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NY Fed lists inflation and monetary policy as top risks for the next year

Article

The news: The NY Fed's Financial Stability Report surveyed 26 industry experts from broker-dealers, investment firms, and universities between August and October to create **a list of the most-cited financial risks of 2022**.

What are the top risks?

Inflation and monetary tightening

- This risk topped the list as respondents said **inflation has been more persistent than anticipated** and **monetary policy has been more restrictive than expected**.
- Some fear that a pause in monetary tightening or a pivot to looser policy will cause another wave of tightening down the line that will cause major market volatility.
- Consumers worldwide are seeking assistance from their financial institutions to help them overcome the downturn, but many don't believe they're getting the help they need.

War in Ukraine/geopolitical risks

- Some respondents believe **the conflict in Ukraine will continue to escalate in 2023**.
- The conflict is contributing to the worsening economic outlook in Europe. Many fear the deterioration will spill over into the US through trade and the financial markets.
- Some respondents also cited the increasing tensions between China and Taiwan, and speculated that any US involvement would worsen supply chain pressures and negative investor sentiment.

High energy prices

- High energy prices, especially in Europe, have been fueled by the geopolitical tensions in Ukraine. This is likely to continue and potentially affect other non-European countries as well.
- **The European Central Bank has urged banks to analyze the impact of a complete gas stoppage** and to prepare for the worst.

Underregulated nonbanks

- Regulators in the US and UK have been increasingly vocal about **the risks to the financial markets caused by nonbank fintechs** and consumers failing to understand that these entities aren't regulated.
- Despite this risk, some financial agencies advocate for the careful partnership of banks and nonbank fintechs. But ultimately, regulators will need to lay down the groundwork for operating rules on these partnerships.

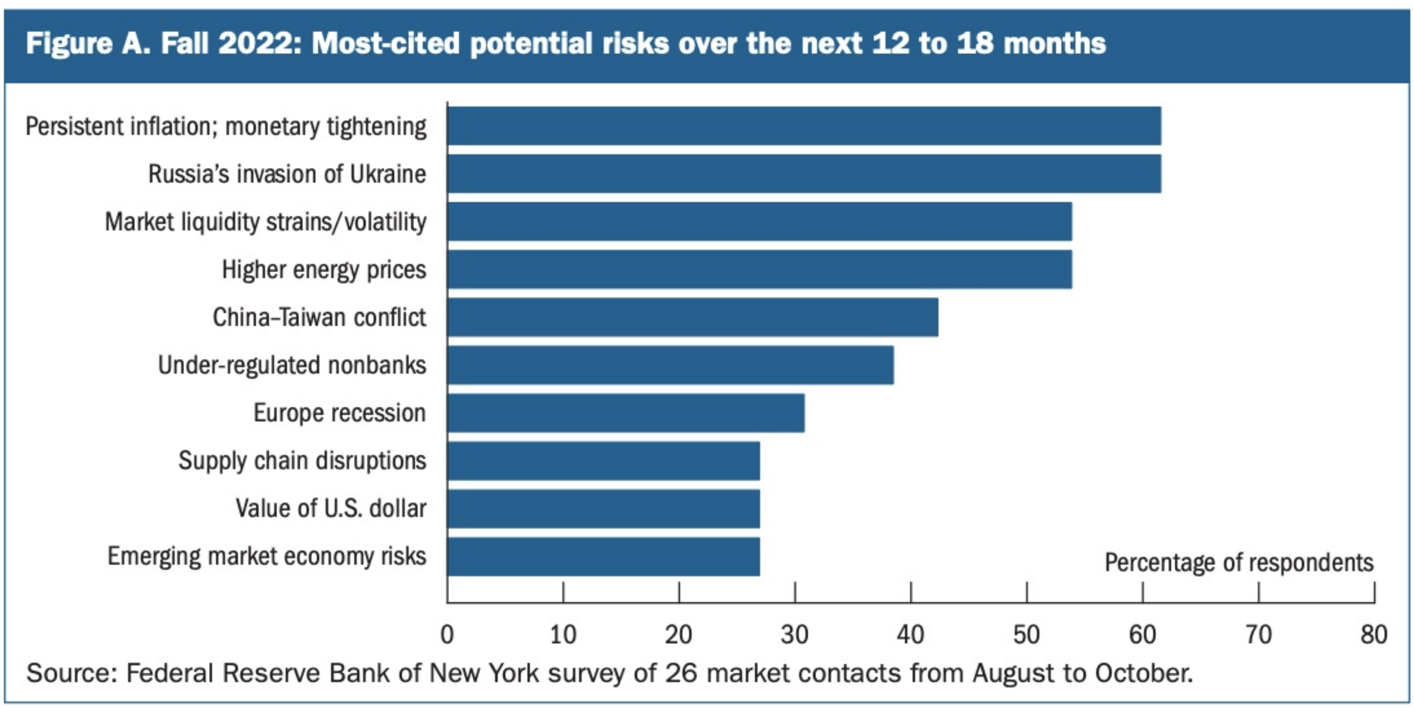
What's surprising?

Cryptocurrency

- **Cryptocurrency didn't make the top 10 potential risks,** despite a chaotic year that saw the collapse of many prominent crypto exchanges.
- The crypto winter looks to be a long way from thawing, but as the crypto markets recover from the FTX fallout, regulators are feeling increased pressure to set industrywide standards.

Cyberattacks

- **Cyberattacks also failed to make the top 10**, though ransomware poses a significant and increasing threat to banks.
- US banks and financial institutions spent almost $1.2 billion in ransomware-related payments in 2021—nearly triple the previous year, according to the US Treasury Department.
- Cybersecurity was a leading concern for US bank executives polled this year by Cornerstone Advisors, second only to attracting qualified talent.



Most-cited potential risks over the next 12 to 18 months. Source: The Federal Reserve System

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