Financial Stability Report

Spring 2025

DeNederlandscheBank

EUROSYSTEEM

Contents

Summary

Risks to Dutch financial stability are increasing in an uncertain environment characterised by geopolitical tensions and a fragmenting global economy. Uncertainty around trade, international cooperation and fiscal balances has increased sharply in recent months, spurred by US import tariffs as announced. High uncertainty over these import tariffs is affecting global growth prospects and hitting the Dutch economy. The risk of economic contraction and higher inflation is increasing, especially in the medium term. In addition, rising geopolitical tensions are compelling European nations to boost their defence spending, resulting in renewed scrutiny of debt sustainability – especially in already highly indebted euro area countries.

Geopolitical and economic risks translate into higher volatility in global financial markets. Investors are concerned about the impact of import tariffs on global growth and corporate profitability. These concerns are compounded by general uncertainty about US economic policy. It is also notable that investors see US government bonds and the dollar less as safe havens, seeking refuge in other currencies and gold. However, the US government bond market has continued to function well for now, although the resilience of this systemically important market is a concern. The high volatility in financial markets has not led to liquidity problems for pension funds and insurers in the Netherlands, while investment funds are functioning properly for the time being. However, these developments do underline the importance of resilient investment funds. This requires, among other things, sound liquidity management and improved availability and quality of data for monitoring risks faced by non-banks.

Dutch financial institutions have solid buffers to cope with the current uncertainty. Economic conditions in recent years, with higher interest rates and moderate growth, have helped Dutch financial institutions solidify their financial positions. Looking ahead, however, continued geopolitical tensions could lead to larger economic shocks. We therefore used a stress test to assess the potential impact of an escalating trade war on Dutch large banks. In this stress scenario, banks' capitalisation deteriorates but the average core capital ratio remains above requirements. Insurers and pension funds are also sensitive to geopolitical risks. The increased concentration in equity portfolios also increases vulnerability to further corrections in equity markets, especially in the case of pension funds. For now, however, both pension funds and insurers easily meet the minimum requirements. Current levels of uncertainty thus underline the importance of a well-capitalised financial sector, where solid buffers are indispensable to cushion the effects of unexpected shocks. It is important for financial institutions to firmly embed geopolitical risks in their strategic and risk management, for example, by conducting scenario analyses and stress tests.

Geopolitical tensions are also boosting cyber threats to the financial sector. Financial institutions can be directly targeted by cyber attacks, but are currently more often hit indirectly. These indirect attacks are more frequently targeting service providers critical to financial institutions such as cyber security firms and network providers, or through attacks on vital infrastructure such as the energy and telecom sectors. The recent power outages in Spain and Portugal have demonstrated the systemic impact of a disruption on vital payment systems. Moreover, geopolitical tensions add to concerns about digital dependence on non-European service providers. These developments underline the importance of digital resilience for Dutch (and European) financial institutions, and the need for them to thoroughly understand and manage digital dependencies in their processes. Against this background, the Digital Operational Resilience Act (DORA) sets stricter requirements for managing ICT and cyber risks in the outsourcing chain and introduces an oversight framework for critical ICT service providers.

Finally, geopolitical dynamics weaken the effectiveness of multilateral forums. These bodies, such as the International Monetary Fund (IMF), the G20 and the Financial Stability Board (FSB), play a crucial role in monitoring and promoting global financial stability. However, geopolitical tensions have led to a hardening of international relations, making it more difficult to reach consensus within multilateral forums and undermining their effectiveness. Strained international cooperation can hamper rapid policy responses to global shocks of the type we saw during the great financial crisis or the COVID-19 pandemic. Fragmentation can also lead to less international regulatory coordination. Failure to implement international agreements in national legislation or implementing them differently can potentially result in a regulatory race to the bottom. This is detrimental to the resilience of the financial system and increases the risk of cross-border contagion effects, for instance through non-banks.

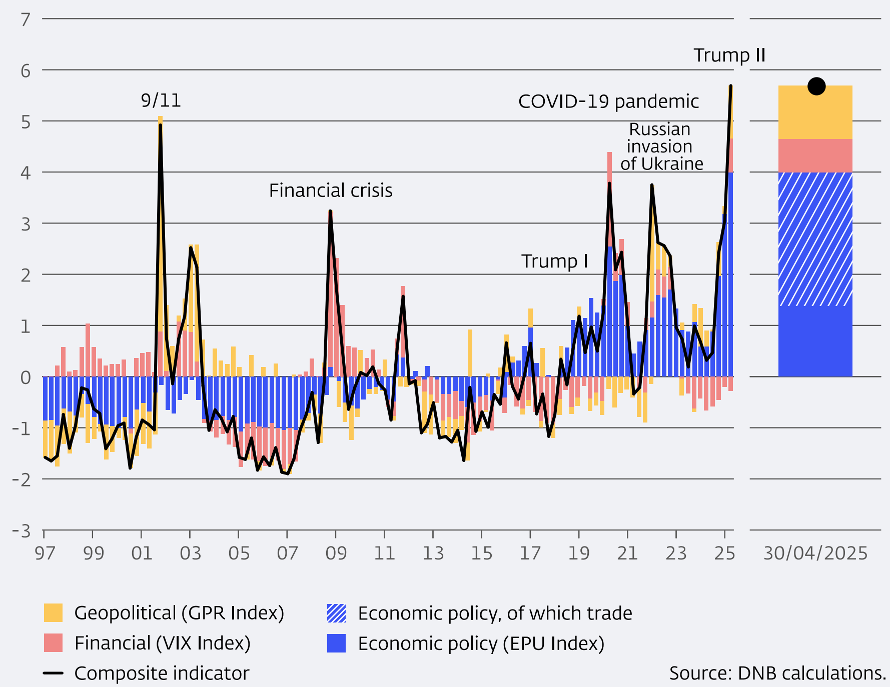
International cooperation is essential to meet global challenges, especially in times of major economic uncertainty. As a small country with an open economy, the Netherlands benefits from well-functioning international partnerships. Moreover, most financial stability risks are cross-border in nature. It is therefore vital that we remain active in multilateral forums and continue to support international cooperation. By the same token, the current state of the world makes cooperation within Europe even more essential. In this regard, deepening the single market and European capital markets is a key element in strengthening Europe's financial system and competitiveness. Targeted regulatory simplification can also play a role here, as long as financial sector resilience is maintained. Finally, it is essential for Europe to increase its strategic autonomy, for example by developing a European payment instrument, such as the digital euro, which can be used anywhere in Europe and by anyone.

1 Risk outline

Increasing trade tensions and further geo-economic fragmentation lead to economic uncertainty and higher risks to financial stability. Especially with regard to trade, international cooperation and fiscal balances, uncertainty has increased sharply in recent months following the announcement of new import tariffs by the United States in early April and the response from several countries (see Figure 1). The US government has announced substantial import tariffs on many countries – including a 20% tariff on the EU – and on specific sectors such as steel and cars. For now, general tariffs are capped at 10% and countries are trying to negotiate deals with the United States. Tariffs between the United States and China are even higher, although the two countries recently reached a tentative agreement on a temporary trade tariff reduction. Although these temporary reductions provide some relief, high uncertainty continues to depress sentiment. As a result of high global uncertainty, the economic outlook has deteriorated in recent months and downside risks to financial stability have increased.

Figure 1 Global economic uncertainty rises to historic levels

Index



Source: DNB calculations.

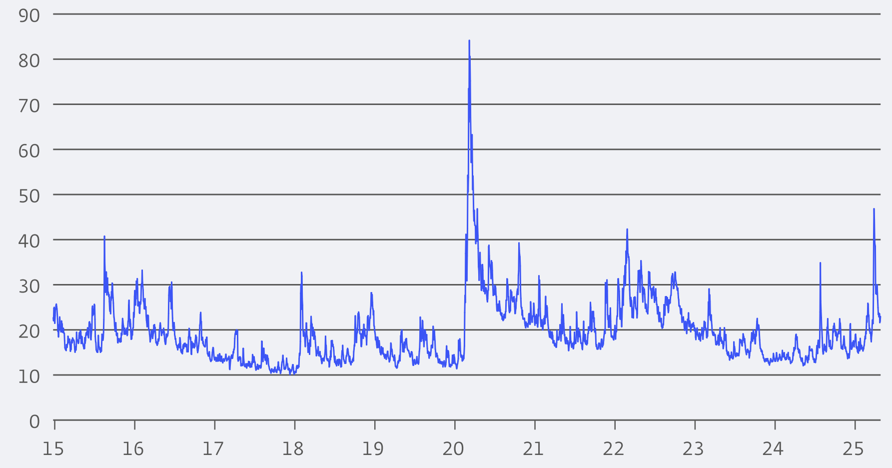
Note: The figure shows the first principal component of a standardised time series of the Economic Policy Uncertainty Index (EPU), VIX index and Geopolitical Risk Index (GPR), see Baker et al. (2016) and Caldara et al. (2019).

Financial market volatility stemming from import tariffs and recession concerns

Trade tensions and general uncertainty have led to higher volatility in financial markets. Investors are concerned about the impact of import tariffs on global growth and corporate profitability. These concerns are compounded by the uncertainty surrounding US economic policy, which translates into higher volatility in financial markets. For instance, volatility indices, which measure the expected volatility of stocks, rose in April to the highest level since the start of the COVID-19 pandemic (see Figure 2). Moreover, equity indices, such as the S&P 500 and Eurostoxx 50, fell very rapidly by about 15% in early April, although these losses have since been recouped. In addition, yields on European corporate bond markets rose by around 100 basis points for high-yield and 30 basis points for investment-grade bonds in the first week of April. These assets have also largely recovered in the meantime.

Figure 2 Expected equity market volatility in April at highest level since COVID-19 pandemic

Index



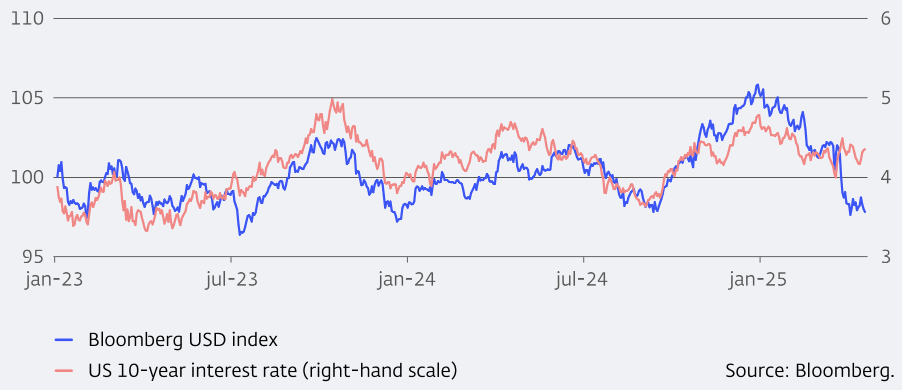
Note: The index is based on an average of the VIX and VSTOXX. Source: Refinitiv.

It is moreover notable that investors viewed US government bonds and the dollar less as safe havens in April. In uncertain and volatile markets, investors typically seek refuge in safe havens such as US government bonds (Treasuries) and the dollar. At the outbreak of the trade war, however, an anomalous pattern emerged: US government bond yields rose considerably (see Figure 3), whereas they tend to fall in times of market stress. Hedge funds' unwinding of their positions in US government bonds may have played a role in this development (see 'Despite substantial shocks, markets remain broadly sound'). In addition, the dollar depreciated against a basket of other world currencies (-4% since early April, see Figure 3). These notable moves signal that investors – partly as a result of US policy uncertainty – seem to be seeking refuge elsewhere.

In Europe, economic uncertainty and rising spending (including on defence) are causing wild swings on bond markets. In early March, the German 10-year interest rate rose by around 40 basis points in two days following the announcement of extensive investment plans and the release of the 'debt brake', while the Dutch 10-year bond rate also rose by around 40 basis points. Since then, however, interest rates have fallen again due to concerns about the growth outlook, with the negative contribution of US developments to short-term European interest rates being a particularly striking factor (see Figure 4). Reflecting concerns about the economy, market participants expect the European Central Bank to cut its policy rate (currently 2.25%) further. A policy rate of around 1.75% is currently expected at year-end 2025, down from 1.9% six months ago. This expectation is reinforced by the sharp fall in energy prices and the appreciation of the euro, which has a downward effect on inflation. The 1y-1y inflation swap, a measure of inflation expectations for the year starting in one year, is currently 1.75%, which is below the inflation target.

Figure 3 Investors see US dollar and Treasuries less as safe havens

Index (left-hand scale), percentages (right-hand scale)

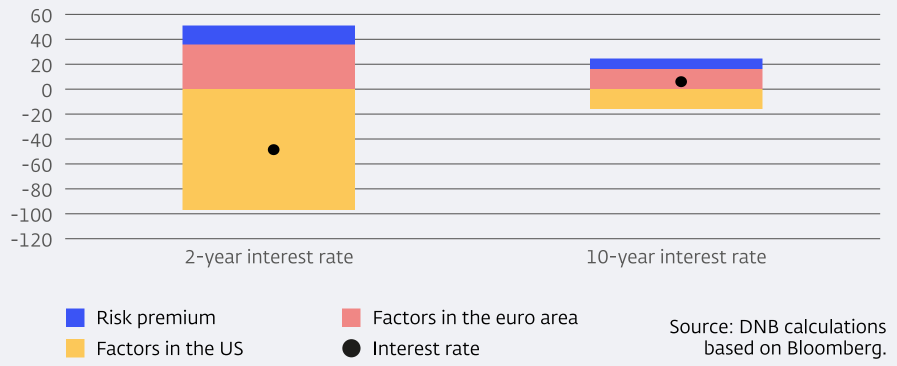


Source: Bloomberg.

Note: The Bloomberg USD index reflects the value of the US dollar against 10 other currencies, with a decline indicating a depreciation of the dollar.

Figure 4 European (short-term) interest rates fall mainly due to concerns about the US growth outlook

Percentages



Source: DNB calculations based on Bloomberg.

Note: The figure shows the change in the 2- and 10-year risk-free interest rate (Overnight Index Swap) since the end of October 2024. Factors in the euro area, the US and the risk premium were estimated using a Bayesian VAR model (Brandt, 2021).

Despite substantial shocks, markets remain broadly sound

Market volatility can pose a risk to financial stability, especially when financial institutions face large-scale high liquidity needs. Financial market uncertainty can expose vulnerabilities in the financial system, especially in the non-bank sector. Increased market volatility leads to greater liquidity needs for many financial institutions, for example due to rising margin calls and the use of leverage (FSB, 2023 and FSB, 2024). A rapid increase in demand for liquidity can amplify shocks to the financial system, for instance when financial institutions are compelled to sell assets. In an extreme scenario, this could trigger a self-reinforcing mechanism, where falling prices, rising margin calls and forced asset sales feed off each other, as witnessed at the start of the COVID-19 pandemic (ESRB, 2025).

Markets have proven well able to meet liquidity needs for the time being. Financial institutions use derivatives to hedge financial risks, such as a fall in interest or exchange rates, and Dutch institutions are no exception. For instance, Dutch pension funds use foreign exchange derivatives to protect themselves against exchange rate fluctuations that can affect the value of foreign investments. The volatility in interest rate and foreign exchange markets leads to margin calls on derivative positions, requiring investors to release cash to meet these obligations. The margin calls faced by Dutch pension funds and insurers, for instance, rose in early March as a result of the interest rate hikes (see 'Box 1 Pension funds and insurers resilient to steep interest rate hikes, but dependent on repo market'). In contrast, the increased market volatility since the beginning of April has, for now, been beneficial in helping them meet their liquidity needs. In recent weeks, a lower dollar exchange rate and a fall in interest rates have caused pension funds' and insurers' derivatives to increase in value, improving their liquidity position on balance. Besides the impact on liquidity needs, large movements in financial markets also affect the investments of Dutch pension funds and insurers (see 'Pension funds and insurers have solid buffers, but are sensitive to volatility in financial markets').

Box 1 Pension funds and insurers resilient to steep interest rate hikes, but dependent on repo market

European repo markets are an important source of liquidity for Dutch pension funds and insurers. These institutional investors partially hedge their interest rate risk with derivatives. When interest rates rise, derivative positions decrease in value, requiring them to provide liquidity to counterparties to meet margin calls at short notice. Studies show that repo markets are an important source of liquidity for pension funds and life insurers (DNB, 2024 and DNB, 2025). European repo markets collateralised by government bonds are deep and usually amply able to meet the liquidity needs of financial institutions. The average daily transaction volume on these markets is around €900 billion, 28% of which consists of bilateral repo transactions (see Figure 5), and an average outstanding volume of more than €2,000 billion. Relative to the total market size, the activity of European pension funds and insurers in repo markets is limited, with a daily transaction volume of around €21 billion and an outstanding volume of €40 billion.

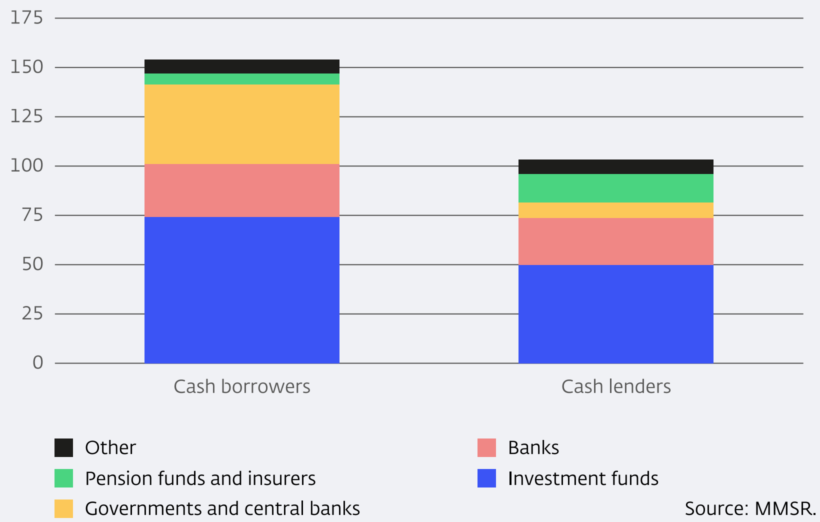
European repo markets have been able to meet the increased liquidity needs of Dutch pension funds and insurers so far this year. In the first week of March – due to interest rate hikes following the announcement of extensive European investment plans and the release of the German 'debt brake' – these institutions had to pay €23 billion in net margin calls.[1] To meet these calls, pension funds and insurers raised over €2 billion of additional liquidity through bilateral repo transactions, increasing the outstanding repo volume to around

1 Gross margin calls as a result of interest rate hikes were higher, at around €37 billion, but were partly offset by margins that pension funds in particular received on their EUR-USD foreign exchange derivatives due to the appreciation of the euro.

€4 billion.[2] Despite the liquidity shock, repo rates remained stable, demonstrating that the repo market has the capacity and flexibility to cope with such increased liquidity demand. However, available liquidity volumes in European repo markets can become uncertain for pension funds and insurers in times of stress, for instance because of their reliance on a limited number of banks as counterparties. Indeed, the four largest European banks account for around 80% of their outstanding repo volumes. It is thus in their best interest that these institutions sufficiently diversify their sources of liquidity.

Figure 5 European repo markets are deep, with limited activity from European pension funds and insurers

EUR billions, volume of bilateral repo transactions collateralised by government bonds



Source: MMSR.

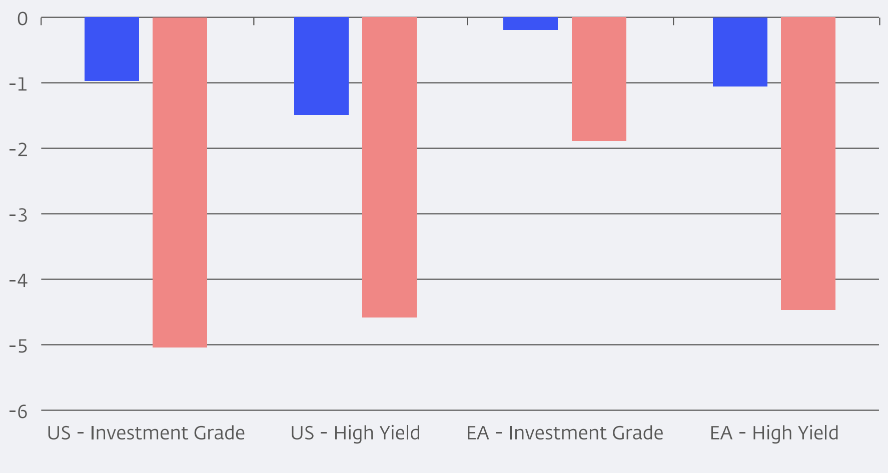
Note: The figure shows the average daily volume of bilateral repo transactions collateralised by government bonds in the first quarter of 2025 based on MMSR reports from banks. To avoid duplication, transactions between MMSR reporting entities are included only as cash borrowers.

Investment funds are also functioning properly for now, but vigilance is still required. Faced with high liquidity needs or due to expected falls in value, investors may decide to withdraw their money from investment funds on a large scale. This vulnerability has been prioritised in international policy discussions following the COVID-19 pandemic (FSB, 2023). For now, there are no signs of major outflows from investment funds. However, some selling pressure has made itself felt in the market for exchange-traded funds (ETFs). These are liquid funds that can be traded continuously on financial markets, allowing the price of an ETF to be compared with the underlying securities held by the fund. A temporary difference between the value of the ETF and the underlying securities was apparent in some funds in early April. This was primarily the case for ETFs investing in risky bonds (see Figure 6). Such a price difference may indicate higher pressure to sell the underlying securities, although this has not taken place at worrying levels. Indeed, these price differences were significantly higher during the COVID-19 pandemic (see Figure 6). Financial stability risks from investment funds thus appear limited at the moment, although continued market turmoil could put additional pressure on their position. However, the abrupt movements in financial markets do underline the importance of resilient funds, requiring, among other things, adequate liquidity management and improved availability and quality of data for monitoring risks faced by non-banks, which is being addressed in the FSB context (FSB, 2023).

2 In addition to bilateral repo transactions, pension funds can also enter into centrally cleared and tri-party repo transactions. They can also increase their liquidity position by not rolling over reverse repo transactions, in which they lend cash.

Figure 6 Corporate bond ETFs traded at a discount in April compared to underlying assets

Percentages

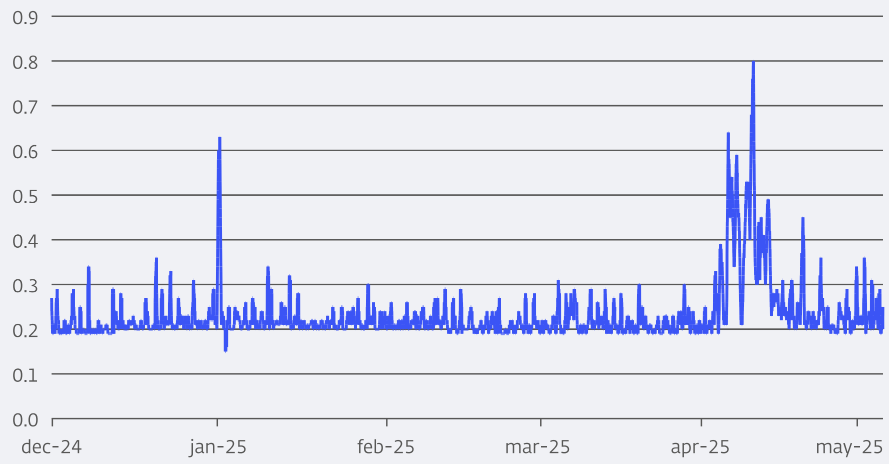


Source: DNB calculations.

Concerns about the resilience of the US government bond market have nevertheless increased partly due to the use of high leverage. The US government bond market plays a pivotal role in the global financial system, for instance when Treasuries are used as collateral for financial transactions and as a reference for other submarkets. Disruptions in this market can thus pose wider systemic risks. For instance, the decline in liquidity in the US government bond market in early April was accompanied by price differences between similar submarkets, such as between regular and forward contracts on government bonds. These signals indicate an unwinding of positions in US government bonds, presumably caused in part by market participants trading with high leverage, e.g. hedge funds. While these parties provide high volumes and market liquidity in normal times, in troubled periods they amplify volatility and can thus hinder the smooth functioning of the market (BIS, 2024 and FSB, 2025). After the announcement of the temporary pause on some of the import tariffs, the a measure of calm has been restored to the Treasury market, with market liquidity also improving (see Figure 7; FT, 2025). Even so, recent developments show that abrupt movements can disrupt the smooth functioning of these markets.

Figure 7 Liquidity in the US government bond market briefly declined sharply, as illustrated by rising bid-ask spreads

Basis points



Note: The figure shows the average bid-ask spread of US 10-year bonds over a rolling 4-hour time frame.

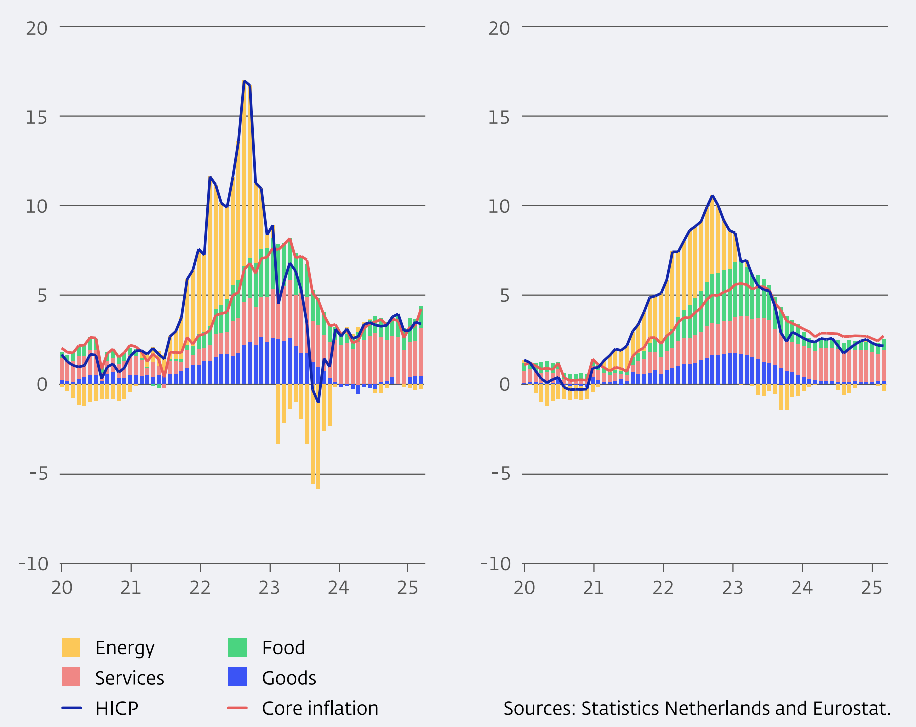
Source: DNB calculations based on Bloomberg.

Dutch economy cools down in uncertain environment

The Dutch economy is cooling down, while inflation remains relatively high. The Dutch economy grew by 0.1% on a quarterly basis in the first quarter of 2025, meaning economic growth has been consistently falling over the past four quarters. This limited growth is mainly driven by higher government spending, while trade and business investment contribute negatively. After a period with a comparatively well performing economy, growth in the Netherlands is now lower than in the euro area (0.4%) and in the larger euro area countries. Moreover, the Netherlands has a relatively high inflation rate (4.1% in April 2025) compared to the European level of 2.2% (see Figure 8). This higher inflation can be mainly ascribed to relatively high services inflation, partly due to wage growth and rent increases.

Figure 8 Euro area inflation nears 2% target, but remains elevated for longer in the Netherlands

Percentages; Netherlands (left pane), euro area (right pane)

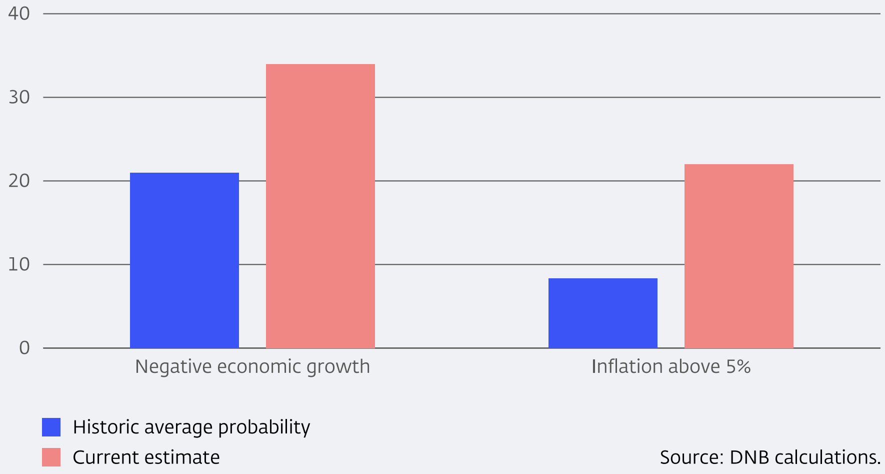


Sources: Statistics Netherlands and Eurostat.

Geopolitical and economic uncertainty has negative implications for the economic outlook in the Netherlands. The Dutch economy – certainly in view of its open nature – is vulnerable to further fragmentation of the global economy. For example, a scenario analysis shows that the initial import tariffs announced by the United States on 2 April could lower the growth rate of the Dutch economy by about one percentage point in 2026 compared to the baseline assumed late last year (DNB, 2025). However, the uncertainty surrounding this scenario analysis is high due to geopolitical and economic risks. Moreover, these risks increase the likelihood of economic contraction. A recent DNB analysis shows that mounting uncertainty – e.g. about import tariffs – is associated with a higher probability of negative growth and higher inflation (see Figure 9; DNB, 2025). Taking account of all these factors, DNB will be publishing its new biannual projections for the Dutch economy on 6 June.

Figure 9 Elevated uncertainty is associated with a higher probability of negative growth and increased inflation in the Netherlands

Percentage points



Source: DNB calculations.

Note: 'Negative economic growth' ('inflation above 5%') shows the historical probability of negative economic growth (inflation above 5%) on a quarterly basis. The calculation is based on data from the first quarter of 1998 to the fourth quarter of 2024. The current estimate is based on a Growth-at-Risk model that incorporates current economic uncertainty (Adrian et al. 2022).

Risks to financial stability increase in an uncertain environment

Geopolitical tensions and a global economy that is fragmenting further are currently the biggest risk factors for Dutch financial stability. The risk table on page 14 shows the main current risks to financial stability in the Netherlands. Geo-economic fragmentation affects financial stability through multiple channels, including rising economic uncertainty and the undermining of international cooperation (see Chapter 2). This leads to a highly elevated level (red) of geo-economic fragmentation in the risk table. Moreover, geopolitical tensions amplify other risks to financial stability, for example cyber risk and volatility in financial markets (DNB, 2024). In Chapter 2 of this Financial Stability Report, we take a closer look at the channels through which geopolitical tensions and geo-economic fragmentation affect financial stability, including the impact on the financial position of Dutch institutions and increasing cyber and digital threats. We also examine the role of multilateral forums in monitoring international financial stability.

The other main risks shown in the table are briefly discussed below. After discussing the position of financial institutions, we focus on sustainability of public debt, climate and nature risks, and developments in Dutch real estate markets.

Risk table illustrating financial stability in the Netherlands

Principal risks	Status	Examples of channels
Geo-economic fragmentation		Elevated economic uncertainty caused by further escalating trade war
Cyber threats		Disruption of payment system due to hybrid warfare
Financial market volatility		Forced sales due to high liquidity needs among investment funds
Credit losses		Increase in corporate insolvencies due to economic growth slowdown
Refinancing and interest rates		Sustainability of public debt declines due to increased spending
Climate and nature-related		Major damage and/or credit losses due to flooding
Real estate price correction		Lower demand for office space; overvalation in housing market

This risk table illustrates the principal risks to financial stability in the Netherlands in the short to medium term. The colour of the circles reflects whether, compared with its long-term average, a risk is: moderately elevated or in line with its long-term trend (grey), elevated (yellow) or highly elevated (red). The right-hand column lists examples of channels through which the risks could affect financial stability.

Financial institutions have a good starting position but are affected by high economic uncertainty and volatility in financial markets

Dutch banks have solid buffers, enabling them to cope with the current uncertainty. Banks in the Netherlands have seen their profitability increase in recent years, buoyed by higher interest rates and a well-performing domestic economy. The average return on equity was around 10% in 2023 and 2024, which has helped boost the resilience of these banks, whose average core capital ratio was around 17% at year-end 2024. In addition, the share of non-performing loans at year-end 2024 remained low (1.6%) and below the average of the past five years (1.8%). Finally, banks have strong liquidity positions with an average liquidity coverage ratio (LCR) of nearly 170% at year-end 2024. Looking ahead, rising trade tensions and expected growth slowdown may hit banks' financial position. We use a stress test to map the potential consequences of an escalating trade war for Dutch large banks (see 'A protracted trade war will test the resilience of Dutch financial institutions').

Pension funds and insurers also have a good starting position and have benefited from higher interest rates and a well-performing economy in recent years. The average coverage ratio of pension funds was a healthy 116% at year-end 2024, and the average Solvency II ratio of Dutch life and non-life insurers was 187% and 173% respectively. This puts their solvency ratio well above the minimum requirements (see 'Pension funds and insurers have solid buffers but are sensitive to volatility in financial markets'). Pension funds are also focussing on ensuring solid buffers because of the transition to the new pension system. When a pension fund's buffers shrink due to market corrections, there is less scope available to meet the objectives agreed by the pension fund and social partners for the transition. This makes it essential for pension funds to take into account different funding ratios in their decision-making, among other things, so as to ensure a robust decision on a balanced transition. Over the past six months, the first four pension funds have completed their conversion to the new pension system. A few more funds are expected to follow later in 2025, after which around 50 funds aim to convert to the new system in 2026. DNB is working with the pension sector to draw lessons from the initial experiences so as to further improve the assessment process.

The need for vast investments, such as on defence, further increases risks to public debt sustainability

A weaker economic outlook and the need for higher defence spending increase risks to European debt sustainability. At an average of 88% of GDP, public debt in the euro area is historically high. At the same time, the outlook has worsened due to lower economic growth and higher investment needs, especially on defence. An increase in defence spending from 2% to 3% of GDP in the euro area implies an additional investment of around €200 billion a year (€11 billion for the Netherlands). As fiscal space is limited in many EU countries, financing this additional expenditure poses a challenge. In addition, countries that already have high public debt while having to increase their defence spending substantially are particularly vulnerable. Alongside the possibility of temporarily relaxing European fiscal rules, the European Commission's ReARM Europe Plan therefore also includes the option of providing Member States with cheaper EU loans to finance these expenditures. This higher defence spending will be structural in any case, and must eventually fit into national budgets so that it does not lead to a further run-up of public debt in the EU. In that respect, private investment in defence is also important, especially in countries with high debts.

Higher spending could put pressure on debt sustainability in the euro area, with potential implications for financial stability in Europe and the Netherlands. The Dutch debt-to-GDP ratio is projected to be 42.2% at year-end 2024, which is the lowest level since 2007. The government deficit is projected to be 2.6% of GDP in 2025 and 3.0% in 2026 (CPB, 2025). This mean fiscal policy is sailing very close to the wind, leaving limited fiscal space to cushion the economy from future shocks, for example due to a protracted trade war (Financial Stability Report, Autumn 2024).

Dutch public debt is comparatively low, however, meaning it currently poses a low risk to domestic financial stability. Still, debt is projected to rise to nearly 60% of GDP in the coming years, partly due to rising costs associated with the ageing population. In the short term, Dutch financial institutions are more vulnerable to a decline in the value of sovereign bonds issued by high-debt countries. For example, about 5% of Dutch insurers' and pension funds' investments are made up of European public debt instruments issued by countries with debt exceeding 90% of GDP (Financial Stability Report, Autumn 2024). Moreover, losses in the value of sovereign bonds may trigger wider price corrections, and debt-related problems elsewhere may negatively affect the Dutch economy. For the time being, investors seem to be relatively unconcerned about the debt sustainability of countries with high public debts. Indeed, interest rate differentials between European countries have remained largely stable since the investment plans were announced. Alongside the risk of higher interest rates, doubts about debt sustainability could revive negative interactions between governments and financial institutions in high-debt countries. This effect can be reinforced by the 'sovereign ceiling', which involves the credit rating of a financial institution, e.g. a bank, being capped at the creditworthiness of its home country (see 'Box 2 Sovereign ceiling caps credit status of banks').

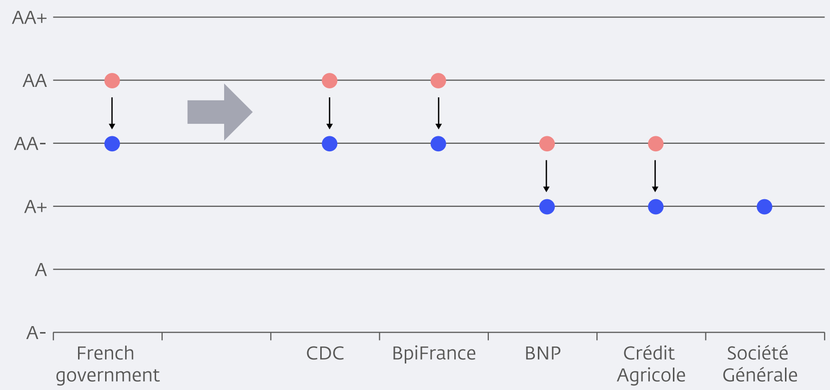
Box 2 Sovereign ceiling caps credit rating of banks

Although credit rating agencies have abandoned a strict application of the sovereign ceiling, ceiling effects are still present. Until the late 1990s, credit rating agencies applied a sovereign ceiling. This meant that the credit ratings of banks and other types of firms could never exceed that of their home country. For the most creditworthy banks, the rule was a binding constraint, as their credit rating was automatically downgraded in case of a drop in the credit rating of the relevant government. Although a strict application of this rule has been abandoned in recent years, such ceiling effects are still present. Last December, for instance, France's credit rating was downgraded from AA to AA-, which was immediately followed by a downgrade of the credit rating of a number of French banks (see Figure 10).

A downgraded government credit rating has the most impact on banks with the highest credit rating. Analysis shows that when the government's credit rating is downgraded, the credit rating of banks with the same rating is usually also downgraded by one notch.[3] This phenomenon is absent for lower-rated banks, indicating the presence of a ceiling effect.

3 The analysis is based on a sample of over 200 banks in the euro area between 2008 and 2024.

Figure 10 Lower credit rating for France led to downgrades for some French banks in December 2024



Note: The figure shows the downgrade of the French government's credit rating from AA to AA- and the subsequent downgrades for a number of French banks.

Source: Moody's.

Greater European financial integration may reduce banks' susceptibility to such ceiling effects. A credit rating downgrade typically results in higher funding costs for a bank and can put pressure on lending (Adelino & Ferreira, 2016). It is possible that the ceiling effects have diminished in recent years due to the tightened prudential requirements for banks. This means that credit rating agencies now assess banks more independently of their government than before. Greater financial integration in Europe could also lead to a further decline in ceiling effects. European financial integration expands opportunities for European banks to diversify their operations across national borders, enabling them to shift their focus beyond their home countries.

Delaying action could increase climate-related risks

Delaying, weakening or failing to take climate action increases climate-related risks in the future. The United States recently withdrew from the Paris Agreement on climate change, while the Net Zero Banking Alliance (NZBA), a global initiative of banks, has toned down its climate ambitions by aiming for a maximum global warming target of below 2°C (instead of 1.5°C). Such backtracking will only increase transition and physical climate-related risks in the future. Concurrently, climate damage has been accelerating in recent years, directly affecting financial institutions. For example, natural disasters, such as the severe wildfires in California and last year's floods in central Europe and Spain, have already caused major damage, including financial losses. The total damage and economic losses from the California wildfires are estimated at between $250 billion and $275 billion, while the Spanish financial sector had €20 billion worth of loans outstanding in the affected area (BdE, 2024). At DNB, we therefore continue to call on financial institutions to manage climate-related risks adequately as part of our supervisory activities. For instance, we recently developed new good practices for financial institutions to manage climate and environmental risks (DNB, 2025).

When damage is not properly insurable, climate-related disasters can affect financial stability, for instance through an increase in credit risks. In the European Union, about 75% of climate-related damage is currently not insurable. This percentage is expected to increase further due to climate change (ECB & EIOPA, 2024). In the Netherlands, it is generally not possible to insure against breaches of primary flood defences, such as the dykes along major rivers and sea walls. Direct damage from floods will be borne by households and businesses, who are unlikely to be prepared for such eventualities and thus may turn to the government for assistance.[4] In such an extreme scenario, risk premia on sovereign debt may increase or banks may scale back lending to limit losses (FSB, 2025). We monitor these risks because of their potential impact on financial stability. One way we do so is

4 Under the Disasters (Compensation) Act (*Wet tegemoetkoming schade bij rampen – Wts*), the government can compensate victims, though not in full, under certain conditions (central government).

through scenario analysis. For example, a recent study analysing building damage caused by major floods in the Netherlands reveals that the increase in credit risks in such a situation is currently limited. However, credit risks may increase in the future due to climate change and banks may also be affected indirectly, for example if floods are a precursor to a recession (Caloia et al, 2023).

Alongside monitoring, DNB focuses on climate adaptation, opportunities for action and awareness. For example, the Climate Adaptation Working Group of the Sustainable Finance Platform, which brings together representatives from the financial sector and government, is investigating how physical risks and adaptation measures affect the economy and financial sector (Sustainable Finance Platform, 2023). The government plays a crucial role in this regard by creating conditions for the development of private insurance markets, for example by providing clarity on its role in claims compensation (DNB, 2022). Improved insurability offers households and businesses an opportunity for action in the face of growing climate-related risks. At the same time, raising awareness among households and businesses remains essential, as the risks of extreme weather have not yet always been factored into the purchase prices of homes (AFM, 2023).

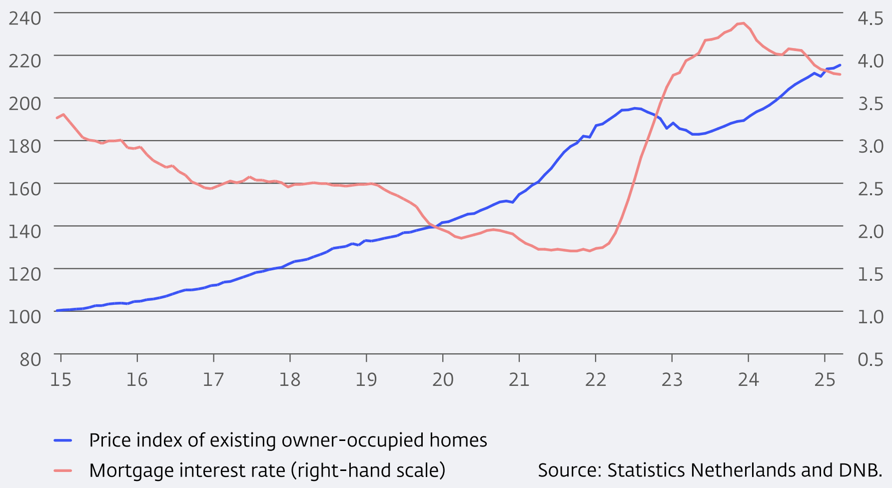
Real estate market vulnerable to high economic uncertainty

Dutch house prices rose further in 2024, with persistent signs of potential overvaluation. For instance, prices of existing owner-occupied homes in March 2025 were on average 10.6% higher than a year earlier and the Dutch house price index is at record highs (see Figure 11). The increase is driven in part by wage growth, slightly lower mortgage interest rates (see Figure 11) and continued tightness in the housing market. Although these factors support the current price level, there is still a risk of a price correction. An ESRB model, based on various supply and demand factors, suggests that Dutch houses will remain overvalued in the third quarter of 2024 (ESRB, 2024).

The Dutch housing market may also cool down due to increased economic and financial uncertainty. Due to recent market volatility, the 10-year euro swap rate rose by about 30 basis points in the first quarter of 2025. Persistently higher swap rates may translate into rising mortgage interest rates. Higher mortgage interest rates – combined with deteriorating economic sentiment – could then lead to falling demand for housing and contribute to a dampening or decline in house price growth. In view of this uncertainty, it is essential that banks maintain their resilience to the systemic risk of a reversal in house price trends. In order to mitigate this systemic risk, we extended the Article 458 measure – which sets a floor for the average risk weights in the Dutch mortgage loan book – late last year until the end of November 2026 (Financial Stability Report, Autumn 2024).

Figure 11 Dutch house prices continued to rise last year, partly due to slightly lower mortgage interest rates

Index, 1 January 2015=100 (left-hand scale), percentages (right-hand scale)



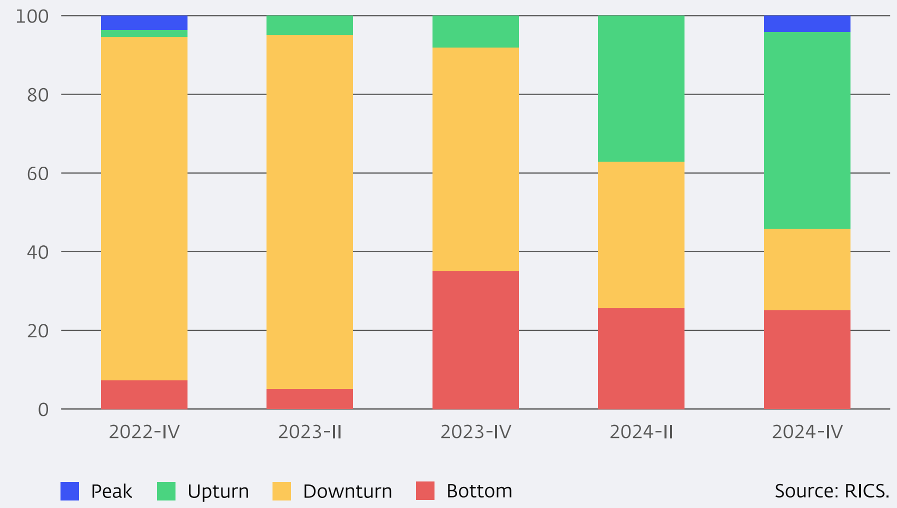
Source: Statistics Netherlands and DNB.

Note: Mortgage interest rate is the average bank interest rate on newly originated home mortgage loans.

The Dutch commercial real estate market is showing signs of recovery, but remains vulnerable to the economic cycle. Thanks in part to lower financing and construction costs, investments and prices in the Dutch commercial real estate market recovered last year, and were 40% higher than in 2023 (StiVAD and CBRE). The asset quality of loans secured by commercial real estate also improved slightly. For instance, the share of non-performing loans stabilised at around 4% in 2024, and the share of loans at increased risk of default fell by 7 percentage points to around 10%. Moreover, investors expect the recovery in the commercial real estate market to continue into 2025. This is indicated, for instance, in a survey conducted in late 2024 showing that more Dutch real estate investors expect an upturn in the commercial real estate market (see Figure 12). However, the sector is cyclical and thus susceptible to the recent geopolitical and economic uncertainty. In particular, tighter financing conditions or a renewed jump in construction costs could put pressure on the expected recovery.

Figure 12 More investors expect upturn in commercial real estate market

Percentages, investors' expectations 12 months ahead



Source: RICS.

2 Financial stability risks from geopolitical tensions and a fragmenting global economy

Geopolitical risks and geo-economic fragmentation can put pressure on financial stability through various channels (see infographic on page 21). These risks have become more concrete in recent months, as evidenced in part by the announcement of new import tariffs by the United States, which led to high volatility in financial markets (see 'Financial market volatility stemming from import tariffs and recession concerns'). At the same time, the lack of clarity about the direction of US policy is exacerbating the high level of economic uncertainty. This uncertainty depresses confidence among consumers and businesses, which delays spending and investment (NBER, 2025) and increases downside risk to the economy. Over time, this may translate into lower profits and higher credit and market risks for financial institutions. In addition, cyber attacks and hybrid threats pose an acute risk, because of the potential reputational, operational and liquidity problems they can cause (DNB, 2022). Institutions are vulnerable to disruptions affecting their service providers, for instance. In addition, concerns about dependence on non-European tech providers are increasing because of the potential to weaponise this dependency.

Geo-economic dependencies are also coming to light that may pose a more structural risk to financial stability. Fragmentation undermines the effectiveness of international cooperation and the functioning of multilateral forums. This may have implications for the effectiveness of regulation and crisis response, but also for addressing global challenges – such as the energy transition – that require a coordinated and consistent approach. In addition, financial infrastructure is increasingly being used as a geopolitical tool. For example, sanctions and restrictions on international payments could lead to disruptions in financial flows (DNB, 2024 and CPB, 2024). European banks depend on SWIFT – a communication system for international payments – in which the US dollar plays a dominant role. This could allow the United States to restrict or deny foreign banks access to SWIFT or dollar clearing, for instance due to sanctions (ECB, 2023).

This chapter examines how geo-economic fragmentation affects Dutch financial stability. In the first part of this chapter, we discuss financial and IT risks for financial institutions. In the second part, we analyse the implications of faltering international cooperation and multilateral forums. We examined risks stemming from sanctions and access to financial infrastructure in a publication last year (DNB, 2024), so this Financial Stability Report largely disregards this channel.

Geo-economic fragmentation jeopardises financial stability through various channels

< Contents

1 Financial markets

2X

When uncertainty is high, adjustments in equity markets tend to be twice as large as in calm times

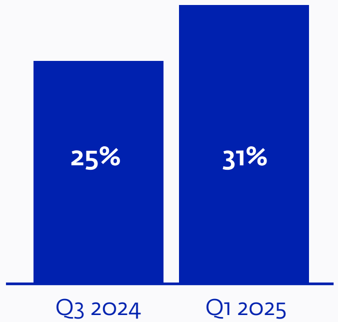
2 Real economy

3pt

Core capital ratio of banks falls from 17.5% to 14.5% in escalating trade war

3 Cyber and hybrid threats

Relatively more cyber attacks targeting financial sector via digital service providers and vital infrastructure



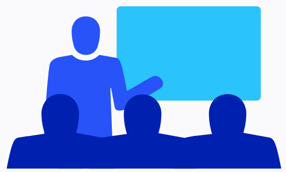
4 Use of financial infrastructure for power politics and sanctions

61%

Non-European parties' share of euro area card payments

5 Reduced effectiveness of international organisations

Less coordination and risk of regulatory race to the bottom



Recommendations

1 Resilience

- Maintain sufficient capital buffers
- Embed geopolitical risks more deeply in risk management
- Strengthen digital resilience, including to outsourcing risks
- Bolster European strategic autonomy, including in payments

2 International cooperation

- Stay committed to European and international cooperation
- Strengthen European single market
- Deepen and expand European capital markets
- Harmonise European regulation

A protracted trade war will test the resilience of Dutch financial institutions

Rising trade tensions and expected decelerating growth could impact banks' financial positions. High uncertainty and volatility in financial markets may translate into higher funding costs for banks. In addition, lower economic growth due to trade tensions will feed through to banks' asset quality and lead to an increased risk of defaults (stage 2 loans).

We used a stress test to assess the potential impact of an escalating trade war on Dutch large banks. Scenarios are a worthwhile tool because of the high uncertainty surrounding the introduction of (further) import tariffs in the United States and elsewhere. Scenarios give us insight into the resilience of the Dutch banking sector to trade tensions that may continue to escalate. To this end, we compare the impact of import tariffs with the macroeconomic situation prior to their introduction (the baseline scenario), at the time of publication of the Autumn Projections in December 2024 (DNB, 2024). Apart from this, the resilience of European banks will be tested bottom-up up later this year in the 2025 EBA-SSM stress test, which involves a broader and more detailed scenario of escalating geopolitical tensions and fragmentation – including sharply rising oil and gas prices (EBA, 2025). This means the results of these two exercises will not be directly comparable.

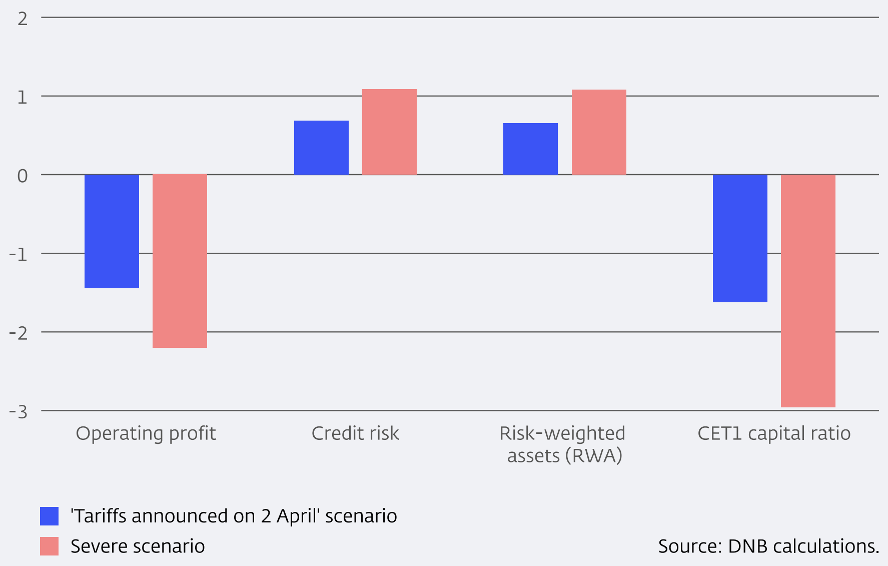
The announced import tariffs lead to lower economic growth, which also affects banks. First, we apply a stress scenario based on the initial import tariffs announced by the United States on 2 April, namely an additional effective import duty of 84% on goods from China, 20% on goods from Europe and 25% on goods from the rest of the world. In the scenario, the tariffs cause an expected 1.6 percentage point decline in world trade in 2026, and a concomitant 1.6 percentage point drop in Dutch economic growth compared to the baseline scenario (DNB, 2025).[5]

The average decline in capital ratios for Dutch large banks remains limited in this scenario (see Figure 13). Lower economic growth means less earnings and an increase in credit risk and risk-weighted assets compared to the baseline scenario. Although net interest income falls, bank earnings remain sufficient to mitigate mounting losses. As a result, the core capital ratio (CET1) in this scenario comes out about 1.5 percentage points lower than in the baseline scenario, and remains more or less constant over the stress test's three-year horizon. This illustrates that banks are well positioned to absorb the negative impact of the import tariffs announced on 2 April. Whereas the core capital ratio stands at 17.5% at year-end 2027 in the baseline scenario, it is 16.1% in the stress scenario with import tariffs.

5 The stress test scenario is based on the Delfi-NiGEM model (DNB, 2025).

Figure 13 Capital ratios of Dutch large banks fall 1.5 to 3.0 percentage points if trade tensions escalate

Percentage points



Source: DNB calculations.

Note: The figure shows the deviation of the operating profit, credit risk, RWA and capital ratio in both scenarios compared to the baseline scenario at the end of the projection horizon (2027).

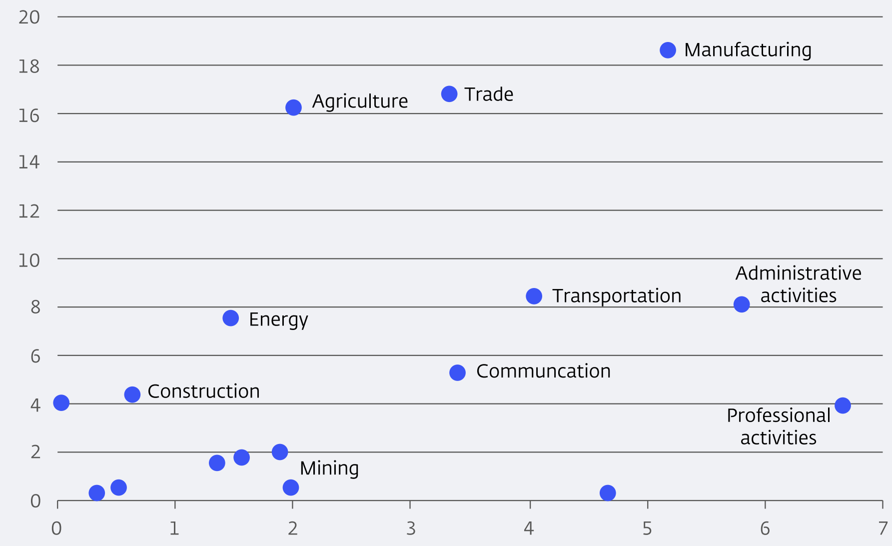
If trade tensions escalate further, the Dutch economy will suffer additional damage. We examine the impact of further escalating trade tensions on banks by applying a stress scenario involving even higher import tariffs. In this 'severe' scenario, we assume that the United States imposes an additional effective import tariff of 40% on goods from Europe and the rest of the world, and 100% on goods from China. We also assume that these countries apply the same reciprocal tariff on imports from the United States in response. As a result, world trade falls sharply, by nearly 4% in both 2025 and 2026. This puts economic growth 1 percentage point lower in 2025 and 3.5 percentage points lower in 2026 compared to the baseline scenario, while inflation is 1.2 percentage points higher in 2026. Moreover, in this scenario, escalation is accompanied by continued turmoil in financial markets, declining confidence and rising risk premia. As a result, business investment drops sharply, house prices fall and unemployment rises.

In this severe scenario, Dutch banks' capital position deteriorates further, though remaining above average requirements. Higher interest expenses for households and businesses, lower economic growth and higher unemployment increase the risk of default under this scenario. As a result, banks face higher credit losses and risk-weighted assets. Net interest income is also significantly lower than in the baseline scenario (see Figure 13). Besides higher credit losses, banks' losses in this scenario also increase due to rising operational risks. While the impact of these risks is difficult to estimate and capital buffers alone cannot fully cover them, the severe scenario assumes sharply rising operational costs (such as cyber-related losses) due to geopolitical tensions. These include the risks associated with digital dependence on the United States. Due to all these factors, the average core capital ratio of large banks falls to 14.5% by year-end 2027. This is 3.0 percentage points lower than in the baseline scenario (see Figure 13), although the core capital ratio does remain well above average requirements. This means banks would still have room to absorb additional losses, and remain able to maintain lending levels. An important caveat is that uncertainty about the impact of escalating trade tensions is high, especially as the introduction of such trade restrictions is so exceptional that it is difficult to assess the reaction of the economy and financial markets.

Banks especially face higher credit risks from loans to companies with substantial economic dependence on the United States. Dutch companies and sectors are vulnerable to a trade war with the United States in two ways. On the one hand, this is because the United States is an important market for many firms. On the other hand, Dutch firms may also depend on the United States for components of their production processes, such as materials, parts or services. The latter vulnerability is especially relevant in the severe stress scenario, which assumes that the EU (and other countries) take similar retaliatory measures. This means that firms that are heavily reliant on the United States will incur higher costs to import products and/or services. Besides the higher credit risk due to the downturn in economic growth, credit risks in the stress test increase further the more dependent a sector is on the United States as a market or as a supplier of production process components. Figure 14 shows the share of outstanding loans and export dependence by sector, with banks lending relatively heavily to Dutch firms in the manufacturing industry, trade and agriculture. Of these sectors, the manufacturing industry is the most dependent on exports to the United States, at 5% of total sales.

Figure 14 Dutch banks particularly vulnerable through loans to manufacturing industry

Percentages; share of foreign exports to the United States by sector (horizontal), sectoral share in non-financial corporate loan portfolio of Dutch banks (vertical)



Sources: Statistics Netherlands and DNB supervisory statistics.

Pension funds and insurers have solid buffers but are sensitive to volatility in financial markets

Like banks, Dutch pension funds and insurers have solid buffers, although they are vulnerable to corrections in financial markets. The recent price fluctuations in global equity markets have had an impact on the assets of Dutch pension funds and insurers. This is linked to their risky investments (see 'Box 3 Higher concentration increases vulnerability of equity portfolios of institutional investors'). As a result, the average funding ratio of pension funds fell by an estimated 6 percentage points in the first week of April, while the average solvency ratio of insurers is expected to have fallen by 5 percentage points – although recovery is now underway. For insurers, the impact is mitigated by the volatility adjustment offsetting the negative impact of higher spreads on sovereign and corporate bonds. In addition to impacting solvency, corrections in financial markets can also lead to liquidity risks associated with derivatives positions, although this is currently less of an issue due to lower dollar exchange rates and interest rates (see 'Box 1 Pension funds and insurers resilient to steep interest rate hikes, but dependent on repo market').

Box 3 Higher concentration increases vulnerability of equity portfolios of institutional investors

Geographical and sectoral concentration in equity markets has increased in recent years. Due to faster price gains, the share of US equity in the global equity market has risen to about 70% (compared to about 50% a decade ago), and sectoral concentration is pronounced. Indeed, the share of the seven largest US tech firms, the so-called Magnificent 7, has increased to around 20% of the global market. High concentration reduces the benefits of diversification. This means that investors and equity markets as a whole are exposed to potential losses due to setbacks at a small number of companies.

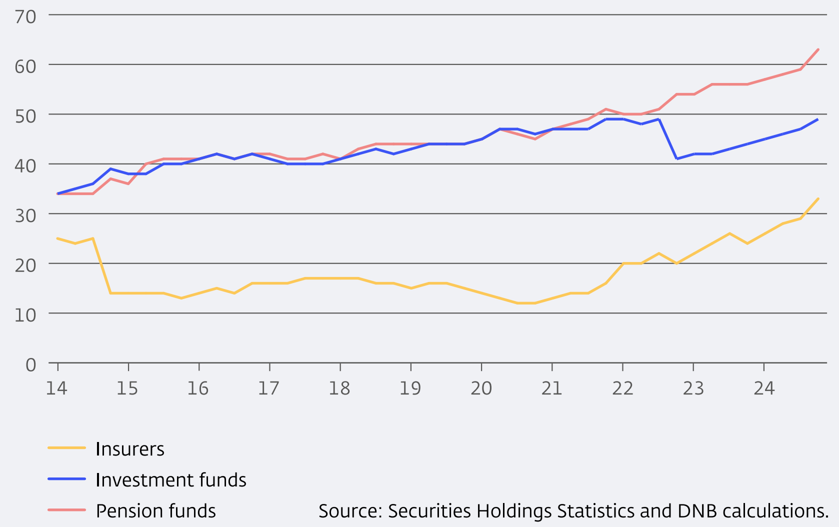
Concentration is also on the rise in the equity portfolios of Dutch institutional investors, which increases their vulnerability to corrections. By year-end 2024, the share of US equity in the portfolios of pension funds, investment funds and insurers had risen to 63%, 49% and 33%, respectively (see Figure 15). This is significantly higher than some 10 years ago, when these exposures ranged between 25% and 34%. One reason for the rise is the use of indices, such as the MSCI World or the S&P 500, as benchmarks. Institutional investors typically track such benchmarks closely, which limits the risk of their returns significantly underperforming market yields.[6] The extent to which the increased concentration in equity portfolios subsequently poses a risk depends on the proportion of equity in the overall investment portfolio.

6 Active investors try to beat the returns of their benchmark, whereas passive investors try to mimic the returns of their benchmark.

Pension funds' direct allocation to equity is 20%, while this figure is only 3% for insurers.[7] This would seem to suggest that pension funds in particular are vulnerable to further corrections in equity markets.

Figure 15 Rise in concentration of US firms in equity portfolios of Dutch institutional investors

Percentages, share of US listed stocks in equity portfolio by sector



Source: Securities Holdings Statistics and DNB calculations.

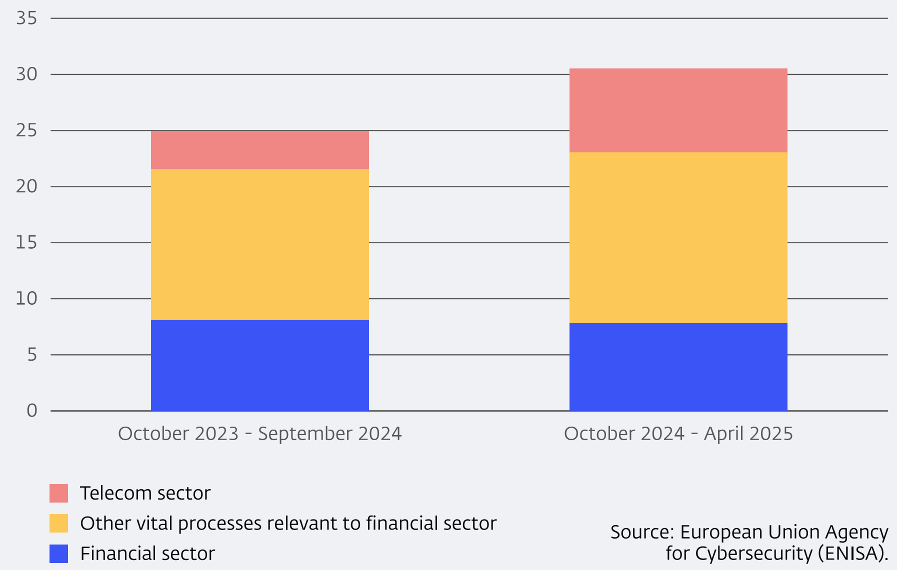
Geopolitical tensions also lead to an increase in cyber threats and concerns about digital dependencies

Geopolitical tensions are accompanied by an increase in the share of cyber attacks that pose a risk to the financial sector. Financial institutions are sometimes the direct targets of cyber attacks, but they are mostly hit indirectly (Financial Stability Report, Spring 2024). The latter takes place through cyber attacks on critical service providers, such as cyber security firms and network providers, or attacks on critical infrastructure, such as the energy and telecom sectors. In the past six months, about 31% of cyber attacks reported worldwide targeted the financial sector or a sector vital to its functioning, which is more than in previous periods (see Figure 16). Of these, the proportion of cyber attacks on the telecom sector doubled, a trend that has also made itself felt in Europe. In addition, critical service providers, such as telecom firms, are reporting potential physical sabotage more frequently. For example, an undersea telecom cable in the Baltic Sea was damaged – possibly deliberately – three times in four months (Reuters, 2025). Such damage to critical infrastructure could also affect the services of one or more financial institutions and lead to substantial operational losses. Finally, the impact of cyber threats can increase when emphasis on them wanes. Europe and the financial sector rely in part on US (government) services for cyber threat intelligence. The rapprochement between the United States and Russia is giving rise to ambiguity over whether US agencies, such as the Cybersecurity and Infrastructure Security Agency (CISA), may still view Russian actors as a threat and whether these agencies can report on vulnerabilities and threats at all.

7 In addition to direct equity holdings, pension funds and insurers also have indirect equity holdings through investment fund shares. When both direct and indirect equity holdings are included, the share of US equity in the total equity portfolio of pension funds comes to 56%. This information is unavailable for insurers.

Figure 16 Increase in the number of global cyber incidents affecting the financial sector directly or through critical infrastructure

Percentages



Source: European Union Agency for Cybersecurity (ENISA).

Moreover, geopolitical tensions are fuelling growing concerns about the concentrated digital dependence on non-European service providers. Dutch financial institutions, businesses and the government contract with various vendors for digital services (Financial Stability Report, Autumn 2024). The number of providers of specific and essential digital services is limited, however, and they are mainly based in the US (CPB, 2024). For example, US BigTechs – such as Amazon, Google and Microsoft – are major providers of cloud platforms worldwide. Cyber security solutions are also often integrated into these services. Concerns about this concentration risk have increased in recent months due to geopolitical tensions. Reliance on US and other non-European digital service providers could become a factor in escalating trade tensions. Restrictions on access to essential services can expose the financial system to operational systemic risks. The failure of Amsterdam Trade Bank (ATB) in 2022 showed that the abrupt termination of essential services can lead to major operational problems, even resulting in bankruptcy. Moreover, dependence on digital service providers is exacerbated by a phenomenon known as vendor lock in.[8] Many digital services are often deeply integrated into the digital infrastructure of financial institutions, making decoupling and migrating them to European providers infeasible in the short term. What is more, while European alternatives are available for specific components of digital services, a high-level, full-suite service is only offered by a few US service providers.

8 This is a situation in which a customer is dependent on a specific supplier for products or services and it is difficult or costly to switch to another supplier.

Fragmentation weakens multilateral forums

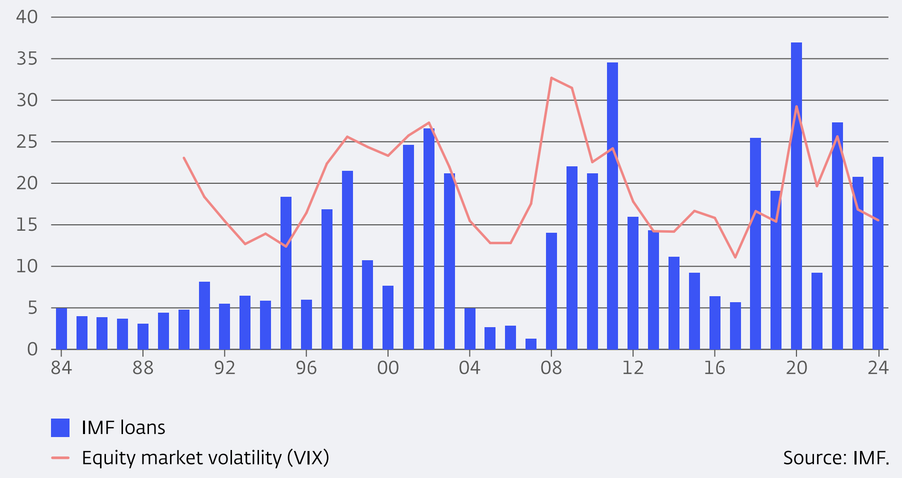
Multilateral forums play an important role in monitoring and promoting global financial stability, but have been under pressure for some time. Globally, various institutions and structures exist in which countries consult, negotiate and decide on cross-border economic and financial issues. Some examples include the International Monetary Fund (IMF), the G7, the G20, the Financial Stability Board (FSB) and standard setters such as the Basel Committee on Banking Supervision (BCBS). As shown in the infographic on page 28, these bodies perform a variety of functions to mitigate risks to financial stability, including monitoring risks (first line of defence), harmonising and reforming regulations (second line of defence) and coordinating crisis measures (third line of defence). However, geopolitical tensions have hampered the functioning of multilateral forums for some time already. Russia's invasion of Ukraine, for instance, has led to a hardening of mutual relations. This has made it more difficult to reach consensus, for instance in the form of joint final declarations at G20 level, meaning this intergovernmental forum has clearly lost some of its influence. Since the new US administration took office, the pressure on international cooperation has only increased. For instance, the United States is currently reviewing its participation in, and funding of, multilateral bodies, conventions and treaties. Such developments have the potential to increase risks to global financial stability in several ways.

Weakened multilateralism makes it more challenging to respond to crises internationally. Indeed, strained international cooperation can hamper rapid policy responses to global shocks of the type we saw during the great financial crisis or the COVID-19 pandemic. A lack of international cooperation can also hinder the exchange of information and the timely identification of vulnerabilities. If the effectiveness of multilateral forums is further called into question, this may also have implications for existing and proven structures for responding to international crises. For instance, the IMF plays a key role in providing emergency financing to countries facing financial difficulties (see Figure 17). Such support promotes the restoration of confidence and limits the risk of contagion to other economies.

The United States is also essential for the IMF, as both its financing capacity and credibility depend heavily on American support. A changing US stance towards the IMF may thus have a direct impact on the key role the IMF plays in international crisis management. Declining confidence in multilateral cooperation may force countries to build up larger reserves themselves, as happened after the Asian financial crisis in the late 1990s, for instance.

Figure 17 IMF loans are a key part of the fight against financial crises

EUR billions (loans); index (VIX)



Source: IMF.

International organisations play crucial role in monitoring global financial stability

Risks

Risks

Risks

First line of defence: monitoring risks

- IMF Article IV consultations
- Monitoring G-SIBs
- Risk reports

Second line of defence: harmonising and reforming regulation

- Regulatory harmonisation
- Basel regulations
- Structural reforms

Third line of defence: coordinating crisis measures

- Emergency loans
- Liquidity facilities
- Resolution

Possible policy responses to increasing fragmentation

More unilateral action contributes to...

- ✗ More uneven playing field due to national differences
- ✗ Potential regulatory race to the bottom
- ✗ Increased contagion risks

...but multilateral solutions remain as important as ever.

- ✓ Effective crisis response
- ✓ Harmonised European regulation
- ✓ Effective mitigation of cross-border risks

Fragmentation may also lead to less internationally coordinated regulation. Multilateral forums play an important role in harmonising financial regulation and addressing cross-border financial risks. The BCBS, for instance, is active in Too-Big-To-Fail (TBTF) reforms and the implementation of Basel III after the financial crisis. The FSB also issues international recommendations for the non-bank financial sector, for example on margin calls and leverage. Failing to translate such international recommendations into national legislation or applying diverging interpretations in different jurisdictions can culminate in a regulatory race to the bottom. This would likely be at the expense of resilience while also exacerbating the risk of contagion effects, for instance from foreign non-banks. Finally, systemic risks due to cross-border activities or assets may increase in the absence of coordinated regulation. Crypto-assets are an example of this (see 'Box 4 Growing concerns about interconnectedness between financial system and crypto-assets').

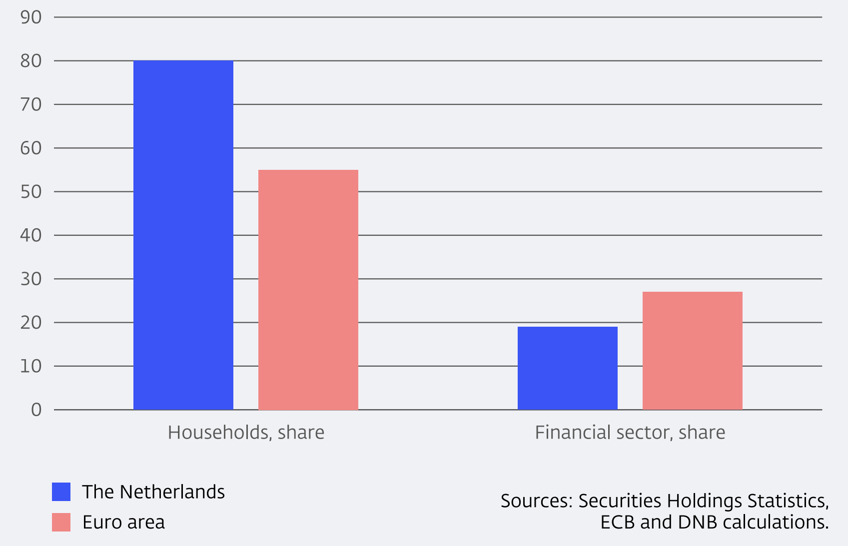
Box 4 Growing concerns about interconnectedness between financial system and crypto-assets

The total market capitalisation of crypto-assets has risen steadily in recent years to reach $2.9 trillion in early 2025. The crypto-friendly attitude of the new US administration has been a driving force behind the recent boom in crypto-assets. Furthermore, the launch of Exchange Traded Products (ETPs) for crypto-assets in January 2024 has made it easier for investors to buy and sell them. Since then, these investment products have seen large inflows from retail customers and institutional investors. Cumulative net inflows in spot bitcoin ETPs exceeded $37 billion in 2024, for instance. In addition, stablecoins are becoming more popular. The value of these crypto-assets is linked to currencies such as the dollar or commodities such as oil or gold.

Whereas the Dutch financial sector's exposure to crypto-assets is limited, Dutch households hold relatively large amounts of crypto-assets. For now, the introduction of ETPs has not resulted in financial institutions becoming significantly exposed to crypto-assets. This is possibly related to the prudential treatment of crypto assets for banks under the CRR, for which the EBA is currently developing Regulatory Technical Standards (RTS) (EBA, 2025). In the euro area, Dutch parties hold about 2% of the largest outstanding crypto-assets. Of crypto-assets held in the Netherlands, financial institutions hold less than 20%, with banks even having negligible exposure (see Figure 18). In contrast, about 80% of these investment products in the Netherlands are held by households.

Figure 18 Exposure of the Dutch financial sector to crypto-related investment products is limited, but Dutch households hold relatively large amounts of crypto-assets

Percentages



Sources: Securities Holdings Statistics, ECB and DNB calculations.

Note: Share of total holdings of crypto-related investment products in the Netherlands and the euro area. The figure covers 294 crypto-related investment products (such as ETFs and ETPs) at year-end 2024.

Euro-pegged stablecoins are not a threat to financial stability either, although arbitrage may pose risks. The European crypto markets regulation (MiCAR) regulates euro stablecoins, as well as other linked crypto-assets such as dollar-pegged stablecoins. The introduction of MiCAR has also resulted in the disappearance from European exchanges of US-based stablecoins that refuse to comply with these rules (such as USD Tether). The unequal regulatory regimes in the United States and Europe can give rise to arbitrage risks, however. In the EU, for example, this could lead to increased trading in dollar-pegged stablecoins that have a European MiCAR authorisation, such as the US dollar coin (USDC).

The growing acceptance of crypto-assets may indirectly increase systemic risks. Although the Dutch financial sector's exposure to crypto-assets is limited, financial institutions in the Netherlands and Europe may also be indirectly exposed to financial stability risks related to crypto-assets. First, stablecoins have a significant share of the US public debt market. Stress in crypto markets may result in forced sales of US government bonds if stablecoins are monetised on a large scale. Second, the United States is taking steps towards establishing a strategic bitcoin reserve. A recent executive order states that all seized bitcoins can be pooled into a new strategic reserve. This further legitimises crypto-assets and may encourage other governments to adopt a similar strategy, which could further increase the inter-connectedness of crypto-assets with the financial system. While financial institutions currently have limited exposure to crypto-assets, greater exposure in the future could threaten global financial stability – mainly due to structural vulnerabilities, such as lack of transparency (FSB, 2022).

Policy recommendations: In times of high uncertainty, a financially and operationally resilient financial sector is important

In times of high uncertainty, a resilient financial sector is crucial to protect the economy. Banks maintain capital buffers to absorb unexpected losses. In recent crises, such as the COVID-19 pandemic and the Russian invasion of Ukraine, solid buffers have enabled banks to absorb losses and continue to extend credit. Current heightened geopolitical tensions and worsening fragmentation increase the likelihood of unexpected losses. This uncertain background underlines the importance of well-capitalised banks and, in particular, of holding releasable capital, which can be made available as soon as risks materialise. In part for this reason, DNB uses a countercyclical capital buffer (CCyB) of 2% (DNB, 2025). A recent DNB analysis also shows that capital buffers at Dutch banks can limit economic contraction during recessions without significantly hampering economic growth in normal times (DNB, 2025). Financial institutions should hold sufficient buffers to absorb substantial yet plausible losses due to geopolitical risks. This is why it is important for financial institutions to further embed geopolitical risks in their risk management (DNB, 2024). To this end, institutions can use scenario analysis and stress tests that look at the interaction between geopolitical risks and traditional risks such as market, liquidity and credit risks (IMF, 2025).

Dutch financial institutions are increasingly focusing on their digital resilience, a development in which DNB is playing an active role. DNB supports financial institutions in improving their cyber resilience, for instance by providing guidance with the ethical hacking programmes Threat Intelligence-based Ethical Red Teaming (TIBER) and Advanced Red Teaming (ART).[9] In addition, the Digital Operational Resilience Act (DORA) introduces more rigorous standards for the management of ICT and cyber risks throughout the outsourcing chain. In this context, it is essential that

9 TIBER and ART tests provide financial institutions with insight into the strengths and weaknesses of their resilience to advanced cyber attacks (ECB, 2024; DNB, 2024).

financial institutions have a thorough overview of the chain of digital service providers supporting their financial processes. To this end, DORA requires institutions to keep an information register containing all contractual agreements regarding the digital services provided by third parties. This helps them understand and manage outsourcing risks. It also gives DNB up-to-date insight into the dependencies of Dutch financial institutions, including dependencies on non-European service providers. These information registers also form the basis for designating critical third-party providers of ICT services at the European level. DORA also introduces an oversight framework under which European supervisory authorities – together with their national counterparts – can examine these critical third-party providers.

Finally, it is important for Europe to work on the strategic autonomy of its payments system. Alongside dependence on non-European service providers, payment systems also rely heavily on US vendors such as Visa and Mastercard. Europe therefore needs to increase its strategic autonomy in this area, for example by developing a European payment instrument that can be used anywhere in Europe and by anyone. There is currently no home-grown European payment solution that can connect EU markets. The digital euro offers a public solution that can fill this gap and make European payments more resilient to geo-economic fragmentation. An example of a private solution is the European Payments Initiative (EPI).

In addition to having a resilient financial sector, European cooperation is essential for tackling global challenges in an increasingly fragmented world

International cooperation – especially given the current uncertainty – remains essential to confront global challenges. As a small country with an open economy, the Netherlands benefits from well-functioning global partnerships. Moreover, most financial stability risks are cross-border in nature, which calls for international cooperation. It is therefore vital that we remain committed to international cooperation and well-functioning multilateral forums. By the same token, the current state of the world makes cross-border cooperation within Europe even more essential.

First, Dutch commitment to strengthening and deepening the European single market is essential for our economy and financial sector. Reducing dependence on other regions can mitigate the impact of trade restrictions (DNB, 2023). Last year, some 70% of Dutch exports went to EU Member States (CBS, 2025). A deeper single market is therefore an effective tool for ensuring the resilience of the European economy and financial sector. Although intra-EU trade has increased significantly in recent decades, significant internal trade costs remain. An IMF analysis, for example, shows that these costs in 2020 amounted to an ad valorem levy of 44% for the average manufacturing sector, mainly caused by divergent national regulations, limited competition due to fragmented trade chains and high barriers to entry in the services sector (IMF, 2024).[10] It is therefore necessary to deepen the European single market even more, develop the banking union further, reduce fragmentation and enable businesses and households to reap the full benefits of an integrated European market (Letta, 2024 and Draghi, 2024).

10 By comparison, this levy is significantly lower between states in the United States at an average of 15%.

Strengthening the financial system requires deepening and expanding European capital markets. Deep and liquid capital markets improve access to finance and lower costs for firms, reducing reliance on bank lending and financial markets outside Europe. Capital markets can also help absorb economic shocks, and contribute to channelling private capital towards challenging priorities such as defence, climate adaptation and transition, and productivity growth. Against this background, the European Commission recently presented its plans for a Savings and Investment Union (SIU). The plans encompass policy initiatives to expand national capital markets. In addition, the European Commission proposes removing barriers between capital markets, harmonising their supervision and promoting the consolidation of market infrastructures. DNB supports these plans in many parts, including the call to remove barriers in the areas of taxation, insolvency and pensions (DNB, 2024). If progress is too slow, willing Member States may also consider taking more far-reaching steps and working together on initiatives.

Finally, targeted simplification of European rules can help boost competitiveness, as long as the resilience of the financial sector is maintained. After the 2008 financial crisis, regulations for banks and other financial institutions were tightened and expanded to better manage risks, taking into account – also at the sector's request – the complexity of banks and their various activities. Recent geopolitical developments have shifted the focus to competitiveness (Letta, 2024 and Draghi, 2024). Various parties are calling for simplification of prudential frameworks in Europe to boost competitiveness at financial institutions (Politico, 2025). The Eurosystem is currently considering options for simplification in the areas of regulation, reporting and supervision (ECB, 2025). When it comes to such simplifications, we feel it is important that rules remain consistent with global agreements, so that financial institutions are subject to the same minimum requirements. Also, and especially in view of the high level of uncertainty in the world, it is essential to maintain current levels of resilience. Competitiveness in the financial sector can thus be boosted especially through targeted measures that reduce administrative burdens, such as simplifying certain reports and addressing overlap in lower-level regulations. However, if simplification means that prudential rules are less responsive to risks, then higher capital requirements will be needed to maintain the resilience of the financial sector.

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