the process, the supervisory authority may qualify other banks as systemically important on the basis of other characteristics (supervisory overlay). In this step, DNB looks at a number of additional indicators that are relevant to the Dutch financial sector. For instance, the amount of deposits guaranteed by the deposit guarantee scheme is considered important.

DNB currently identifies the following banks as systemically important: ING Bank, Rabobank, ABN AMRO, BNG Bank and SNS Bank. Only SNS Bank is considered to be systemically important based on the application of the supervisory overlay. DNB has decided to impose an additional capital buffer on these five banks that reflects the extent of their systemic relevance to the Dutch financial system (see Chapter 3).

Banks may also be systemically important at a global level, for example because they have many cross-border activities or are highly interconnected with the international financial sector. The Financial Stability Board (FSB) establishes the list of global systemically important banks once a year. In 2015, the only Dutch bank included in this list was ING Bank.

Insurers are also assessed to determine whether they are systemically important. To this end, the FSB has prepared a framework, in conjunction with the International Association of Insurance Supervisors (IAIS), that is based on criteria that are similar to those used for banks. For insurers, the criteria related to the interconnectedness of non-insurance or non-traditional activities are the most important as these can present the greatest systemic risks. In 2015, the FSB considered Aegon to be a global systemically important insurer.



3 How does DNB safeguard financial stability?

DNB protects the stability of the financial system by addressing the identified systemic risks. First of all, DNB assesses the possibilities to remove or reduce threats directly. Next, DNB considers necessary measures to ensure that the financial system is able to withstand these threats. This depends, in part, on where the greatest risks emerge within the financial system. In every case, DNB makes a comprehensive assessment of all possible measures. This means that DNB also considers what other authorities could do to address the risks. It also ensures that financial institutions can be resolved without jeopardising the stability of the system.

DNB seeks to remove threats to financial stability wherever possible. DNB focuses mainly on threats that stem from national developments in, for example, the real estate markets. To address the accumulation of excessive debt in these markets, among other things, DNB advocates further reductions in mortgage tax deduction and the lowering of the LTV limit (see also Box 2). In an international context, DNB contributes to the creation of rules and legislation for the financial sector to prevent the build-up of systemic risks. An example of this is the special status of government bonds in the supervisory framework of banks. The interconnectedness of banks with their national governments, which is partly the result of this

special status, has a destabilising effect during a crisis. For this reason, DNB is seeking to alter the rules in this area, with the aim of ending the high level of interconnectedness between governments and banks. Many threats are due to developments in the global financial markets or foreign macro-economic shocks. Although DNB has virtually no direct influence on such matters, it is able to provide warnings so as to increase awareness.

Many of DNB's instruments are designed to make the financial system more resilient to shocks and reduce the damage caused by crises. This does not only hold true for the use of macroprudential instruments, which is discussed in further detail below, but also for the microprudential supervision of banks, insurers, pension funds and investment firms. First and foremost, the aim of supervision is to promote the stability of the financial system. If individual financial institutions are better able to absorb losses, the system as a whole is more stable. In addition, DNB uses supervision as a means of reducing systemic risks, for instance by translating identified risks into areas that supervisors can pay extra attention to. As an example, the risk of an upward interest rate shock has been included in bank stress tests and the extent to which financial institutions are investing in riskier assets due to the low interest rate environment has been investigated. If necessary, DNB can take supervisory measures based on these analyses so that institutions are better able to withstand such macro risks. Moreover, in its role as national resolution authority, DNB works to ensure the efficient resolution of banks that face difficulties.

Based on risk analysis, DNB assesses which measures are required.

DNB can activate the counter-cyclical capital buffer in case of excessive credit growth.

To this end, DNB asks banks to prepare recovery and resolution plans and monitors whether banks have sufficient loss absorption capacity.⁸ The applicable requirements are laid down in European regulations.

DNB can implement macroprudential instruments to protect the financial system from banking sector problems. Under the European rules on capital requirements, DNB may set capital buffers for systemically important banks in the Netherlands. These requirements come on top of the microprudential supervisory requirements. An additional capital buffer reduces the likelihood of failure of a systemically important bank, which poses a serious threat to the financial system. Banks that are more systemically important potentially cause more damage if they face difficulties, and, therefore, the additional capital buffer must be accordingly higher (see Box 3).

DNB also has access to macroprudential instruments that it can use to protect banks against the build-up of systemic risks. For instance, the countercyclical capital buffer (CCyB) can be increased in the event of excessive

credit growth in the Netherlands.⁹ The use of this instrument enables banks to absorb more losses if a sudden correction occurs. As such, a sharp contraction of the credit supply can be avoided during a crisis. Furthermore, in the run-up to a crisis the CCyB may curb excessive lending, and hence reduce the level of risk in the system as a whole. This does not mean, however, that DNB uses this instrument with the intention of actively controlling domestic credit supply. Rather, the primary purpose of the CCyB is to make banks more resilient. If there appears to be a build-up of risks in a specific sector, measures may be geared to that sector. For example, DNB may increase the capital requirements that apply to exposures to real estate. Table 1 provides an overview of DNB's main macroprudential instruments.

DNB decides whether to use these instruments and liaises with the European authorities such as the ECB, the ESRB and the European Commission. Decisions are taken on the basis of an assessment of all available information. To be sure, no indicators are automatically linked to the use of specific instruments. When a number of indicator signal an increase in systemic risk, DNB makes a decision concerning the desirability of implementing macroprudential measures. These signals and information supporting the decision are published in the OFS and on DNB's website. Furthermore, DNB liaises with European authorities on the use

⁸ Recovery and resolution plans for other financial institutions, such as insurers and central counterparties, are still under development.

⁹ See <http://www.toezicht.dnb.nl/en/2/51-234733.jsp>

Table 1 Overview of DNB's macroprudential instruments

Instrument	Description
Countercyclical capital buffer	Time-related capital surcharge for addressing risks presented by the financial cycle
Systemic buffer	Capital surcharge for systemically important banks to address structural systemic risks.
Flexibility package	Wide range of measures (e.g. increase in liquidity requirements or risk weights) if other instruments prove inadequate.

For a detailed overview of macroprudential instruments see the Financial Stability webpage in DNB.nl.

of these instruments. This helps to ensure that the instruments are used consistently across the European Union. Moreover, the ECB may decide to take additional measures if it is of the opinion that the national authorities in the euro area are not doing enough to address a particular risk.¹⁰ For this reason, DNB consults the ECB about its risk analysis and use of instruments.

a home, and therefore have a significant impact on the housing market and the level of household debt. These instruments are particularly relevant as they apply to all mortgages, irrespective of whether the lender is a bank or non-bank. The power to change these limits rests with the government, although DNB plays an advisory role.

The LTV and loan-to-income (LTI) limits on mortgages are also important macroprudential instruments.¹¹ These instruments place a cap on the amount that households can borrow in order to buy

DNB works with national and European authorities on macroprudential policy.

¹⁰The ECB cannot ease measures that are taken by national authorities.

¹¹ The LTV limit sets a cap on the size of a mortgage loan as a percentage of the value of a home. The LTI limit sets a cap on the size of a mortgage loan as a multiple of income.

DNB also contributes to the further development of macroprudential instruments covering non-bank financial institutions.

These instruments are necessary because systemic risks can also exist outside the banking sector. Moreover, DNB wants to ensure that the measures it takes are not simply shifted elsewhere as a result of financial activities being transferred from the banking sector to less heavily regulated sectors. At the moment, there are not many macroprudential instruments covering institutions other than banks. For example, under current European legislation, DNB is able to impose a limit on the leverage of Dutch investment funds, and requirements can be set for these funds' liquidity management. DNB is committed to the further development of macroprudential instruments for non-bank financial institutions.

DNB has an advisory role in the other policy areas that are considered important for financial stability such as fiscal policy, tax policy and the supervision of financial markets.

Governments that get into financial difficulties are a common cause of financial instability. Additionally, a tax regime that favours debt financing over equity financing can lead to excessive private sector debt. The functioning of financial markets and conduct of market players have an impact on how shocks develop and how they spread through the system. These policy areas are thus extremely important in terms of protecting the stability of the financial system. When taking measures, DNB considers the policy pursued by other authorities, such as the Ministry of Finance and the Netherlands Authority for the Financial Markets (AFM), and also consults

Fiscal policy, tax policy and the supervision of financial markets have a major impact on financial stability.

these authorities and advises them on measures to be taken. The AFM, DNB and the Ministry of Finance are members of the Financial Stability Committee (FSC). The function of the FSC, which is chaired by the President of DNB, is to identify risks to financial stability in the Netherlands and, subsequently, make recommendations to address them. The FSC also discusses how the measures taken by the authorities relate to and possibly reinforce each other. In May 2015, for example, the FSC advised future governments to continue the gradual lowering of the LTV limit for mortgage loans after 2018 to 90%.

In the international fora, DNB is committed to establishing agreements and measures that safeguard the stability of the Dutch financial system.

DNB works closely with European and international institutions because the Dutch financial system is internationally oriented. Important partners in the areas of supervision and regulation are the ECB, which is ultimately responsible for banking supervision, and the Basel Committee, in which international agreements are reached on supervisory rules. Alongside the ECB, the ESRB also plays an important role with respect to macroprudential policy in Europe. The ESRB analyses and assesses systemic risks within the European Union and makes recommendations

aimed at addressing these risks. It also focuses specifically on developments occurring and measures introduced outside the banking sector. In addition, international institutions such as the Financial Stability Board (FSB) also identify risks and reach agreements on managing systemic risks. In this way, the FSB plays a key role in determining the methodology used for identifying global systemically important banks and insurers.

For more information on how DNB safeguards financial stability see the Financial Stability webpage in [DNB.nl](https://www.dnb.nl).

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