

Financial Stability Report

Autumn 2025

DeNederlandscheBank

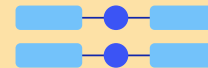
EUROSYSTEEM

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Summary

The risks for financial stability in the Netherlands remain high amid persistent geopolitical tensions and global uncertainty about economic policies. Economic uncertainty is primarily driven by international trade and public finances. Despite the recent trade agreement between the United States and Europe, uncertainty surrounding tariffs remains significantly higher than a year ago, dampening consumer and business sentiment. Furthermore, geopolitical tensions may amplify risks through multiple channels, including price movements in financial markets and increasingly complex digital and hybrid threats. At the same time, pressures on the international legal order undermine global cooperation and the consistency of policy and regulatory frameworks.

High valuations in financial markets make abrupt corrections increasingly probable, as rising long-term interest rates pose a risk to the sustainability of public finances. Sentiment on financial markets is upbeat, with valuations at historically high levels, particularly in US equity markets. Elevated valuations expose equity markets to adverse developments such as unexpected inflationary pressures or a less pronounced economic impact from artificial intelligence than currently anticipated. Over the medium term, financial markets are also vulnerable to political challenges to the democratic institutions that are key to economic growth and stability. For example, any weakening of central bank independence would heighten inflation risks and intensify price volatility in financial markets. Rising long-term sovereign bond rates and pressure on expenditure are making debt sustainability increasingly challenging for many countries. Concerns are particularly pronounced in France, although spillovers to other European countries have not materialised as yet.

Dutch financial institutions have robust buffers. Higher interest rates combined with moderate economic growth have supported their strong financial position in recent years. Dutch banks maintain robust capital buffers and ample liquidity, and credit losses remain low despite heightened

economic uncertainty. The financial position of insurers and pension funds has likewise improved. Ahead of the pension system transition, many pension funds have increased interest rate hedging to protect their financial position, but the shift of 30-40% of the Dutch pension sector's invested assets to the new system early next year will entail adjustments to investment strategies, including reduced interest rate hedging.

Interconnectedness between banks and non-bank financial intermediaries is also increasing, driven by the expansion of private credit markets. Both bank and non-bank lenders therefore need to have a clear understanding of risks and interdependencies in their loan portfolios. In addition, traditional markets are becoming more closely linked to the rapidly expanding stablecoin market, particularly in the United States. While stablecoins and their underlying technologies offer potential efficiency gains in cross-border payments, their rapid growth may pose risks to financial stability. In addition, regulatory fragmentation may lead to harmful arbitrage, which is why full and consistent implementation of the agreed global standards is critical.

Thorough preparation for shocks and adequate capital buffers help to dampen the financial stability risks that accompany heightened uncertainty. With economic and geopolitical uncertainty increasing the likelihood of unexpected shocks, thorough preparedness is of the essence for financial institutions, including scenario analysis and stress testing to preserve both financial and digital resilience. Likewise, solid buffers are important, given that a well-capitalised financial sector is more resilient to economic shocks. The effectiveness of post-crisis reforms is accordingly evident in the current resilience of banks.

Persistent geopolitical uncertainty reinforces the imperative to maintain the competitiveness of the European and Dutch economies. Business and economic competitiveness supports long-term growth and

financial stability. While the Dutch economy benefits from strong fundamentals, competitiveness is under pressure. To invest, firms need tailored finance, but fast-growing and innovative firms face financing constraints. To bolster European competitiveness and boost investment, Mario Draghi presented a policy agenda in 2024. The need to maintain competitiveness is being addressed more in the Netherlands, too – the Dutch government has asked Peter Wennink to tailor Draghi's recommendations to the Dutch context.

National reforms are needed to preserve competitiveness. Structural reforms and a boost in investment in capital goods, knowledge and skills are essential if productivity growth is to be accelerated in the Netherlands. This is where the government can contribute by accelerating procedures. Importantly, it could address bottlenecks – notably nitrogen constraints and grid congestion – while pursuing predictable policies. Similarly, the government could support the corporate sector's innovative capabilities financially, provided such support is targeted and does not jeopardise the sustainability of public finances.

At the European level, cooperation through completion of the single market, deepening and harmonising capital markets, is vital. As an open economy, the Netherlands is highly dependent on smoothly functioning European markets. Further European cooperation is therefore important in three areas. First, the Netherlands should continue to advocate completion of the EU single market by removing barriers. Harmonising national rules will enable firms to expand cross-border at lower cost, for instance. Second, further deepening and integrating European capital markets will make it easier and cheaper for firms to meet their individual financing needs.

The European Commission has launched the Savings and Investment Union (SIU) to help achieve this. Within this context, various initiatives show promise to boost the availability of risk-bearing capital, such as encouraging retail investment and expanding collective retirement savings across Europe outside the Netherlands. Centralised supervision of critical market participants will be key here. Third, it is worth exploring ways to simplify European banking regulations, provided that the financial sector's resilience is not compromised.

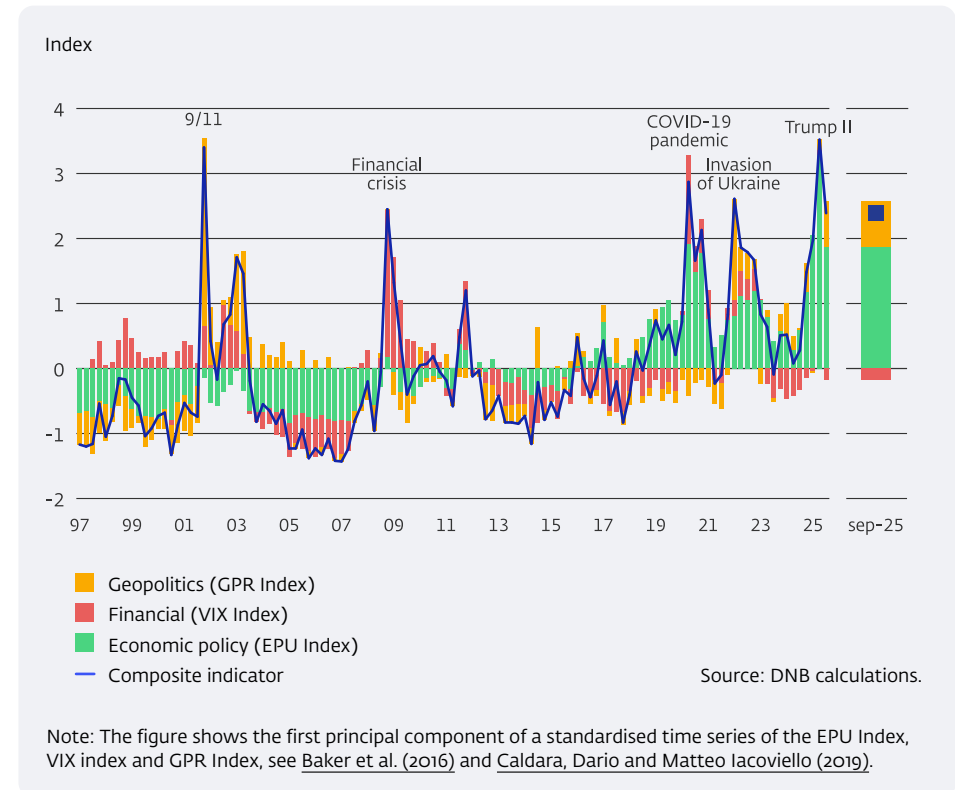


1 Risk outline

Downside risks to Dutch financial stability remain elevated as a result of global economic policy uncertainty and ongoing geopolitical tensions.

Economic uncertainty is primarily driven by international trade and public finances (see Figure 1). Trade tariffs introduced in recent months particularly affect open economies with large trade surpluses, such as the Dutch economy. Although the trade agreement between the United States and Europe has provided some clarity, uncertainty remains significantly higher than last year. Recent trade tensions between the United States and China, as well as between the United States and Canada, underscore this development. Heightened economic policy uncertainty is weighing on consumer and business confidence (DNB, 2025). At the same time, geopolitical tensions persist and are reflected, among other phenomena, into more complex digital and hybrid threats. For example, the threat posed by state actors remains undiminished, and Russian sabotage activities are expected to increase across Europe (AIVD, 2025). Furthermore, the international legal order is under mounting pressure, while institutions that are critical for economic growth and stability are increasingly being challenged in Western countries. For example, attacks on central bank independence could lead to greater price volatility in financial markets.

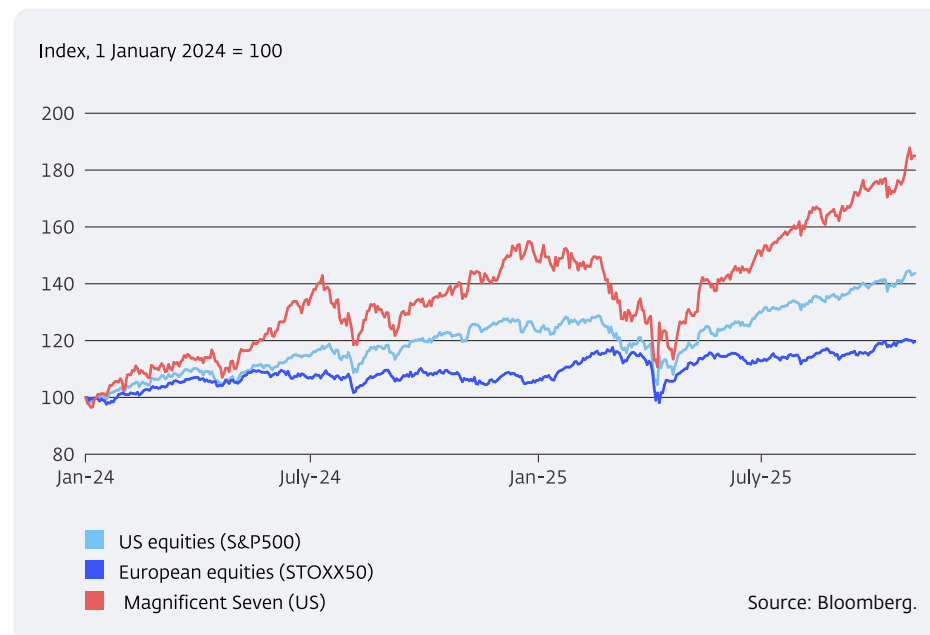
Figure 1 Global economic uncertainty remains elevated



Optimism in financial markets, despite weak dollar

Despite heightened economic uncertainty, sentiment in financial markets is upbeat, with equity indices – particularly in the United States – trading at historically high levels. Following brief turbulence in April triggered by the announcement of US import tariffs, markets have stabilised. European and US stock indices are currently around 5% and 20% higher, respectively, than at the beginning of April, reaching new record highs (see Figure 2). This rally has been supported by stronger-than-expected macroeconomic developments in both the United States and Europe. Thanks to the EU-US trade agreement concluded at the end of July, which introduced a 15% cap on trade tariffs for many European goods, the impact of the tariffs has for now been less dramatic than initially feared. In the United States, equity price gains have been driven primarily by rapid earnings growth among the seven largest technology firms – commonly referred to as the “Magnificent Seven” – alongside sustained investor optimism regarding the potential of artificial intelligence and expectations of further interest rate cuts by the Federal Reserve. Positive sentiment extends beyond equities to fixed-income markets, evidenced by risk premia in US and European corporate bond markets falling to their lowest levels in recent years in September, although investor concerns about US credit markets have seen an uptick following several bankruptcies in the automotive sector.

Figure 2 US (tech) stocks have appreciated significantly throughout 2025



At the same time, it is worth noting that the US dollar has not recovered. Since the beginning of 2025, the dollar has depreciated by 11% against the euro (see Figure 3). This weakness is largely attributable to the US trade tariffs announced in April. Although foreign investors have not disposed of US assets on a large scale (see Figure 4), they have, on average, further hedged their dollar exposures since then, exerting downward pressure on the currency's value. The depreciation observed since April is notable, as higher US interest rates would typically be expected to support an appreciation. Similarly, the decline is inconsistent with the widened interest rate differential between US and German two-year bonds earlier in the summer, which would normally make US investments – and thus the dollar – relatively more attractive. Since the summer, however, the dollar exchange rate has stabilised, despite lower short-term interest rates in the United States.

Figure 3 Dollar/euro exchange rate has stabilised since the summer despite lower US interest rates

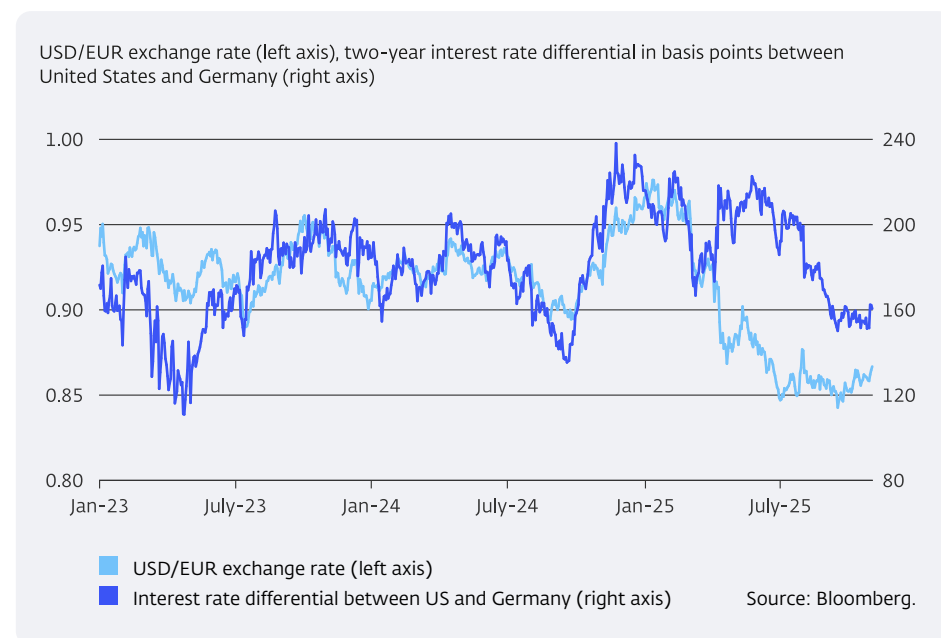
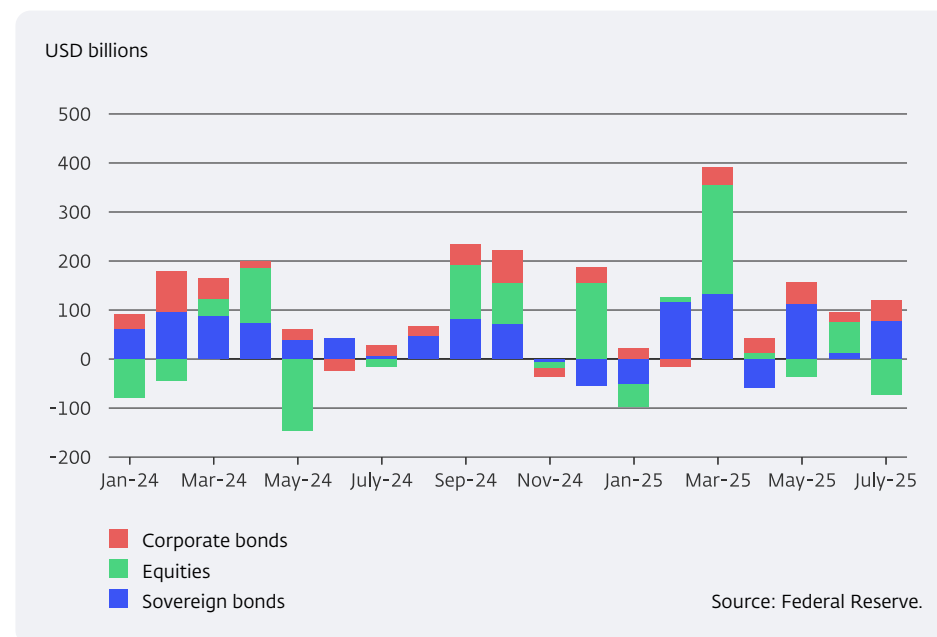


Figure 4 Foreign investors continue to buy US assets on net basis



High valuations in financial markets increase risk of abrupt corrections

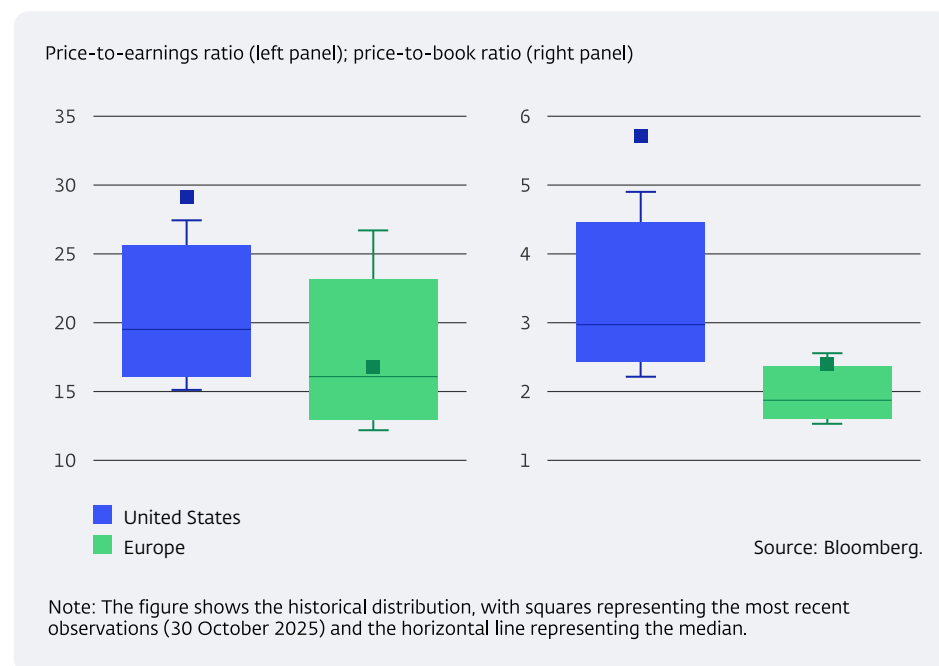
High equity valuations – and the tech sector's dominance in this respect – heighten the vulnerability of financial markets to setbacks and increase the likelihood of a correction. Over the past six months, US stock valuations have risen to historically high levels, supported by strong investor sentiment. Current valuations place US equities within the top 10% of their historical distribution, while European equity valuations remain closer to long-term averages (see Figure 5). This makes US stock markets especially susceptible to adverse developments. An unexpected rise in US inflation, for example due to trade tariffs, could trigger higher interest rates and downward pressure on stock prices. Moreover, the high degree of market concentration leaves US equity markets vulnerable to setbacks affecting a small number of firms. After all, the share of the “Magnificent

High uncertainty impacts financial system



Seven” firms in the S&P 500 index has now reached approximately 33%. Although valuations in Europe are closer to their historical averages, a price correction in the United States could have adverse effects in European markets. Financial market corrections affect various market participants, with investment funds being particularly vulnerable to price losses and liquidity drying up.

Figure 5 US equity valuations remain elevated, while European valuations are closer to historical averages



Financial markets are also exposed to risks stemming from attacks on democratic and independent institutions, which can undermine trust and stability. Reliable and strong institutions and consistent economic policies have been essential preconditions for economic growth and financial stability in recent decades ([Budget Memorandum, 2025](#)). These include the democratic rule of law, property rights, credible statistics and the independence of central banks. Globally, and particularly in the United States, political pressure on such institutions has been increasing. Heightened pressure on institutional frameworks – and central bank independence in particular – amplifies risks to financial stability. Challenges to central bank autonomy could lead to higher actual and expected inflation, a loss of confidence in the financial system and greater volatility in financial markets. Starting in the United States, such developments could trigger a revaluation of US assets, including Treasuries, potentially impacting Dutch institutions through multiple channels. (see ‘[Box 1 Safe haven under pressure? Dependencies on US sovereign bond markets](#)’). In addition, US risk premia could rise significantly, pushing up interest rates in Europe through spillover effects.

Box 1 Safe haven under pressure? Dependencies on US government sovereign markets

Structural vulnerabilities in US sovereign bond markets have emerged in recent years. These Treasury markets are a cornerstone of the global financial infrastructure and comprise bonds, repos and futures.¹ They perform crucial functions and serve as a benchmark for pricing other assets such as corporate bonds and mortgages. Treasuries are also a key source of collateral in funding markets. In recent years, several episodes of stress have plagued these markets, including the ‘dash for cash’ in March 2020 ([BIS, 2020](#)). More recently, the US trade tariffs announced in April of this year put temporary pressure on the functioning of Treasury markets ([BIS, 2023](#) and

¹ Repos are cash loans extended for one or several days in exchange for high-quality collateral, for example US sovereign bonds. Futures are contracts in which parties agree to trade an underlying instrument, e.g. sovereign bonds, at an agreed time in the future at an agreed price.

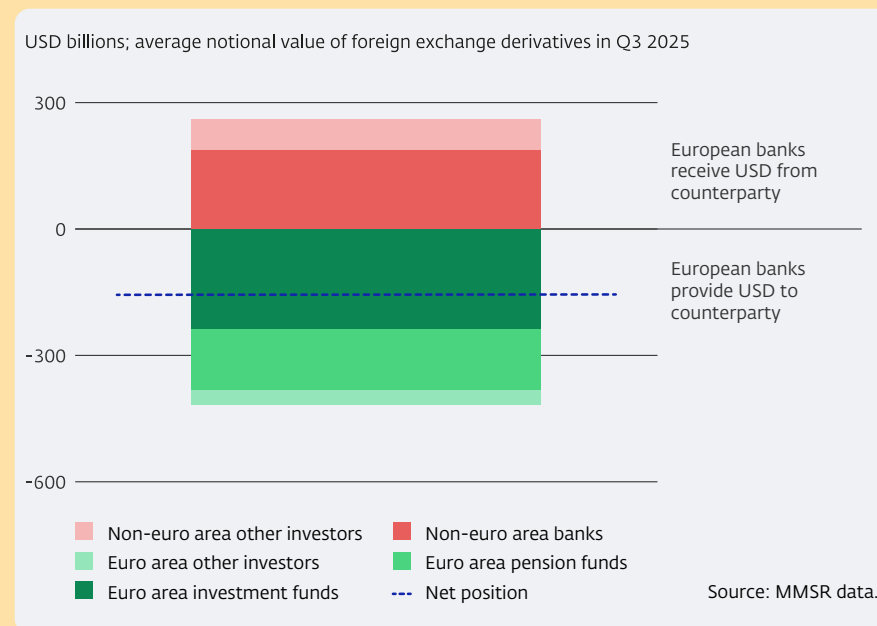
Financial Stability Report, Spring 2025). These events serve as evidence that this market, considered the deepest and most liquid in the world, is not immune to shocks.

Vulnerabilities in the Treasury market are exacerbated by macroeconomic and structural developments. High US budget deficits and persistent inflation risks are putting upward pressure on US long-term interest rates, which may raise concerns about US debt sustainability. At the same time, the introduction of new rules following the financial crisis has left banks with structurally less room on their balance sheets to accommodate the additional supply of Treasuries in their trading volumes. For several years now, the positions of banks, which, as ‘primary dealers’, ensure a well-functioning market, have not been growing in tandem with the net issuance of Treasuries. Non-bank institutions, such as hedge funds, have seized the opportunity and now play a prominent role in both the sovereign bond market and related derivatives markets. Indeed, the aggregate value of hedge funds’ short positions leveraged on Treasury futures doubled between 2019 and 2025 (OFR, 2025). These non-bank institutions often borrow dollars in the repo market providing Treasuries as collateral. Strong interest rate movements may force redemptions to meet rising margin calls, which could further fuel market stress.

Dutch institutions are also vulnerable to problems in the US sovereign bond market through direct exposures and dollar-denominated funding. Dutch financial institutions hold about \$60 billion in Treasuries and about \$145 billion in other US dollar-denominated debt, such as corporate bonds. In addition, European banks – including Dutch banks – borrow dollars on the US repo market, often using Treasuries as collateral. On average, European banks have a net amount of more than \$250 billion in such repos outstanding (ECB, 2024). Banks thus play a role as intermediaries for dollar-denominated funding of European institutions. Much of this amount – about \$150 billion – is lent to pension funds, which use

these funds to (partially) hedge foreign exchange risks on their US investments (see Figure 6).

Figure 6 European banks are dollar lenders in foreign exchange swaps



Central banks have tools to curb stress in dollar funding, but banks themselves can also boost their resilience. The Fed’s Standing Repo Facility (SRF) helps financial institutions obtain liquidity and acts as a safety net to ease stress in US repo markets. In addition, the swap line between the Fed and the Eurosystem can provide euro area banks with dollar liquidity if overall market access is limited and direct access to the SRF is lacking. Nevertheless, financial institutions can also work to boost their own resilience, for instance by ensuring a stable dollar funding base and maintaining a broad network of counterparties in the money markets, thus reducing their dependence on only a few parties.

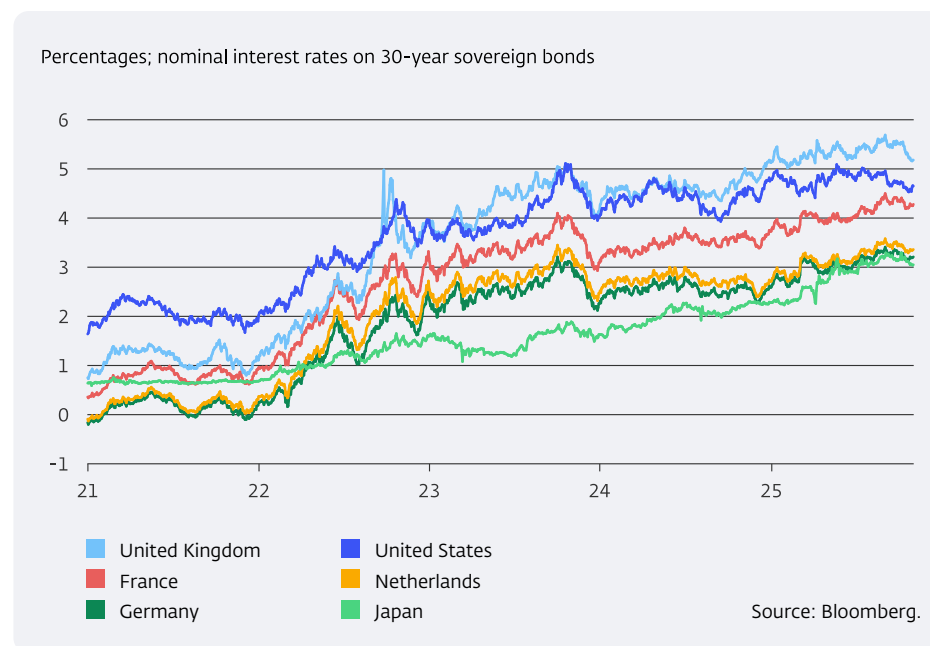
Rising long-term rates pose a risk to the sustainability of public finances, notably in France

Long-term sovereign bond yields have risen across many countries. As a result yield curves have steepened over the past year (see Figure 7). Several factors have contributed to this development. The supply of long-term sovereign bonds has increased as governments pursue expansionary fiscal policies and have to finance additional investments, including in defence. The gradual unwinding of central bank balance sheets has further added to bond supply. Upward pressure on yields has also been reinforced by declining demand from institutional investors. In the Netherlands, for example, demand for very long-dated bonds is expected to fall as pension funds, in preparation for the pension system transition, reduce their need for interest rate hedging through such instruments (see [Box 2 Pension transition impacts swap markets, but phased unwinding is possible](#)). In addition, investors are seeking higher compensation for long-term uncertainties related to inflation and economic growth.

Uncertainty surrounding the sustainability public debt has increased, notably in France. The projected budget deficit for 2025, at 5.5% of GDP, significantly exceeds European fiscal targets. Looking ahead, a substantial reduction in the primary deficit will be required to stabilise France's public debt, currently at 113% of GDP, over the medium term. However, political fragmentation makes a swift fiscal adjustment unlikely. Persistent political uncertainty has already prompted credit rating agencies Fitch and S&P to downgrade France's sovereign rating by one notch (from AA- to A+). Financial markets reflect the absence of sorely needed adjustments in French public finances: the spread between French and German sovereign bond yields has widened further and now stands at levels comparable to

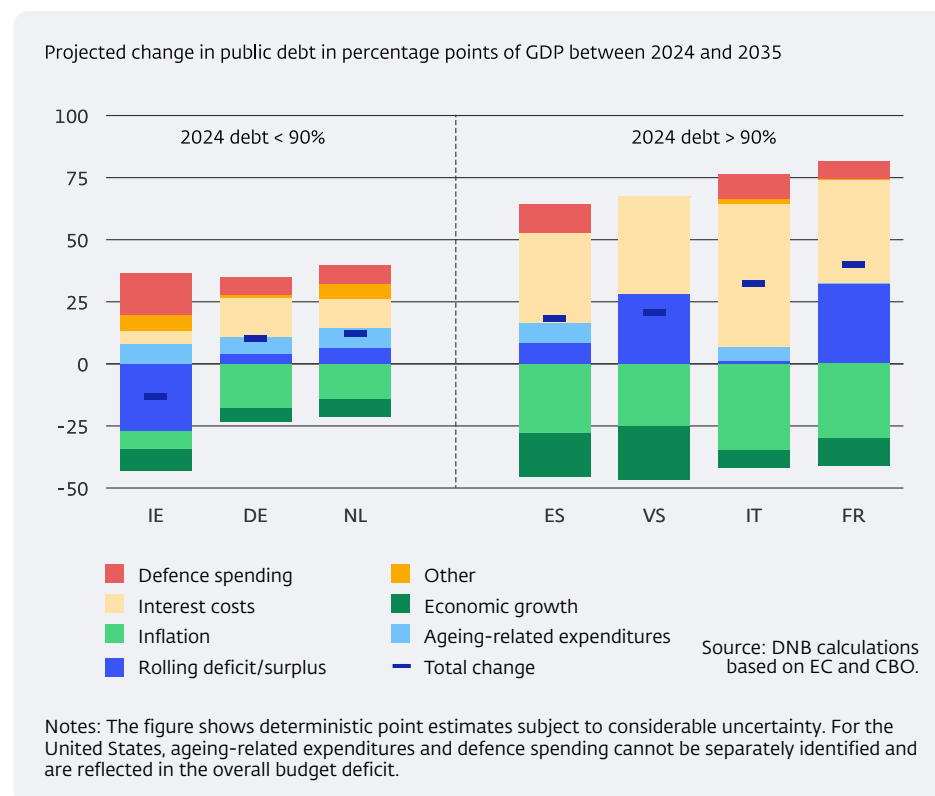
Italy. Rising interest rates have led to valuation losses on French bonds, affecting holders such as Dutch pension funds, which collectively own around €60 billion in French sovereign bonds. It is essential that these institutions manage such risks effectively. Ultimately, resolving the fiscal impasse rests with French politicians. At present, there are no signs of negative spillovers to the bond yields of other euro area countries. The ECB retains instruments to counter potential contagion within the euro area, subject to specific conditions.

Figure 7 Long-term sovereign bond yields have increased across many Western countries



In other countries, too, higher long-term interest rates combined with additional spending pressures are making it increasingly difficult to maintain sustainable fiscal policies. The ability of governments to accommodate rising costs – including higher interest payments, ageing-related expenditures and defence spending – within their budgets varies significantly from country to country. This challenge is particularly complex for Member States with already elevated debt levels, such as France and Italy, where debt-to-GDP ratios are projected to rise to 153% and 169%, respectively, by 2035 (see Figure 8). In the United States, government debt is also expected to increase substantially over the coming years, driven by higher interest costs and persistent fiscal deficits. For the Netherlands, the debt-to-GDP ratio is likewise set to rise due to increased spending. However, the starting position remains favourable given the current low level of public debt (see [Risks to financial stability in the Netherlands remain elevated](#)).

Figure 8 Public debt sustainability in many countries deteriorates due to higher interest costs, ageing-related expenditures and defence spending



Risks to financial stability in the Netherlands remain elevated

Economic shocks stemming from geopolitical tensions and heightened economic uncertainty continue to represent the main risk to financial stability in the Netherlands. Overall, risks to Dutch financial stability remain elevated (see risk table on page 14 for an overview of current key risks). Geopolitical tensions and geo-economic fragmentation are the dominant risk factors and can amplify existing vulnerabilities through multiple channels, including sovereign debt sustainability and financial market volatility. The latter may also be exacerbated by the rapid expansion of the stablecoin market and its growing interconnectedness with traditional financial markets (see [Exploration of strong growth in stablecoin markets](#)). In addition, geopolitical tensions heighten the likelihood and potential impact of cyber and hybrid incidents targeting the financial system, including operational disruptions in critical infrastructure that could affect financial institutions. At the same time, pressures on the international legal order, resulting in part from geopolitical tensions, undermine global cooperation and the consistency of policy and regulatory frameworks. Finally, looking ahead, the risk of sudden price corrections in financial markets has increased, particularly given the historically high valuations of US equities.









The Dutch economy remains in a solid position, although achieving an appropriate balance between fiscal adjustment and structural reforms is essential to strengthen resilience. Economic growth is projected at 1.4% in 2025, constrained by elevated uncertainty and higher trade tariffs (IMF, 2025). At the same time, geopolitical fragmentation underscores the need for resilient economy. Sound public finances provide room to absorb future shocks through stabilising fiscal policies. The starting point for Dutch public finances is favourable, with debt expected at 44.8% of GDP in 2025. The budget deficit is projected at 1.9% of GDP, 0.2 percentage points lower than previously estimated owing to the frontloading of planned expenditure. For 2026, the deficit is still forecast at 2.7% (CPB, 2025), narrowly below the European threshold of 3%. Looking further ahead,

debt dynamics are less favourable. To safeguard fiscal sustainability, the 18th Working Group on Fiscal Space – in which DNB participates – has recommended a structural deficit reduction of €7 billion through higher revenues and/or expenditure savings, alongside structurally financed additional defence spending. Achieving this will require long-term policy measures, including reforms to health and social security systems to mitigate the future costs of ageing (SBR, 2025).

To maintain economic resilience, the Netherlands must continue to focus – also within the European context – on maintaining competitiveness and the financing required, as outlined in Chapter 2 of this Financial Stability Report. Business competitiveness, and the broader economy, underpin sustainable growth, which in turn supports financial stability. Earlier this year, the European Commission, building on the Draghi report, presented proposals to boost competitiveness (EC, 2025). This agenda is also gaining traction in the Netherlands, where the government has asked Peter Wennink, former chief executive of ASML, to tailor the Draghi recommendations to the Dutch context by the end of 2025 and provide advice on improving the business climate and earning capacity (EZK, 2025). We discuss this in greater detail in Chapter 2.

The remainder of this chapter provides a concise discussion of the remaining risks identified in the risk table. It begins with an assessment of the financial and digital resilience of financial institutions, followed by an analysis of developments in the Dutch housing market and risks related to climate and nature. The chapter concludes with an examination of the rapid growth of stablecoins and their interconnectedness with traditional financial markets.

Risk table illustrating financial stability in the Netherlands

Principal risks	Status	Examples of channels
Geopolitical tensions and geo-economic fragmentation		Declining growth due to tariffs and trade restrictions
Cyber threats and operational disruptions		Disruptions in payment systems due to hybrid attack or failure of critical infrastructure
Price correction on financial markets		Abrupt price slide in US equities due to poor performance of AI
Sustainability of government debts		Sustainability of debt declines due to increased defence spending
Climate and nature-related		Major damage and/or losses due to flooding
Credit losses		Private credit losses due to bankruptcies and economic policy uncertainty
Refinancing and interest rates		Financing problems for businesses due to abrupt interest rate hike
Real estate price correction		Lower returns due to higher construction costs; overvaluation 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.

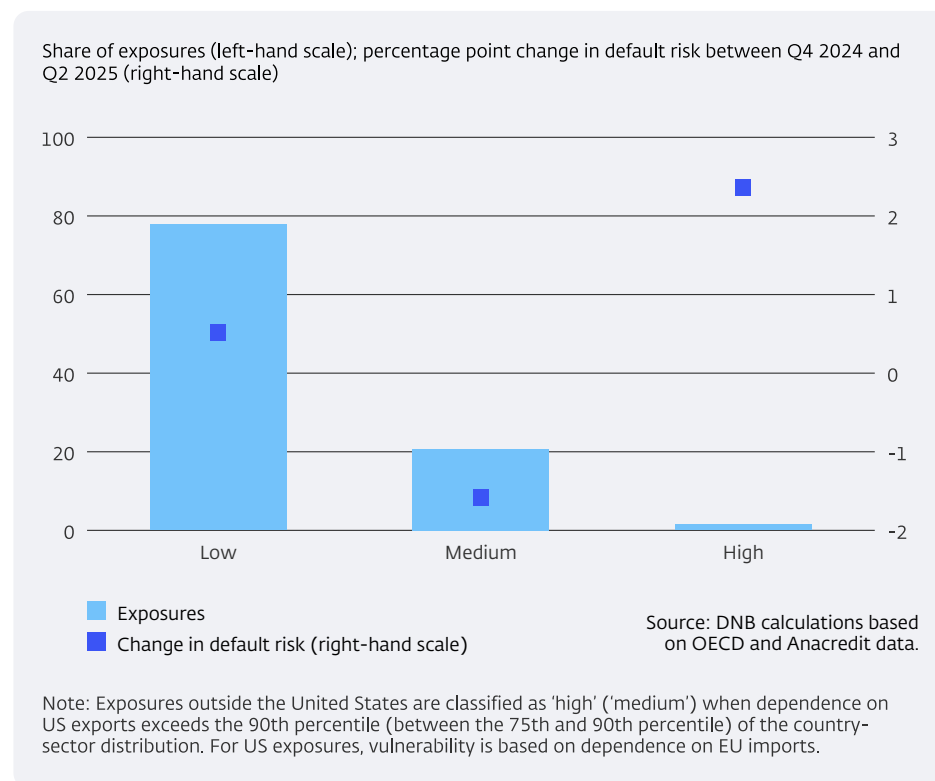
Financial sector maintains strong position

Dutch banks continue to hold solid buffers, supporting their resilience to economic and geopolitical shocks. European banking stocks have recorded a strong performance this year, with the index of European bank shares rising by more than 65%. Listed Dutch banks have also benefited, pushing the average price-to-book ratio above 1 for the first time since the financial crisis. The robust performance of bank shares reflects sustained profitability. Their average return on equity remained around 10% in the first half of 2025. Capital positions are strong, supported by macroprudential buffers, with an average Common Equity Tier 1 (CET1) ratio of nearly 17.6%. Despite ongoing economic uncertainty, the share of non-performing loans was at its lowest level in years at 1.5% in the second quarter of 2025. Liquidity positions are equally sound, with an average liquidity coverage ratio (LCR) of about 160%. The combination of strong capital buffers, low credit losses and ample liquidity underpins banks' resilience. In an environment of heightened economic and political uncertainty, banks must remain capable of absorbing shocks, which requires maintaining adequate capital buffers and preparing thoroughly for potential stress scenarios.

A slight increase in credit risk is evident among companies with high dependence on US trade following the introduction of tariffs.

Dutch banks are exposed to these risks through loans to non-financial corporations, which account for around 23% of total assets. Of these exposures, approximately 14% relate to US counterparties or firms in US-dependent economies such as Mexico and Brazil. Trade tariffs reduce profitability for these companies, making it more difficult to meet debt and interest obligations. Dutch firms in the metals, pharmaceuticals and machinery sectors are particularly reliant on trade with the United States. Within this group – representing only 2% of all corporate loans held by Dutch banks – credit quality has deteriorated most notably in recent months. The probability of default for these loans increased by 2.4 percentage points to 3.7% in the first half of the year. This rise is greater than that observed for loans to companies with low or medium dependence on US trade (see Figure 9).

Figure 9 Slight increase in default risk for firms with high dependence on trade with the United States



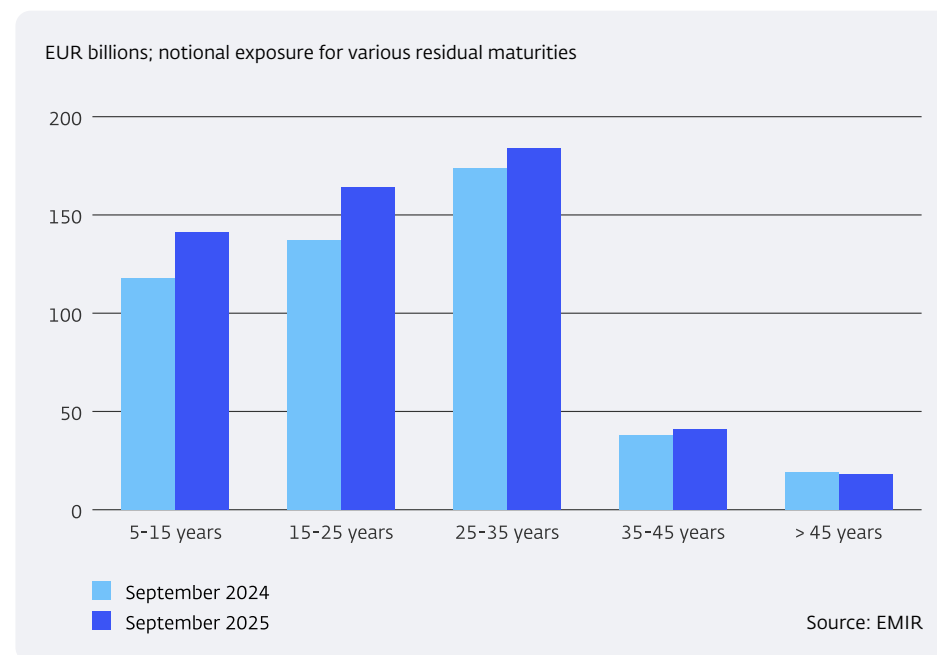
Interconnectedness between banks and non-bank financial intermediaries continues to increase, driven in part by the strong growth of private credit. Non-bank entities have been providing an expanding share of corporate financing in recent years, including through private credit (*Financial Stability Report, Spring 2024*). Pension funds and insurers are allocating more capital to private credit funds, attracted by higher expected returns and lower correlations with publicly traded assets such as equities. However, these investments entail specific risks, including limited market transparency and a lack of frequent and objective valuations. The complexity of linkages between banks and non-banks in private credit

markets is difficult to assess. Banks are exposed through loans to private credit funds or direct lending to firms co-financed by private credit. ECB research indicates that banks are not always able to systematically identify which firms also receive financing from private credit sources (ECB, 2024). The limited visibility of potentially concentrated exposures was highlighted by the recent bankruptcies of Tricolor and First Brands, two US automotive firms. The failure of First Brands, through investments in private credit funds and securitisations, resulted in losses for several banks and more than 200 investment funds and ETFs, in which pension funds and insurers also invest. This event has raised broader concerns among investors regarding overly lenient lending standards and insufficient due diligence. Against the backdrop of continued optimism in financial markets, it remains essential for both banks and non-banks to have a clear understanding of risks and interdependencies in their loan portfolios.

Like banks, Dutch insurers and pension funds continue to exhibit a solid financial position. The average Solvency II ratio of non-life insurers has remained broadly unchanged compared with a year ago at 172%. Life insurers have benefited from higher long-term interest rates, which have lifted the average Solvency II ratio by 5 percentage points to 193% over the past year. The financial position of Dutch pension funds has also strengthened, with the average funding ratio rising to 123%, supported by the increase in interest rates. At the same time, many pension funds are preparing for the transition to the new pension system. The first funds have entered the new framework by early 2025, with around 30 additional funds expected to follow in early 2026, covering 30–40% of the Dutch pension sector’s invested assets. To safeguard their financial position ahead of this transition, many pension funds have increased interest rate hedging. Over the past year, hedging activity has focused on purchasing additional interest

rate swaps with maturities between 5 and 35 years (see Figure 10), while growth in ultra-long maturities has been limited. This pattern aligns with anticipated changes in investment strategies under the new pension system, which will involve shortening the duration of interest rate hedging by reducing exposure to interest rate swaps and long-term sovereign bonds (see [Box 2 Pension transition impacts swap markets, but phased unwinding is possible](#)).

Figure 10 Pension funds enter into more interest rate swaps to hedge interest rate risk ahead of transition

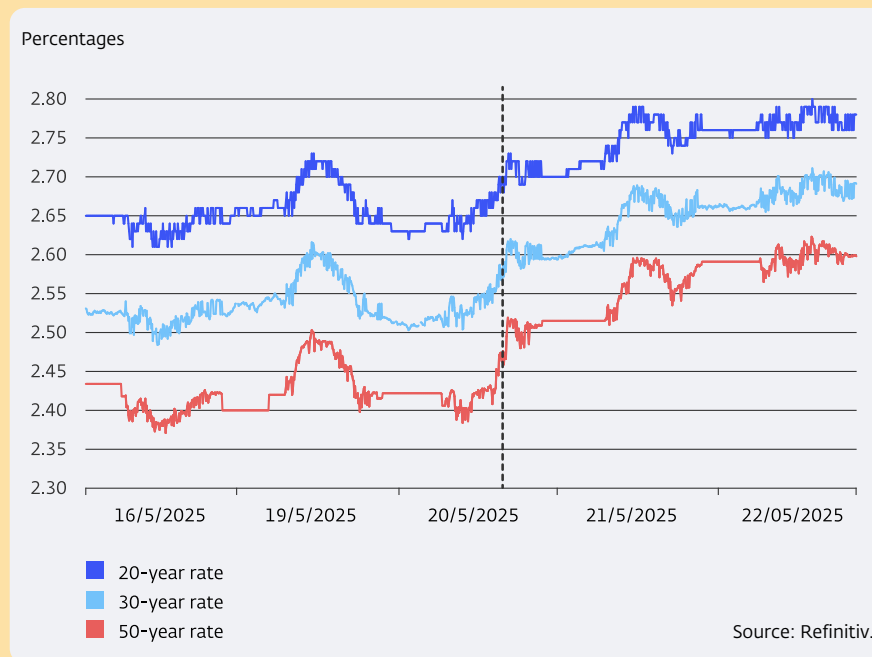


Box 2 Pension transition impacts swap markets, but phased unwinding is possible

Following the pension transition, it is expected that pension funds will reduce their interest rate risk hedging. Under the new pension contract, funds can take a more targeted approach to allocating interest rate hedging among their members' age cohorts. Most funds have in fact announced that they will hedge less interest rate risk for young people than for pensioners. For the latter group, the duration of the required interest rate hedge is also shorter, as pensioners have less remaining life expectancy than younger age cohorts. On balance, it is expected that the transition will result in less interest rate hedging, with a shorter duration for the pension sector as a whole.

This unwinding of interest rate hedging will have an upward effect on long-term swap rates, which is already partly priced in (DNB, 2025). Pension funds are expected to reduce their interest rate hedging only after they transition to the new system. For most pension funds, this will be on 1 January 2026 or 1 January 2027. Concurrently, some market participants, including hedge funds, are already responding to the expected unwinding of interest rate hedging by pension funds by taking positions in the swap market that benefit from rising long-term interest rates. This mechanism was apparent at various points, including on 20 May when the Dutch House of Representatives rejected the amendment on members' right of consent on the transition to the new system. The rejection increased the likelihood that pension funds would transition to the new system in 2026 or 2027, and thus adjust their investment strategies around that time. In response to this decision by the House of Representatives, hedge fund trading activity increased and swap rates rose by several basis points within an hour that day (see Figure 11), implying that the upward effect of the pension transition on interest rate markets is already being partly priced in.

Figure 11 Swap rates rise after rejection of amendment on pension fund members' right of consent



Additional temporary price effects in the interest rate markets may occur following the transition. However, the risk of significant fluctuations is mitigated because the law allows pension funds to gradually adjust their investment strategies. Dutch pension funds account for a relatively large proportion of demand for long-term interest rate swaps, and the expected unwinding of these swaps by the funds is significant, particularly for those with maturities longer than 25 years. The extent of this unwinding is estimated to be equivalent to over a month of regular trading in the swap market. Although pension funds will transfer to the new system at different times, most funds are expected to transition on 1 January 2026 or 1 January 2027.

To prevent forced disposals of large volumes of interest rate swaps in a short period of time, the legislator recently envisaged that pension funds would have 12 months to adjust their investment strategies following their transition. Spreading the unwinding of swap positions over a longer period helps the market to absorb swap disposals, reducing the risk of price shocks.

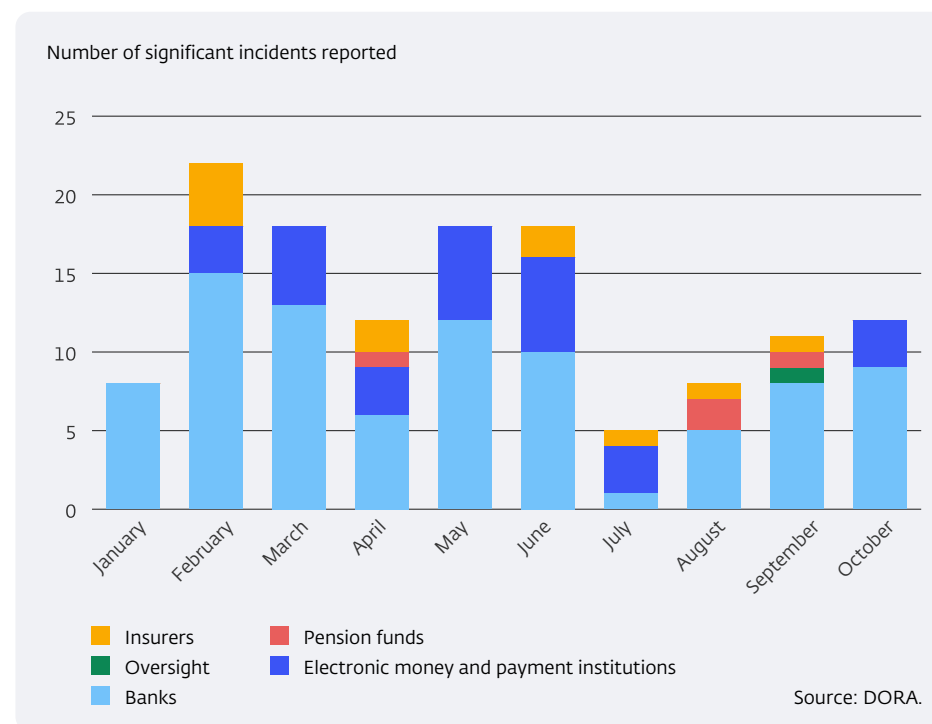
Digital resilience remains a critical priority for financial institutions.

Geopolitical tensions amplify the risk of cyber threats and operational disruptions. Financial institutions may be directly targeted by cyber attacks or indirectly affected by attacks or operational disruption impacting critical infrastructure or digital service providers ([Financial Stability Report, Autumn 2024](#)). Since the introduction of the Digital Operational Resilience Act (DORA), the Dutch financial sector has reported an average of 13 significant ICT-related service disruptions per month (see Figure 12). These disruptions may stem from various causes, including human error and cyber attacks. Although the origin of cyber attacks is often difficult to determine, the complexity and timing of certain incidents suggest links to evolving geopolitical dynamics. For example, in the run-up to the NATO summit in The Hague last spring, Dutch institutions faced sophisticated distributed denial-of-service (DDoS) attacks. While institutions are generally well protected, the complexity and duration of these attacks resulted in brief service interruptions. These developments underscore the importance of preparedness for households and businesses. Maintaining sufficient cash and alternative payment methods is essential to mitigate the impact of potential temporary disruptions to payment systems ([National Forum on the Payment System, 2025](#)).

Financial institutions must remain vigilant to developments in the digital threat environment and prepare for multiple scenarios. Cyber attackers are acting with increasing speed, leaving less time to address vulnerabilities and placing greater pressure on IT departments. The time between the discovery of an IT system vulnerability and its exploitation has

shortened from days to hours. Moreover, data from the US National Institute of Standards and Technology (NIST) indicate that the number of critical vulnerabilities has doubled since 2021. These vulnerabilities require immediate remediation to prevent abuse, underscoring the need for continuous monitoring and rapid, thorough resolution. In addition, institutions rely heavily on a limited number of non-European digital service providers. It is therefore essential to prepare for disruptive scenarios by implementing mitigating measures wherever possible. Over the longer term, developing fully-fledged European alternatives is crucial to enhance digital autonomy within Europe ([DNB-AFM, 2025](#)).

Figure 12 Since the beginning of 2025, the Dutch financial sector has reported an average of 13 significant ICT incidents per month



Dutch house prices continue to rise

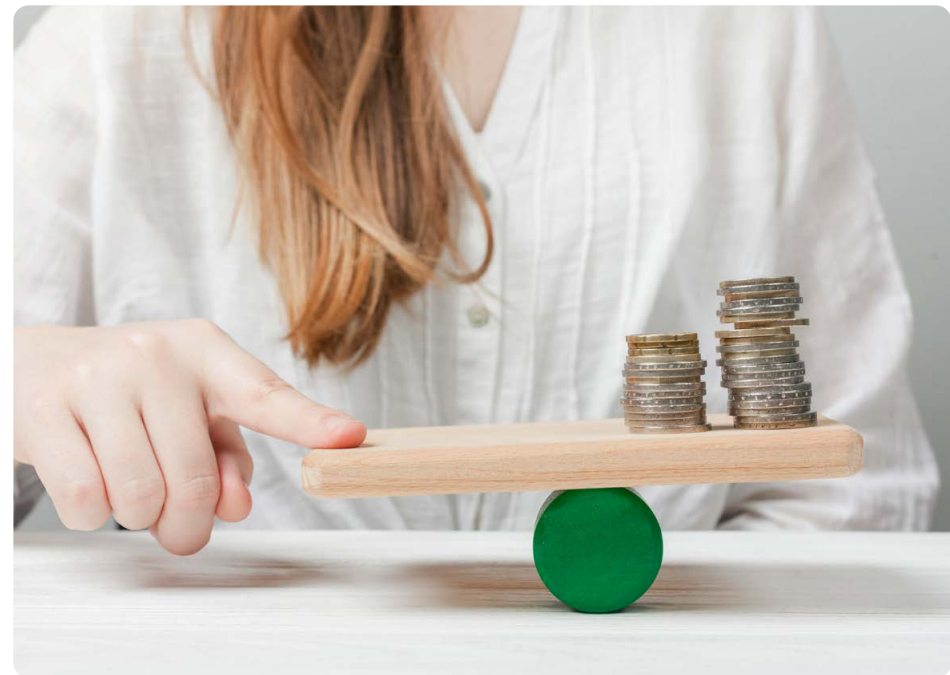
Rising house prices and persistent scarcity continue to weigh on affordability and underscore the need for structural solutions.

In September 2025, prices of existing owner-occupied homes were on average 7.0% higher than a year earlier, bringing the Dutch house price index to a record high. Price growth is primarily driven by wage increases, which have expanded household borrowing capacity. Persistent scarcity also sustains high price levels, as reflected in the short average selling time of homes – just 30 days since early 2020. Tax incentives, such as the mortgage interest deduction ([DNB, 2021](#)), continue to stimulate housing demand and contribute to market tightness. Addressing scarcity requires a comprehensive package of structural measures. On the demand side, phasing out tax incentives for home ownership and avoiding further expansion of borrowing capacity and spending capacity are essential. On the supply side, scaling up new construction and optimising the use of existing housing stock are priorities. Affordability for first-time buyers remains under pressure following sharp price increases in recent years. Signs of overvaluation persist, which may encourage riskier lending behaviour, although default risk does not appear to be rising at present. To monitor financial stability in relation to lending standards, the AFM and DNB are preparing a joint report at the request of the Ministry of Finance ([House of Representatives, 2025](#)), due to appear in early 2026.

Climate-related risks are increasing as the implementation of necessary measures is delayed

Meeting statutory climate targets is becoming increasingly difficult for the Netherlands, raising the likelihood of a disorderly transition.

Recent projections indicate that the statutory target of a 55% reduction in emissions by 2030 is slipping out of reach ([PBL Netherlands Environmental Assessment Agency, 2025](#)). Postponing essential measures will make future efforts more substantial and costly, with potential implications for financial and price stability. To enhance understanding of the financial and economic impacts of climate change and environmental degradation, and to strengthen the resilience of the financial sector, DNB is collaborating with several international and national partners, including the Network for Greening the Financial System and the PBL Netherlands Environmental Assessment Agency.

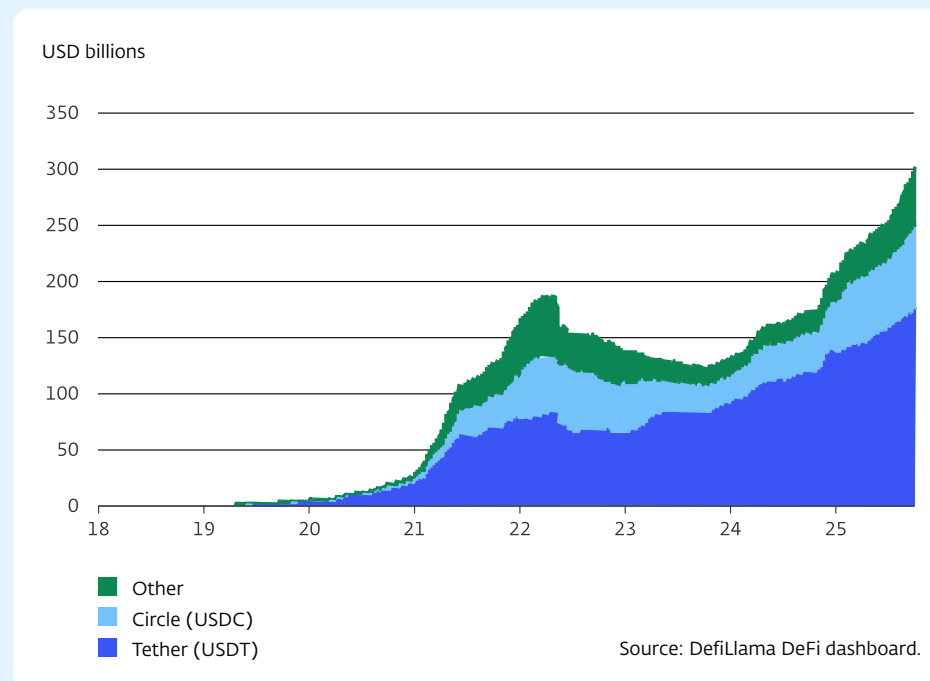


Exploration of strong growth in stablecoin markets

The market for stablecoins is growing rapidly, especially among dollar-pegged stablecoins. Unlike other crypto-assets such as Bitcoin, stablecoins are designed to maintain a steady value. To achieve this, they are usually pegged to fiat currencies such as the US dollar, and are backed by reserves in the form of sovereign bonds, bank deposits, money market fund units and other assets. The market for stablecoins has expanded rapidly over the past five years and the outstanding market value is now around \$300 billion (see Figure 13). This represents only a small part of the wider crypto market, which now stands at \$4,000 billion. Most stablecoins are denominated in US dollars, which means there is a high degree of concentration. In fact, more than 99% of all outstanding stablecoins are pegged to the dollar, while the two largest issuers – Tether and Circle – account for more than 80% of the market. As a result of the US GENIUS Act, some analysts expect the size of the market could surge to value of \$2,000 billion within three years (Bloomberg, 2025).

The technology behind stablecoins offers opportunities for more efficient cross-border payment transactions. Like other cryptos, stablecoins are based on distributed ledger technology (DLT), in which transactions are executed directly and without central intermediaries. This theoretically enables more efficient, transparent and programmable transactions. Stablecoins implement this technology on a large scale, but the potential of DLT is being explored in other initiatives as well. For example, SWIFT, the international payment messaging system, is experimenting with a ledger application in the existing payment infrastructure to settle transactions in real time and boost the efficiency of back-office processes. Efficient retail payments are already commonplace throughout the European Union, so the added value of stablecoins seems limited in that respect. However, the technology does offer the potential to

Figure 13 The stablecoin market has grown rapidly



improve cross-border payments to and from non-euro-area countries² (such as remittances), and to further digitise financial markets.

The growth of the stablecoin market may also spark risks to financial stability because of the interconnectedness with traditional markets. Although European households' and financial institutions' direct exposure to stablecoins is limited (ECB, 2025), these assets may contribute to increased volatility in financial markets. When many investors want to sell

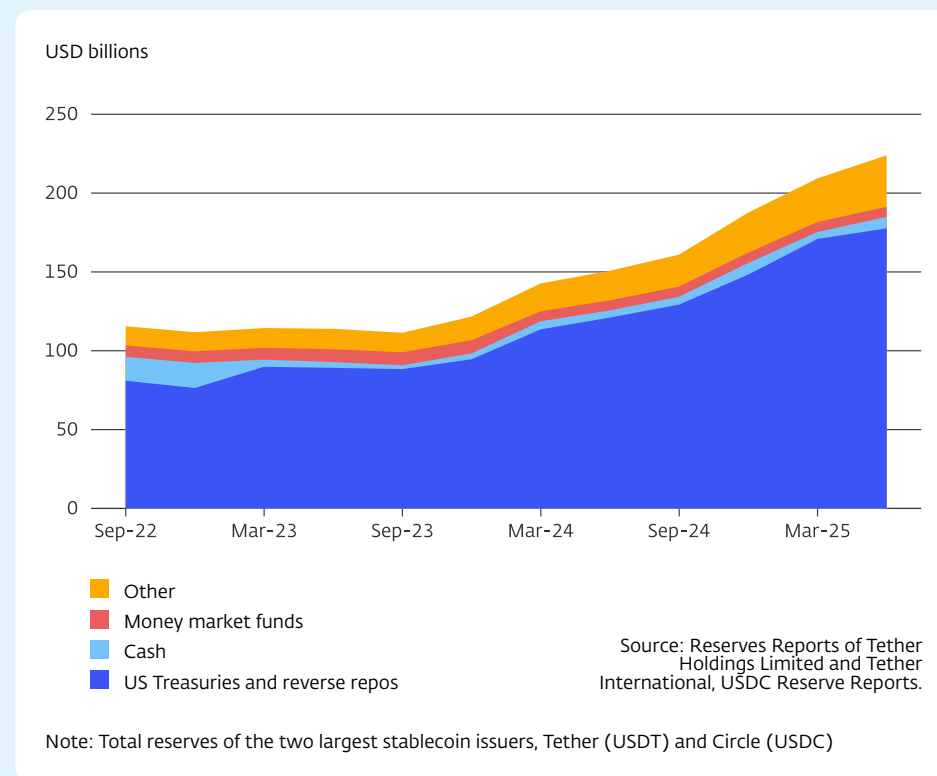
² If stablecoins are insufficiently regulated, this could also pose money laundering and sanctions compliance risks.

their stablecoins simultaneously, as happened in 2023 after the collapse of Silicon Valley Bank, forced sales of underlying assets may be unavoidable. This can contribute to fluctuations in the US (short-term) sovereign bond market in particular, as more than half of stablecoin reserves consist of such bonds. These reserves, totalling around \$170 billion, are equivalent to almost 2% of all outstanding short-term sovereign bonds in the United States (see Figure 14). Researchers at the BIS have calculated that an outflow of \$3.5 billion in stablecoin investments could lead to an increase in short-term US sovereign bond yields of 6 to 8 basis points (BIS, 2025). Moreover, crypto exchanges could struggle to handle significant selling volumes in times of stress, which can cause price swings. Such volatility may increase in the coming years as the stablecoin market continues to grow. It should be noted that European financial institutions may also be affected, for instance because of their US sovereign bond holdings or their dependence on these markets for dollar funding (see [Box 1 Safe haven under pressure? Dependencies on US sovereign bond markets](#)).

In addition, the regulatory framework for stablecoins currently differs from jurisdiction to jurisdiction. The introduction of MiCAR in the EU and the GENIUS Act in the United States are important steps on the way to regulating stablecoins. Nevertheless, the two frameworks differ, including with regard to permitted reserves and scope. For instance, MiCAR imposes strict requirements on reserve management, stipulating that reserves must consist of highly liquid assets such as cash and short-term sovereign bonds. In contrast, other kinds of assets are permitted as reserves under the GENIUS Act, including money market fund units (see Figure 14). Also, no fees may be charged for redemption requests from stablecoin holders under MiCAR, whereas such fees are permitted under the GENIUS Act. These regulatory differences can open up arbitrage opportunities. The inherently cross-border nature of stablecoins makes it easier for issuers from another jurisdiction to target the European market and thus take advantage of these arbitrage opportunities. Risks can also arise from multi-issuance models, which involves issuing the same stablecoin through multiple

entities under different regulatory regimes. This allows a US issuer, through a small subsidiary in the EU, to issue the same stablecoin in both the US (under the GENIUS Act) and the EU (under MiCAR). If stress were to arise, this could prompt stablecoin holders to submit large-scale redemption requests to the European entity free of charge. This could result in potential liquidity stress at that institution. Such multi-issuance models may weaken MiCAR's effectiveness. This underscores the importance of consistency across regulatory frameworks.

Figure 14 More than half of reserves of largest stablecoin issuers consist of US Treasuries



International cooperation and close monitoring are thus essential to prevent stablecoins from posing a risk to the financial system.

Consistent supervision requires global standards that reduce fragmentation between jurisdictions and the risk of harmful regulatory arbitrage. The FSB has developed global guidance for crypto and stablecoins (FSB, 2023), but its implementation so far is still flawed and inconsistent. International cooperation remains crucial. In addition, the rapid development of stablecoins and crypto markets requires regular regulatory reviews to assess whether risks to financial stability are sufficiently mitigated. Finally, it is important to continue monitoring the financial sector's exposure to stablecoin issuers – for example through deposits, custodial structures or repo transactions. Given the rapid growth of the stablecoin market, DNB will take a closer look at the implications of stablecoins for financial stability in 2026.



2 Competitiveness in a changing world

Geopolitical tensions and shifts in the global economy reinforce the imperative for the European and Dutch economies to sustain competitiveness. Both Draghi and Letta have placed European competitiveness at the forefront of the political agenda through their reports ([EC 2024](#); [EC 2024](#)). Draghi's policy agenda focuses on boosting productivity growth, deepening capital markets and strengthening the financial system to enable Europe to meet its ambitions in climate, defence and digitalisation. Although the European Commission launched this agenda with momentum, progress has been limited. More than a year after publication, only 11% of the proposals have been fully implemented and 20% partially implemented ([EPIC, 2025](#)). Meanwhile, geopolitical tensions have continued to escalate, making European ambitions more urgent and increasing the estimated annual investment requirement from €750-800 billion, as cited by Draghi, to €1,200 billion in the latest assessment ([EC, 2025](#)).

A resilient financial system and a competitive, productive economy reinforce each other. The financial system supports innovative firms by providing credit and risk-bearing capital ([Levine, 1997](#)). Innovation can lead to shifts in market leadership, with some firms losing their competitive edge and new entrants taking their place ([Aghion and Howitt, 1992](#)). A robust financial system facilitates these adjustments, thereby contributing to economic growth ([Popov, 2017](#) and [Buch, 2024](#)). Conversely, sustainable growth strengthens financial stability. When firms and households benefit from economic expansion, their capacity to service debt improves, reducing credit risk in financial institutions' loan portfolios. Moreover, sustained growth supports sound public finances, enhancing the ability to absorb additional expenditures, such as those arising from ageing populations or external shocks.

This chapter examines the competitiveness of the European and Dutch economies and the role of the financial system in this context.

We identify the main bottlenecks to competitiveness and productivity. These bottlenecks underscore the need for reforms in the real economy. At the same time, investment and access to appropriate financing remain essential. To broaden the supply of finance, Europe would particularly benefit from further deepening and harmonising its capital markets. Given that banks remain the primary source of lending, it is worth exploring ways to simplify banking regulations, provided that the sector's resilience is not compromised. Achieving these objectives requires European cooperation, while coordination within multilateral forums continues to be of key importance ([Financial Stability Report, Spring 2025](#)).

Economic and productivity growth remains subdued, partly due to lower investment and bottlenecks in the real economy

Although the economy continues to grow at a moderate pace, the competitiveness of the Netherlands and the broader euro area is under increasing pressure. With projected growth of 1.4% in the Netherlands and 1.2% in the euro area for 2025 ([IMF, 2025](#)), the short-term outlook for both economies remains relatively sound. The Netherlands also maintains a strong starting position in terms of international competitiveness, particularly with respect to price, quality, and innovation. This is supported in part by a highly educated workforce, an open economic structure, and a robust institutional framework. Nonetheless, competitiveness in both the Netherlands and Europe has been under strain for some time. This is largely attributable to persistently weak productivity growth compared to the United States, as well as more recent headwinds from elevated trade tariffs and surging energy prices following Russia's invasion of Ukraine. A key condition for competitiveness is a favourable business climate. This climate

Competitiveness calls for European cooperation



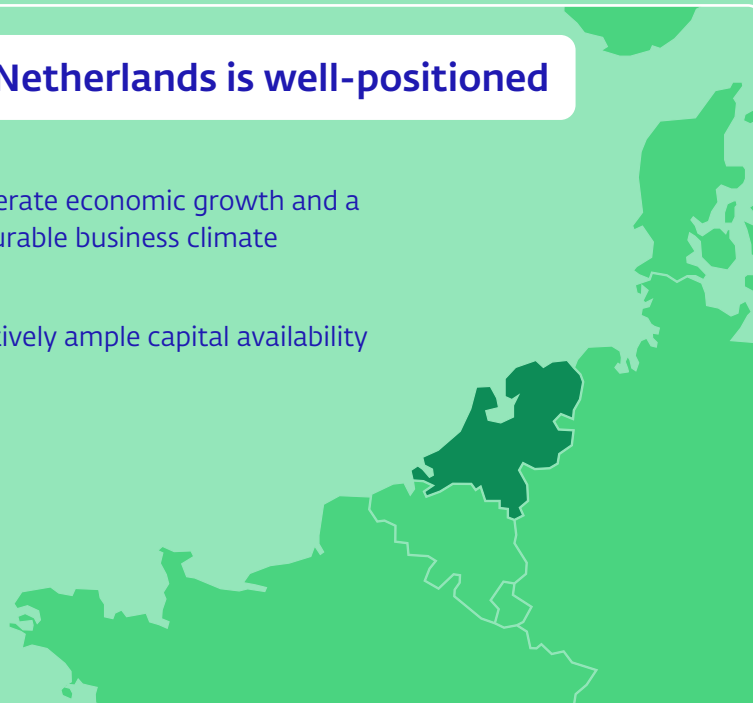
The Netherlands is well-positioned



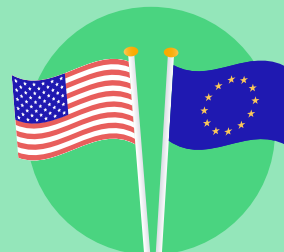
Moderate economic growth and a favourable business climate



Relatively ample capital availability



...but the world is changing



Geopolitical tensions and importance of strategic autonomy have increased



Productivity growth and investment trail those in the US



Firms face constraints in securing finance



Recommendations for maintaining competitiveness



The Dutch government could:



Streamline procedures



Pursue predictable policies



In a European context aim to:



Harmonise national rules



Encourage households with financial headroom to invest



Strengthen European supervision of critical market players

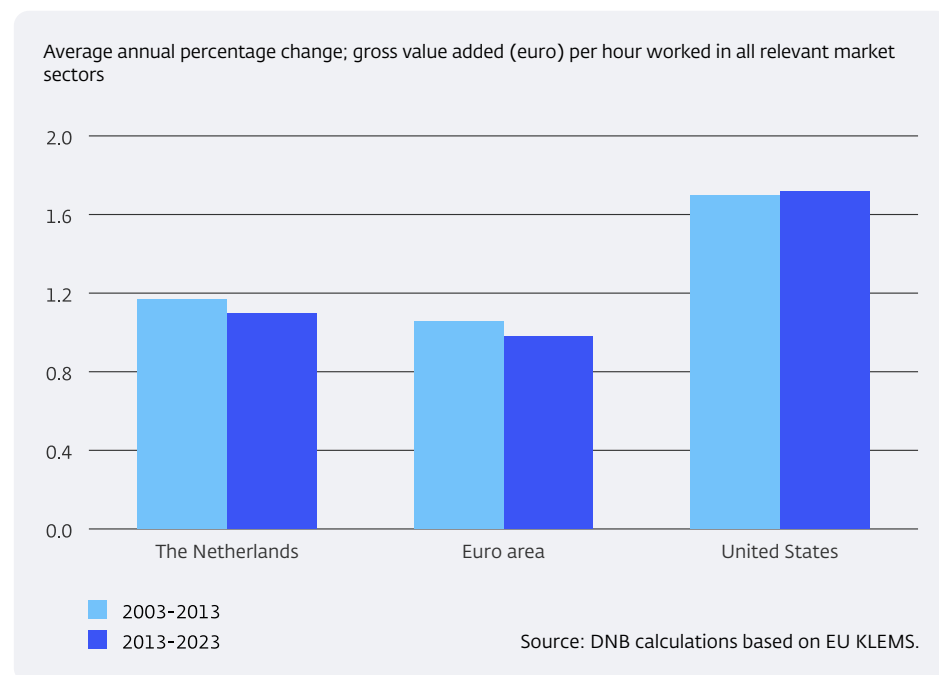


Simplify banking regulation while preserving resilience

is shaped in part by firms' capacity for innovation and the quality of capital stock. While the Netherlands continues to perform relatively well in international rankings of business climates, its position has declined in recent years. For example, the Netherlands currently ranks 10th in the IMD World Competitiveness Ranking 2025 – six places lower than four years ago. According to IMD, this decline is primarily due to the complexity of the tax system and the regulatory burden (IMD, 2025 and PwC, 2025). Additional contributing factors include labour market tightness, unresolved nitrogen emissions challenges, and increasing congestion in the electricity grid.

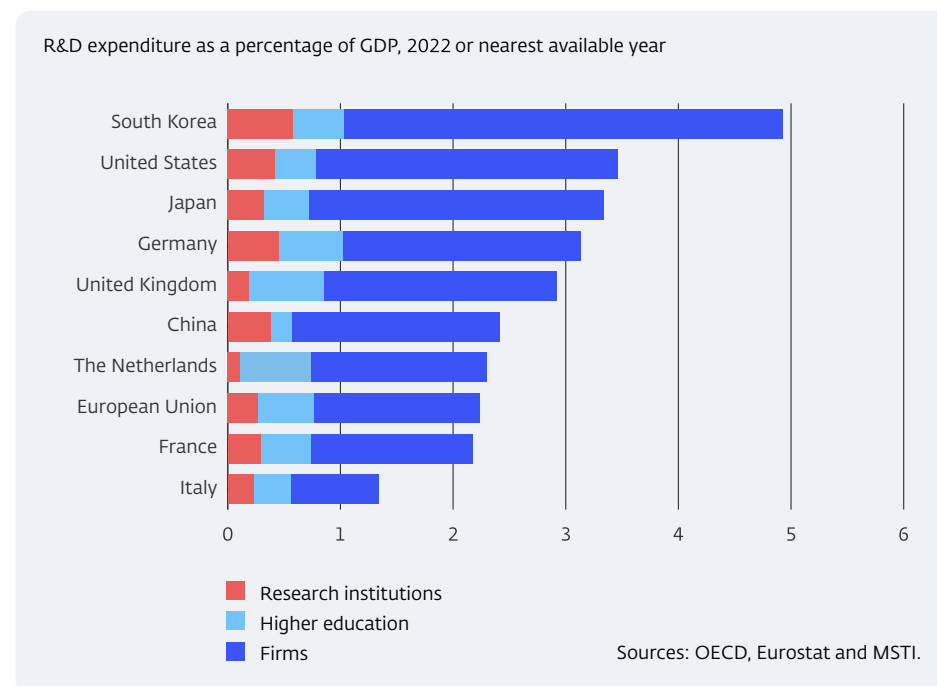
Lagging productivity growth in Europe and the Netherlands is partly attributable to subdued investment in research and development (R&D). Productivity growth in both the Netherlands and the euro area has trailed

Figure 15 Labour productivity growth in the Netherlands and the euro area continues to lag behind the United States



that of the United States over the past decade (see Figure 15). A key factor behind this divergence is lower R&D investment, although the more dynamic reallocation of labour and capital towards high-growth sectors in the United States also plays a role (DNB, 2025). In 2022, for example, the Netherlands allocated approximately 2.3% of GDP to research and innovation – below the European target of 3% and significantly lower than the 3.5% of GDP invested by the United States (see Figure 16). Insufficient R&D investment constrains the capacity of European and Dutch firms to develop new technologies and scale up production. Moreover, expanding operations across EU Member States remains relatively complex and costly for firms, due in part to significant divergences in national regulatory frameworks (EC, 2024).

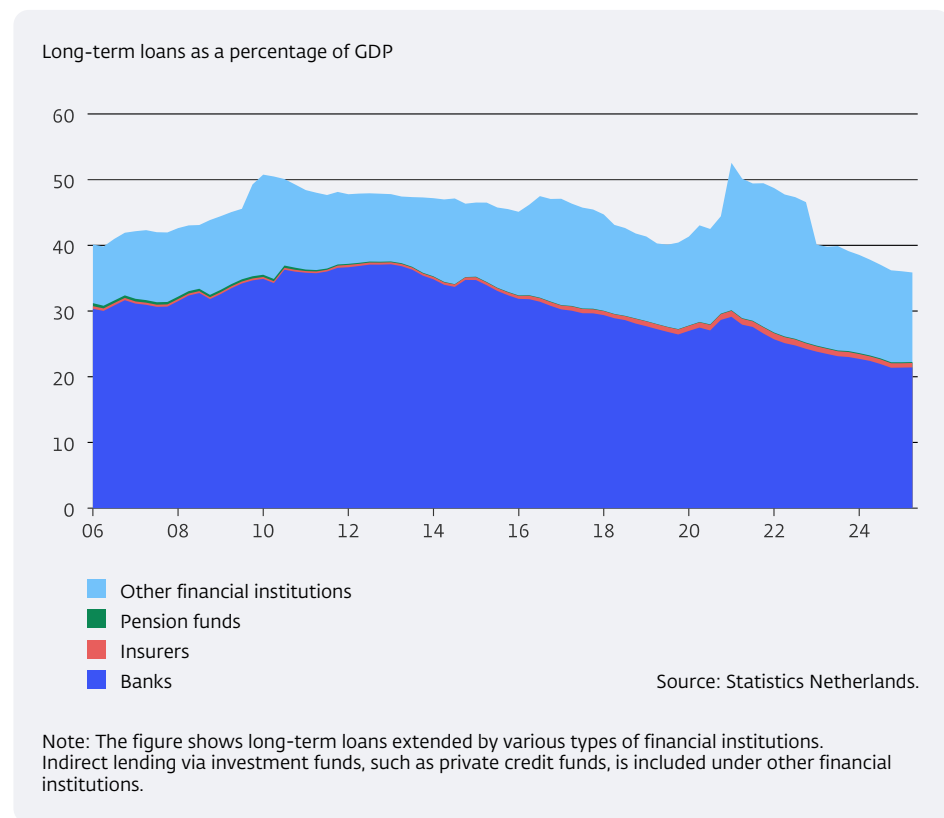
Figure 16 US firms invest more heavily in research and development than their European and Dutch competitors



Sufficient and well-targeted financing is essential to support investment in innovation. According to the Draghi report, the growth potential and innovative capacity of European firms are constrained by their relatively high reliance on bank-based financing. Banks typically provide credit on the basis of stable cash flows or adequate collateral, two things that young, innovative firms may lack, often making bank financing less appropriate for them. In the Netherlands, two specific categories of firms face persistent financing constraints. The first group comprises innovative firms with substantial capital needs (exceeding €50 million). The second group includes SMEs with limited financial track records or financing needs that fall outside conventional lending frameworks (IBO, 2024 and ESB, 2023).

The range of financing instruments is expanding, but remains relatively limited in the Netherlands and the broader euro area compared to the United States. While banks continue to serve as the primary source of credit in the Netherlands, the past decade has seen a notable increase in alternative lending by non-bank financial institutions, including through private credit channels (see Figure 17). In addition to debt-based instruments, firms can access higher-risk financing through private equity, whereby investment funds provide equity capital to businesses. It is estimated that Dutch pension funds and insurers have allocated approximately €325 billion to private assets, primarily comprising private credit and private equity. However, a portion of these investments is directed towards firms located outside the European Union. Moreover, these alternative financing channels remain relatively underdeveloped compared to the United States. For instance, the private equity market in North America is approximately three times the size of its European counterpart (S&P Global). In addition, the availability of risk-bearing capital in the EU is constrained by the comparatively high savings and low investment rates among European households relative to those in the United States. This lower level of household investment is partly attributable to the presence of comprehensive social security systems in Europe, as well as structural barriers such as relatively high investment costs, limited accessibility, and the absence of strong tax incentives (ECB, 2025).

Figure 17 An increasing share of corporate lending in the Netherlands is provided by non-bank financial institutions



Reforms are needed to safeguard the Netherlands' competitive position

In the Netherlands, economic reforms are required to support stronger productivity growth. Achieving higher productivity growth calls for both targeted reforms and increased investment in capital goods, knowledge and skills. The government can contribute by stepping up investment in education and research and accelerating administrative procedures. In doing so, it is essential to address key constraints on the development of new economic activity, particularly those related to nitrogen emissions and electricity grid congestion. A stable and predictable policy environment is critical to maintaining a favourable investment climate. For example, heightened uncertainty surrounding Dutch climate policy has dampened investment in the energy transition ([DNB, 2025](#)). Finally, the government can provide grants and other financial incentives to strengthen firms' innovation capacity, particularly in areas such as digital technologies and the energy transition. Such support measures should be targeted at companies with resilient, future-oriented business models within Europe and should not come at the expense of sound public finances.

In addition, the Netherlands should maintain its commitment to advancing the completion of the EU single market. Barriers to cross-border labour mobility and business activity persist within the EU. Eliminating these internal obstacles would bolster both the European and Dutch economies. Indeed, reduction of remaining trade barriers could yield a GDP increase of approximately 7% for the EU as a whole ([IMF, 2024](#)). Strengthening the single market is particularly important in two key areas. First, harmonising national regulations would facilitate cross-border expansion for firms. For example, insolvency frameworks still vary significantly across EU Member States. More broadly, the establishment of a uniform European legal framework for businesses known as the "28th regime" could support cross-border corporate activity. Second, deeper integration of energy markets could reduce energy costs and enhance price stability for firms, thereby improving competitiveness. In parallel with completing the single market, further deepening and harmonisation of

European capital markets would improve access to finance and reduce the cost of capital for businesses.

A broader range of financing options requires deeper and more harmonised European capital markets

Further deepening and integration of European capital markets will make it easier and cheaper for firms to meet their individual financing needs. Capital markets serve as a valuable complement to bank lending, offering access to alternative sources of finance with a higher share of risk-bearing capital. In addition, capital markets provide mechanisms for early-stage investors to exit their positions through initial public offerings or acquisitions. This supports investment in the early growth phases of firms. Moreover, capital markets facilitate cross-border investment within the EU, broadening access to risk-bearing capital and enabling firms to scale up internationally. A more diversified and accessible financing landscape also enhances the resilience of the financial system by distributing potential losses across a wider investor base. To foster a more integrated and efficient European capital market, the European Commission has consolidated previous initiatives under the Capital Markets Union and Banking Union into the new Savings and Investment Union (SIU) ([EC, 2025](#)). This initiative comprises several components, including measures to stimulate household investment and pension accumulation, strengthen European-level supervision, and complete the Banking Union.

To support further deepening, the use of individual investment accounts can be promoted. According to ECB estimates, if European households allocated as much of their assets to capital markets as US households, this could unlock up to €350 billion in additional annual funding ([ECB, 2024](#)). To stimulate retail investment, the Netherlands – together with France, Germany, and other Member States – recently launched the Finance Europe initiative ([Government of the Netherlands, 2025](#)). This initiative introduces a European investment label aimed at encouraging investment in European firms. In parallel, the European Commission has proposed a design for a

savings and investment account, which Member States can adopt when introducing national schemes to promote retail investment. This design framework draws on best practices, such as Sweden's ISK model (EC, 2025). DNB supports these initiatives and emphasises the importance of swift and decisive implementation by Member States.

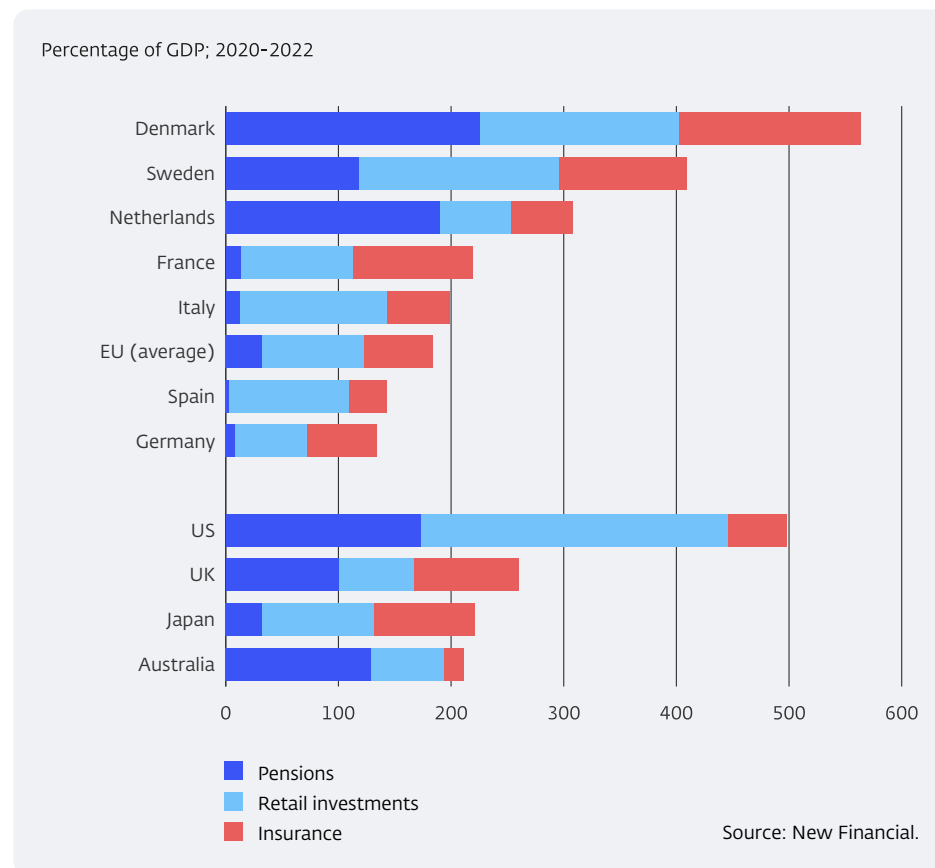
The Dutch government can also mobilise private capital by introducing appropriate incentives to encourage greater household investment.

Although Dutch households already have significant exposure to equity markets through their pension assets, these assets are not directly accessible. For households with sufficient liquid buffers and financial assets, there remains untapped potential to invest responsibly, where returns may exceed those of traditional savings (AFM, 2022). Accordingly, follow-up on the proposed savings and investment account is also desirable in the Netherlands. In designing schemes to stimulate retail investment, the structure of such initiatives is critical. Successful national models typically feature key elements such as a flexible and broad range of investment products, freedom in geographic allocation, and ease of withdrawal. In addition, policies that promote financial literacy and ensure robust consumer protection are essential. Finally, countries – including the Netherlands – can provide targeted tax incentives.

In addition, the supply of long-term financing may increase as a result of measures aimed at promoting (collective) retirement savings across wider Europe. Unlike many other EU Member States, the Netherlands – owing to its extensive funded pension system – already has substantial long-term capital at its disposal (see Figure 18). In Member States where such systems are less developed or absent, governments can stimulate supplementary pension savings by improving public awareness of retirement income adequacy and encouraging automatic enrolment in corporate or industry-wide pension schemes. Moreover, European pension funds can be incentivised to allocate more capital to innovative enterprises. In several Member States, however, regulatory constraints such as quantitative limits restrict pension funds from investing in alternative

assets, including corporate venture capital. These restrictions should be eased, provided that no new obligations are imposed on pension funds. It remains essential that pension funds retain autonomy over their investment strategies and maintain robust risk management practices. In the Netherlands, the new pension system offers greater flexibility for investment in alternative assets, as the own funds requirement will be dropped and investment strategies can be tailored to specific age cohorts. This enables pension funds to better align their investment strategies with the risk preferences and time horizons of different age groups.

Figure 18 Availability of long-term capital varies significantly across countries



A broader range of financing options necessitates appropriate prudential regulation and centralised supervision at the European level.

A more diversified and accessible finance landscape enhances systemic resilience, provided that alternative forms of finance, such as private equity, are not promoted through more lenient prudential standards for financial institutions. Indeed, easing regulatory requirements may elevate the risk profile of individual institutions and increase the vulnerability of the financial system as a whole. Such investments also place greater demands on the risk management capabilities of financial institutions. Moreover, the desired expansion and integration of European capital markets cannot be achieved without appropriate European-level supervision of cross-border financial entities and critical market infrastructure, including major trading platforms, central securities depositories, central counterparties and asset managers. This would ensure consistent and effective application of EU regulations and enable better oversight of risks that are increasingly cross-border in nature. DNB therefore considers it desirable to establish supervision of these entities at the European level ([AFM-DNB, 2024](#)). In designing this supervisory framework, lessons from the earlier centralisation of banking supervision should be taken into account – particularly the importance of a risk-based approach and the need to minimise administrative burdens.

Besides further deepening of capital markets, completing the European banking union remains a key priority. To mitigate the risk of sovereign-bank feedback loops, a three-pillar banking union was introduced. The first two pillars – European banking supervision and a European resolution mechanism – have been successfully implemented over the past decade, contributing to greater regulatory harmonisation across the EU. However, the banking union remains incomplete without the establishment of a European deposit insurance scheme. DNB therefore supports further steps to complete the banking union, including the introduction of this third pillar. In parallel, it is also desirable to explore opportunities for simplifying European banking regulation.

Simplifying the banking framework without compromising resilience

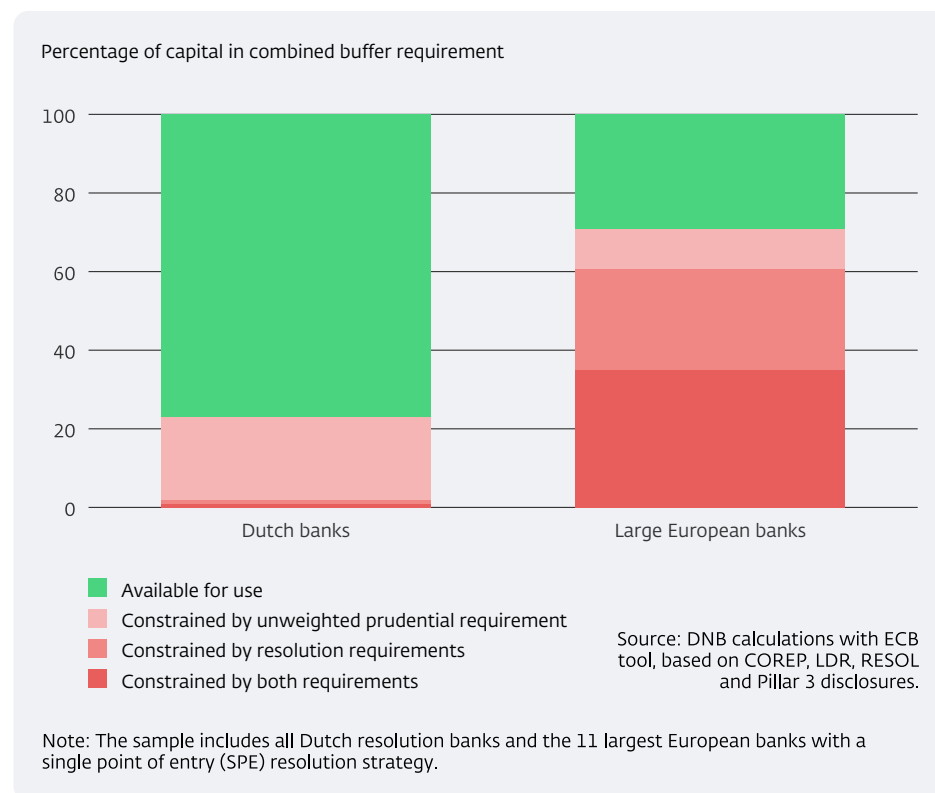
Following the recommendations of the Draghi report, European authorities are exploring ways to simplify regulatory frameworks, including those applicable to banks. In broad terms, the Draghi report advocates simplifying, reducing and harmonising rules to enhance business competitiveness. More specifically, it calls for a reassessment of the adequacy of the European banking framework. Although the report does not propose concrete simplifications, the European Commission is expected to elaborate on this in a forthcoming report on banking sector competitiveness, scheduled for publication in 2026. In preparation for this report, the ECB, with input provided by national central banks, is identifying opportunities to streamline the banking framework ([ECB, 2025](#)). The EBA is also examining potential areas for simplification, including the design of capital requirements and buffers known as the capital stack, as well as resolution requirements ([EBA, 2025](#)). Both the ECB and the EBA are taking into account the post-2008 financial crisis reforms as part of their review.

Thanks to earlier reforms, banks now contribute to the stability of the financial system, although these same reforms have also added complexity to the regulatory framework. European banks have weathered recent shocks – such as the COVID-19 pandemic and the rapid transition to a higher interest rate environment – continuing to support the economy during periods of recession ([DNB, 2025](#)). This resilience reflects the strong capital positions of banks and the global regulatory enhancements introduced since the 2008 financial crisis. These reforms include higher-quality capital buffers and the introduction of a leverage ratio requirement. Resolution requirements have also been implemented for larger institutions, enabling the continuation of critical functions without recourse to public support in times of financial distress. However, these reforms have also made certain elements of the framework more complex. For example, resolution requirements are linked to prudential requirements. As a result, banks must simultaneously meet multiple thresholds, often allowing them to use different instruments, such as CET1

capital and subordinated debt, to do so (EBA, 2024). Because banks have some discretion in choosing which instruments to issue, it becomes more difficult to determine which requirement is binding at any given time.

One consequence of the complexity in the regulatory framework is that banks are sometimes constrained in their ability to draw down (macro) prudential buffers. Banks are required to maintain (macro)prudential buffers – collectively referred to as the combined buffer requirement. This enables them to absorb losses, for example without curtailing credit provision during economic downturns. However, analysis indicates that banks are not always able to fully utilise these buffers. For instance, a sample of the largest European banks can, on average, only use 29% of their buffers without breaching other regulatory requirements (see Figure 19 and ECB, 2025). This is due to the fact that the same CET1 capital simultaneously counts toward multiple requirements, including both prudential and resolution-related obligations. While the limited usability of buffers may be justified – given that each requirement contributes uniquely to the financial soundness of institutions – the degree of usability varies significantly from bank to bank. For example, Dutch banks are able to deploy, on average, 77% of their buffers without infringing on other requirements. This relatively high level of buffer usability compared with European peers is due to a combination of factors. Dutch banks tend to issue capital and debt instruments in excess of minimum requirements, and they meet resolution requirements with a comparatively large share of subordinated instruments.

Figure 19 Overlapping regulatory requirements limit buffer usability for large European banks



Against this background, it is worth exploring ways to simplify parts of the prudential framework, provided that the resilience of the banking system is maintained. Simplification is possible in several areas. For example, the number of buffers within the combined buffer requirement could be reduced from five to two: one non-releasable buffer and one releasable buffer in times of stress. Such a simplification would facilitate the application of national systemic risk buffers to other European banks, known as reciprocity, thereby enhancing transparency and reducing complexity for the sector. At the same time, the overall buffer size would remain unchanged, ensuring that the sector's resilience is preserved.

This is particularly important in light of heightened geopolitical and economic uncertainty (see [Box 3 The financial system from a historical perspective: maintaining resilience in the face of evolving vulnerabilities](#)). In addition, the framework could be simplified by reducing the overlap between prudential and resolution requirements, for instance, by more clearly distinguishing the instruments used for each. This would allow resolution requirements to focus solely on going-concern loss absorption and the associated debt instruments, thereby improving buffer usability for large European banks. Another option, proposed by the Bundesbank, is to permit only core capital to count toward prudential requirements (FT, 2025). In line with a clearer separation of instruments, aligning European resolution requirements more closely with international standards by recognising only subordinated debt could further simplify the European framework. This would eliminate the need for separate resolution requirements to ensure the presence of sufficient subordinated instruments.

Furthermore, the complexity of the banking framework can be reduced if legislators limit the volume of lower-level regulation. Reducing unnecessary regulatory complexity lowers compliance costs for financial institutions and mitigates the risk of regulatory arbitrage. However, achieving this requires clear and deliberate choices by lawmakers during the legislative drafting process. For example, when the most recent banking package – comprising CRR3 and CRD6 – was adopted, European legislators introduced over 130 mandates requiring further technical standards and guidance. DNB welcomes the fact that legislators are now taking a more critical approach to prioritising which of these mandates are essential. It is also desirable to minimise the inclusion of national options in European legislation to ensure the most uniform application possible across Member States.

Box 3 The financial system from a historical perspective: maintaining resilience in the face of evolving vulnerabilities

As in the period prior to the 2008 financial crisis, calls are currently going up to reduce regulations and burdens. Proposals are being put forward for fewer, simpler and – in some cases – more lenient rules, such as in the prudential treatment of securitisations (EC, 2025). The current push for less regulation to boost competitiveness brings to mind the period prior to 2008, when macroeconomic imbalances, financial innovations and less intrusive supervision paved the way for the global financial crisis. The Turner Review (Financial Services Authority, 2009) provides a survey of the causes of that crisis, in which macroeconomic imbalances encouraged rapid growth of credit extension to households and governments. A search for yield also emerged among investors, which – thanks in part to financial innovation – translated into explosive growth both in financial products and their complexity. Inadequate and inconsistent regulation, coupled with insufficiently decisive supervision, allowed risks to accumulate. Risk models often failed to adequately account for the underlying risks of these complex products (Viñals et al, 2010).

Thanks in part to reforms and new regulations introduced after the financial crisis, vulnerabilities in the banking sector and among Dutch households have decreased over the past decade.

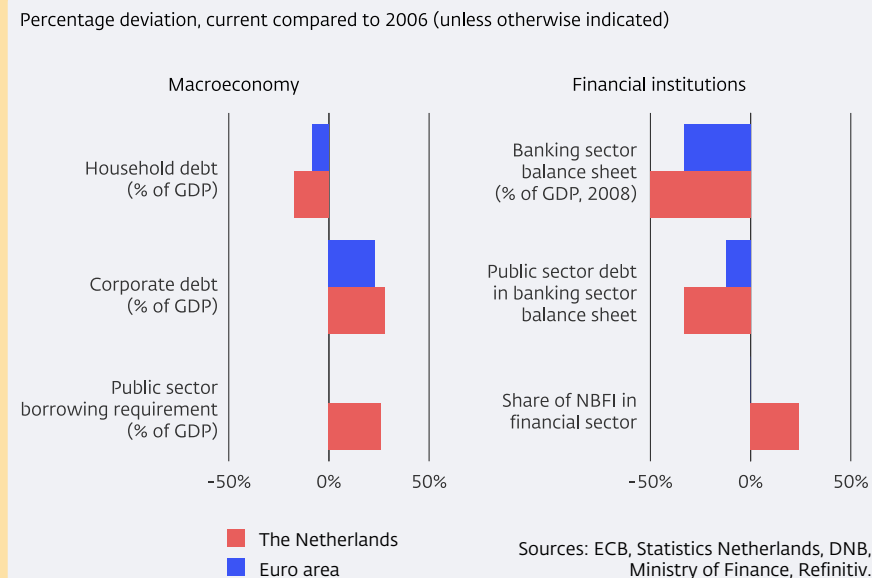
As an example, household debt – especially mortgage loans – has fallen relative to the size of the economy (see Figure 20, left panel). The Dutch banking sector has also contracted, with banks holding less government debt, which reduces their interconnectedness with governments (see Figure 20, right panel). In addition, the resilience of banks has improved thanks to higher and better quality capital buffers, the introduction of appropriate liquidity requirements and other factors (see The financial sector maintains strong position).

Furthermore, the authorities have a wider range of tools at their disposal to mitigate the impact of a crisis. These include resolution requirements for banks and insurers, European cooperation within the banking union, and monetary instruments designed to restore liquidity to financial markets.

Banking activities have partly shifted to non-banks, however, giving rise to other vulnerabilities and interdependencies. This is partly reflected in the higher share of total lending by non-bank entities (see Figure 20, right panel). This shift is partly due to stricter banking regulation and institutional investors' search for yield. Non-bank financial intermediaries and banks are also linked in various ways through their assets and liabilities (FSB, 2024) both directly and indirectly, for example when firms raise financing from both banks and non-banks. Other vulnerabilities that have become more acute include higher levels of corporate debt and the Dutch public sector financing requirement (see Figure 20, left panel). The extent to which such vulnerabilities produce stress or lead to a crisis depends heavily on their susceptibility to risk events. For instance, higher defence spending in response to geopolitical tensions puts additional pressure on public finances (see Rising long-term rates pose a risk to the sustainability of public finances, notably in France).

Given the current risk outlook, it is vital to maintain the financial system's resilience to shocks. The current geopolitical tensions and heightened economic uncertainty mean the risk of external shocks to financial stability will remain elevated for the time being. It is therefore essential that Dutch and European financial institutions can withstand such shocks, which means maintaining banks' improved levels of resilience achieved in the wake of the financial crisis. Moreover, the shift of vulnerabilities to non-bank financial intermediaries requires incremental strengthening of both regulation and the macroprudential toolkit (Financial Stability Report, Spring 2024).

Figure 20 Shift in vulnerabilities from banks to non-bank sector



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Competitiveness in a changing world:

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