DeNederlandscheBank
EUROSYSTEEM

Introductory remarks at press conference Financial Stability Report, autumn 2024

Good afternoon everyone and a warm welcome to this press conference on the Financial Stability Report. I would like to start with a brief outline of the key messages from the FSR and I will then be happy to answer your questions.

Economic outlook

First, let me reflect on the economic outlook and the situation in the financial sector, as these are key aspects when assessing financial stability in the Netherlands.

Inflation in the euro area has fallen further this year, dipping below 2% in September. While this falling inflation was accompanied by low growth, a recession has so far failed to materialise. As a result, a soft landing for the euro area is still within reach.

The Dutch economy has improved slightly: it grew by 1% compared to the previous quarter, but we expect more subdued growth for the quarters ahead. Economic recovery is still moderate, but inflation in the Netherlands remains too high at 3.3%. Inflation is unlikely to reach the ECB’s target of 2% until 2026.

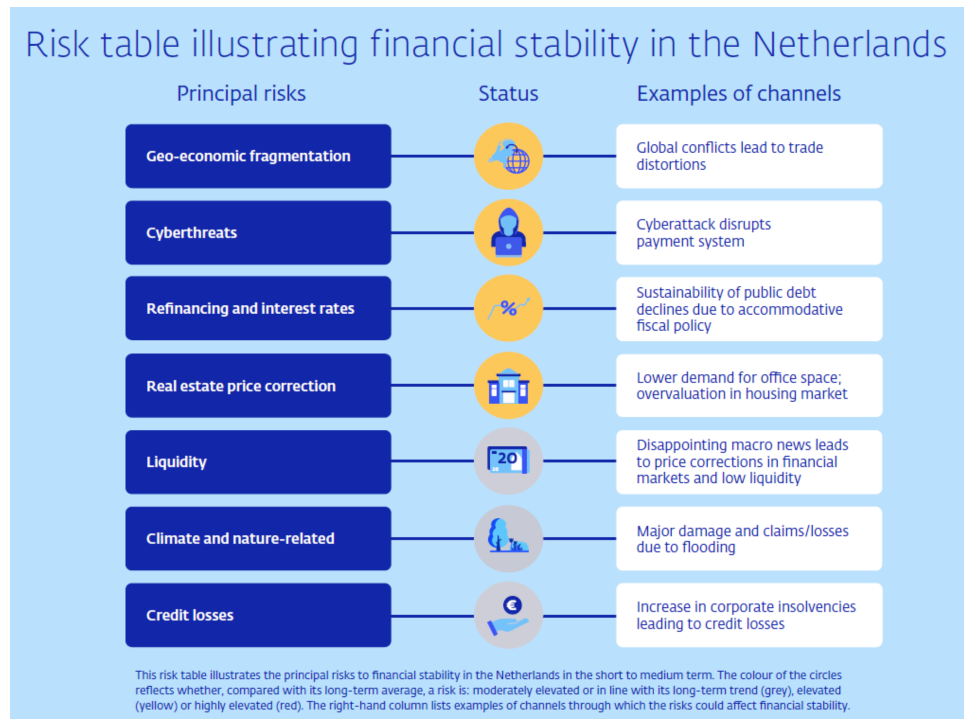
The Dutch financial sector is currently in good shape. Banks have an average CET1 capital ratio of 16.3%, and profits are at healthy levels. We do not yet see a substantial increase in credit losses, despite a slight increase in corporate insolvencies. Insurance firms and pension funds also have a good starting position, which is important for pension funds in view of the pension transition.

Thanks to moderate economic growth and the financial sector's good starting position, risks to financial stability in the Netherlands are balanced. At the same time, persistent geopolitical tensions and the uncertain economic outlook continue to weigh on the risk landscape.

Risks to financial stability

The risk table in our Financial Stability Report shows the principal current risks to financial stability in the Netherlands.

Risk table



The principal risks to financial stability remain related to tensions in the Middle East and the Russian aggression against Ukraine. Likewise, uncertainty about the outcome of the US presidential elections and their possible consequences for global trade relations pose a risk. As an open economy with a large financial sector, the Netherlands is relatively sensitive to these developments.

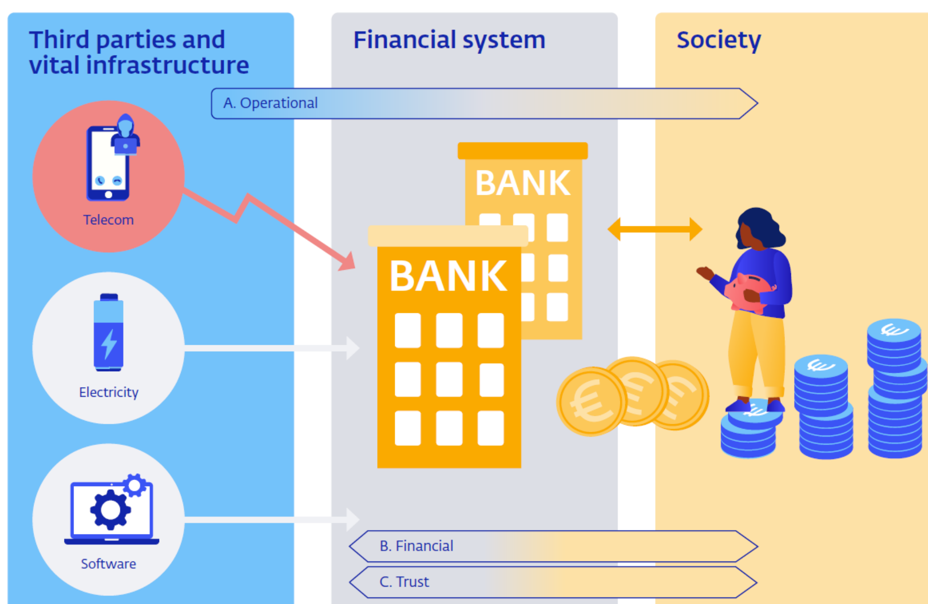
Moreover, high geopolitical uncertainty acts as a driver of several risks in the risk table. The central question in our Financial Stability Report is how geopolitical tensions contribute to cyberthreats to the financial sector. We also address the risk of spillovers from high-debt countries to the Netherlands.

Cyber risks to financial stability

Due in part to geopolitical tensions, the cyberthreat to the Dutch economy and financial sector is increasing. Some countries carry out sophisticated cyberattacks, as was evident recently in the hack of the National Police. While this hack did not affect the financial sector, it did expose the vulnerabilities in society to ever-increasing digitalisation.

Nowadays, a quarter of all cyberattacks in the world affect the financial sector. These can be direct attacks on financial institutions, or indirect threats through external parties whose services financial institutions frequently use, as shown in this infographic. For example, an attack on a third party, e.g. a telecom provider, can temporarily disrupt the services of a financial institution, affecting other financial institutions as well. In addition, a service disruption can damage trust in the financial sector as a whole.

Infographic on cyberthreat



Today, I want to reflect on three vulnerabilities which increase the risk that a successful cyberattack will disrupt the financial system.

First, various developments are making the cyberlandscape increasingly complex, not the least of which is the rise of artificial intelligence (AI).

Arguably, AI offers many opportunities, but it also enables more frequent and more sophisticated cyberattacks.

Second, concentration risk arises as financial institutions outsource services to a small group of parties. As a result, issues affecting a single service provider can hit multiple financial institutions. A case in point is the incident at software company Crowdstrike last summer. Although its cause was a programming error, it illustrates the risks of increasing concentration and digital dependencies.

Finally, processes that are vital for the Netherlands and the financial sector, such as telecommunications and energy supply, are strategic targets for cyberattackers.

All financial institutions have solid operational risk management policies in place, and the financial sector currently sees cyber risk as one of its principal risks. But unfortunately, the probability and impact of a cyberattack cannot be fully hedged. This is why I want to stress that resilience matters. Financial institutions need to prepare and test crisis measures, but as a society we need to realise that this risk cannot be fully eliminated.

In November, a DNB study will be published that takes a closer look at the microprudential aspects of cyber risks that arise from geopolitical tensions. Geopolitical risks will be a spearhead of DNB supervision in the coming years.

Risks of high public debt

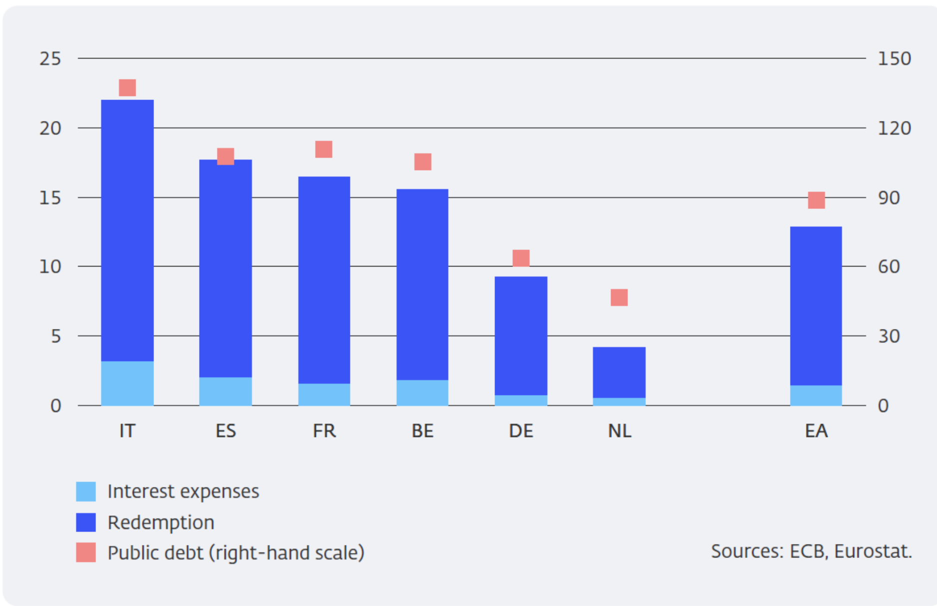
Moving on to the second financial stability risk I want to highlight today, which is mounting public debt.

High public debt poses a threat to financial stability. Figure 1, for instance, shows that high debt is associated with higher interest expenses, leaving less leeway to support the economy in the face of headwinds. It also makes a country more sensitive to a reversal of

sentiment in financial markets. Figure 2 shows, for example, that financing costs for high-debt countries rise on average four times faster after a geopolitical shock than is the case for low-debt countries. Lastly, high public debt fuels the risk of negative interaction between the sovereign and the financial sector. Especially in high-debt countries, financial institutions have a substantial amount of domestic sovereign debt on their balance sheets.

Figure 1 Some euro area countries have substantial short-term refinancing needs

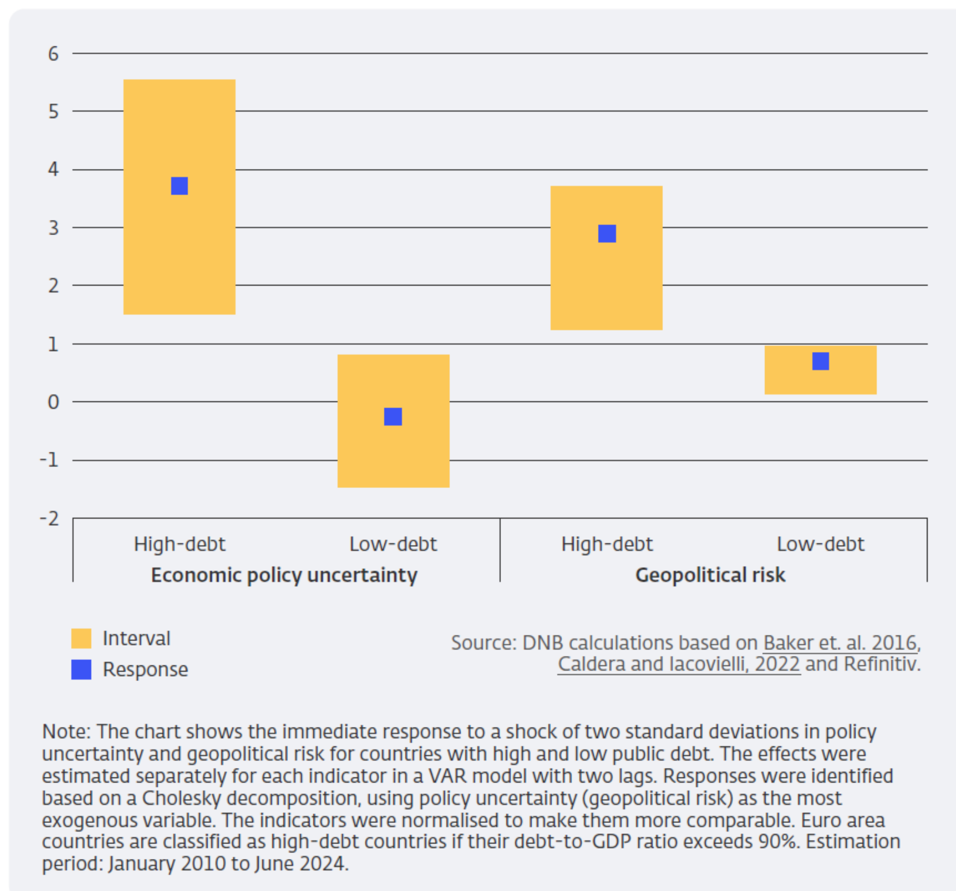
Percentages of GDP



Sources: ECB, Eurostat.

Figure 2 Risk premia of high-debt countries are more sensitive to economic and geopolitical risk shocks

Impact on risk premium in basis points



Source: DNB calculations based on Baker et. al. 2016, Caldera and Iacovielli, 2022 and Refinitiv.

Note: The chart shows the immediate response to a shock of two standard deviations in policy uncertainty and geopolitical risk for countries with high and low public debt. The effects were estimated separately for each indicator in a VAR model with two lags. Responses were identified based on a Cholesky decomposition, using policy uncertainty (geopolitical risk) as the most exogenous variable. The indicators were normalised to make them more comparable. Euro area countries are classified as high-debt countries if their debt-to-GDP ratio exceeds 90%. Estimation period: January 2010 to June 2024.

Viewed from the perspective of Dutch public finances, this risk is still limited. Indeed, public debt is relatively low at 46% of GDP. Fiscal policy aims to keep the deficit below the Maastricht threshold of 3%. The risk does arise in the medium term, however, as the deficit and debts threaten to rise.

Currently, the risk to Dutch financial stability has its main origins abroad. Public debt in the euro area is high, averaging 89% of GDP. In order to comply with the revised Stability and Growth Pact, many countries will need to pursue less generous fiscal policies to bring down their debt-to-GDP ratios. The recently announced fiscal measures in France – where the budget deficit has risen well above 3% – represent a step in the right direction.

Concerns about the sustainability of a euro area country's public finances can cause turbulence in financial markets, to which Dutch financial institutions will not be immune either. This shows that repricing sovereign debt (or rating downgrades) directly affects financing conditions for Dutch businesses, households and the financial sector. Similarly, repricing can affect investments, for example those of non-bank financial institutions (NBFI). Consider, for example, the so-called LDI crisis in the UK, following turmoil over the mini budget presented by Liz Truss.

To reduce risks to our financial stability, it is important for the Netherlands to maintain a buffer below the 3% deficit threshold. This ensures our lasting ability to cope with shocks going forward. In addition, it is important for the Netherlands that the European Commission and the Ecofin Council ensure that all euro area countries comply with the rules of the new Stability and Growth Pact.

This concludes my introductory remarks. I would of course be pleased to answer any questions you may have.