

# EUROPEAN STABILITY MECHANISM

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July 2024



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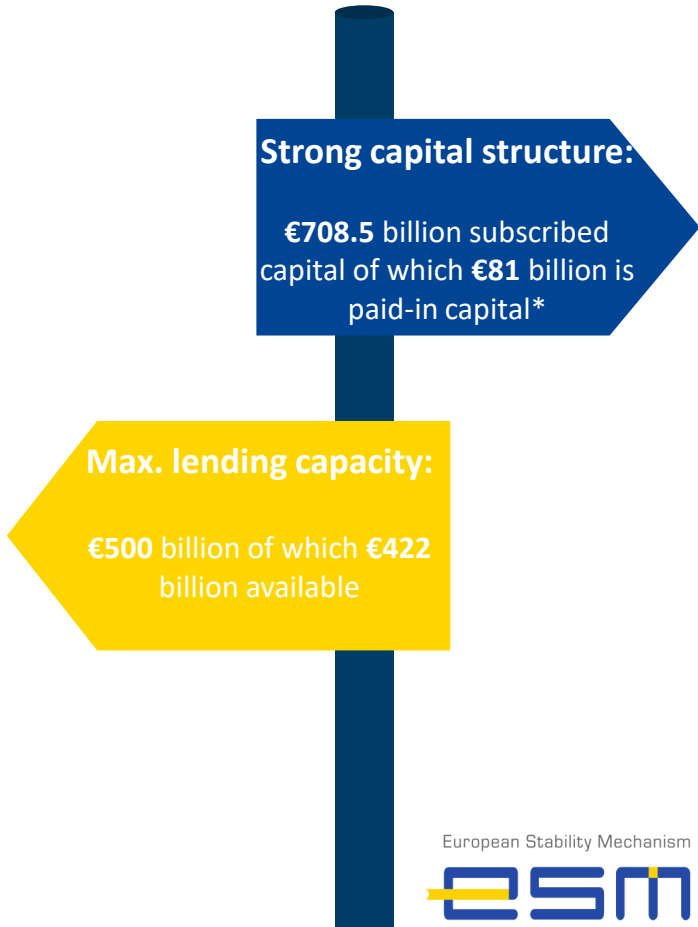
# ESM MANDATE

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1

# THE ESM IS THE CRISIS PREVENTION AND RESOLUTION MECHANISM OF THE EURO AREA



## Financial assistance

The ESM provides financial assistance to euro area countries experiencing or threatened by severe financing problems, through raising financing on debt capital markets

## Crisis prevention and market trust

ESM supports market stability and confidence through strong market presence and the existence of its diversified toolkit

## Enhanced mandate\*\*

Common backstop to the SRB and a stronger role in designing and monitoring future programmes

\* This amount reflects the paid-in capital subscribed by Croatia upon accession to the ESM. The payment of the corresponding contribution of €422.29 million is to be paid in five equal annual instalments of €84.46 million. The first instalment was paid on 30 March 2023.

\*\* Ratification of the Amending Agreement to the ESM Treaty ongoing

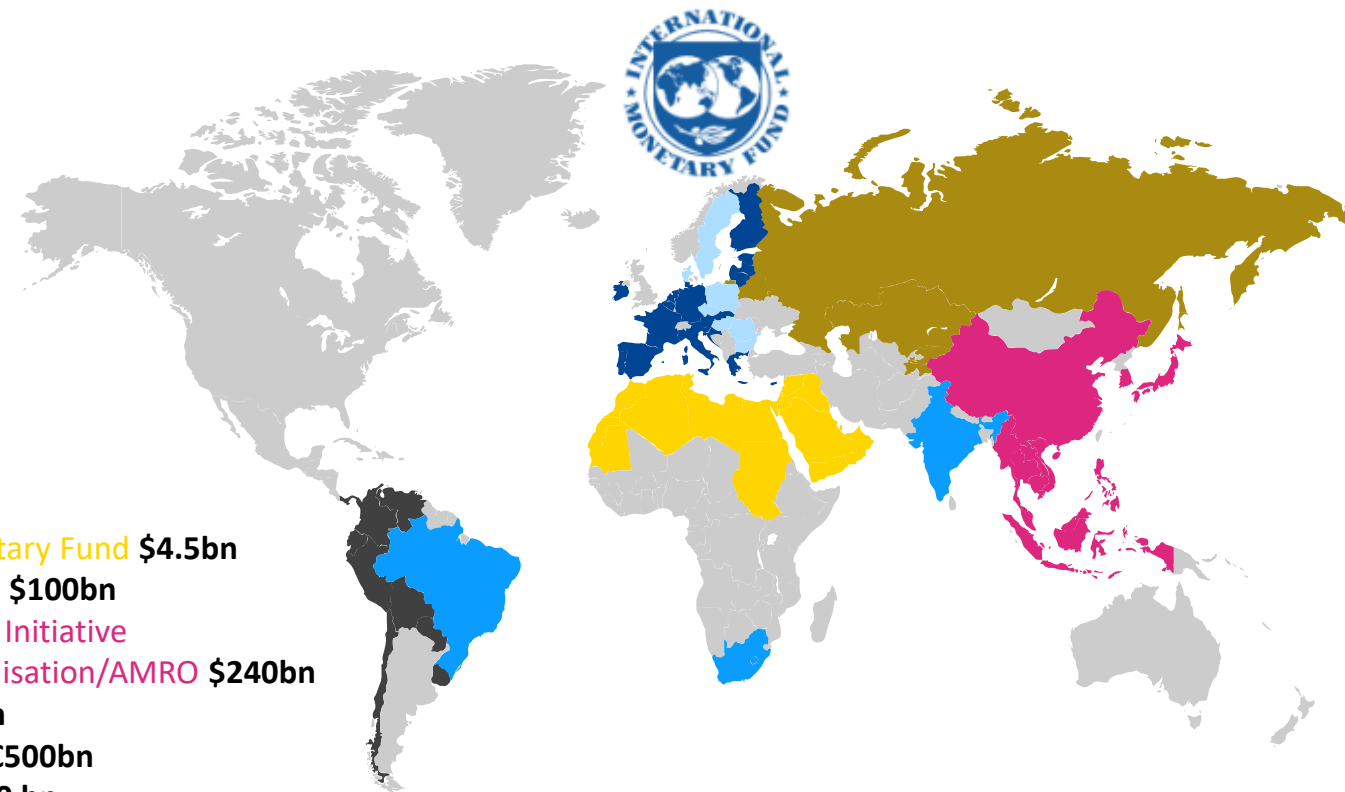
# ESM WITHIN THE EUROPEAN FINANCIAL ARCHITECTURE



\* Ratification of the Amending Agreement to the ESM Treaty ongoing

# THE ESM IS COMMITTED TO STRENGTHEN THE GLOBAL FINANCIAL SAFETY NET (GFSN)

Future shocks make a strong case for enhanced cooperation between the regional rescue funds and the IMF



1

Annual **High-level Dialogue between Regional Financing Arrangements (RFA) and IMF leaders** initiated by ESM, Latin American Reserve Fund (FLAR) and ASEAN+3 Macroeconomic Research Office (AMRO) in 2016 fosters policy exchanges

2

**Joint research projects and regular expert interactions** help strengthen institutional capacity

3

**In-crisis cooperation with the IMF** through co-financing and financial assistance complementarity



Arab Monetary Fund \$4.5bn  
BRICS CRA\* \$100bn  
Chiang Mai Initiative  
Multilateralisation/AMRO \$240bn  
EFSD \$10bn  
ESM/EFSF €500bn  
EU RFAs €50 bn  
FLAR \$10.1bn

\* The BRICS Contingent Reserve Arrangement (CRA) is a framework for the provision of support through liquidity and precautionary instruments in response to actual or potential short-term balance of payments pressures. It was established in 2015 by the BRICS countries: Brazil, Russia, India, China and South Africa.



# HIGH RATINGS FROM THE MAIN RATING AGENCIES

## STANDARD & POOR'S

*Very strong capital adequacy, further reinforced by strong access to market funding and a robust liquidity position. ESM is a key pillar for the euro area's financial architecture, alongside institutions such as the EIB and the ECB.*

**AAA Outlook Stable**  
Short-term: A-1+

## FitchRatings

*The low risk business profile primarily reflects the ESM's excellent governance and importance of its public mandate, further enhanced by the role it is expected to play in the Banking Union. Fitch also assesses the ESM's operating environment as 'low' risk, based on the high credit quality and low political risk of the countries of operations.*

**AAA Outlook Stable**  
Short-term: F1+

## MOODY'S

*The credit profile of the ESM, the euro area's permanent crisis resolution mechanism, reflects its substantial capital buffers, low leverage and preferred creditor status. Other credit strengths include its prudent capital and liquidity management, strong liquidity and the very strong support of its shareholders.*

**Aaa Outlook Stable**  
Short-term: P-1

## MORNINGSTAR | DBRS

Unsolicited rating

**AAA Outlook Stable**  
Short-term: R-1 (High)

## SCOPE

Unsolicited rating

**AAA Outlook Stable**  
Short-term: S-1

Commentaries selectively chosen for information purposes.





# HIGH RATINGS FROM THE MAIN RATING AGENCIES

## STANDARD & POOR'S

*The EFSF has benefited from low funding costs since its inception, and we expect it will continue to do so. Under the Basel framework, EFSF bonds are considered to have 0% risk weights. Furthermore, the European Central Bank (ECB) has included the EFSF in its expanded public-sector asset purchases program.*

**AA-** Outlook Stable

Short-term: A-1+

## FitchRatings

*EFSF's ratings rely on irrevocable and unconditional guarantees and over-guarantees provided by Euro Area Member States (EAMS) (...). They ensure EFSF debt is fully covered by guarantees and over-guarantees (up to 165% of original guarantees) from the most highly-rated EAMS or by a cash reserve.*

**AA-**

Short-term: F1+

## MOODY'S

*The credit profile of the European Financial Stability Facility reflects primarily the strong support by its guarantors. Other credit strengths include the EFSF's prudent liquidity management and its strong liquidity position, supported by solid market access and a diversified investor base.*

**Aaa** outlook Stable

Short-term: P-1

## MORNINGSTAR | DBRS

Unsolicited rating

**AAA** Outlook Stable

Short-term: R-1 (High)



Unsolicited rating

**AA+** Outlook Stable

Short-term: S-1

Commentaries selectively chosen for information purposes.

# FUNDING PROGRAMMES

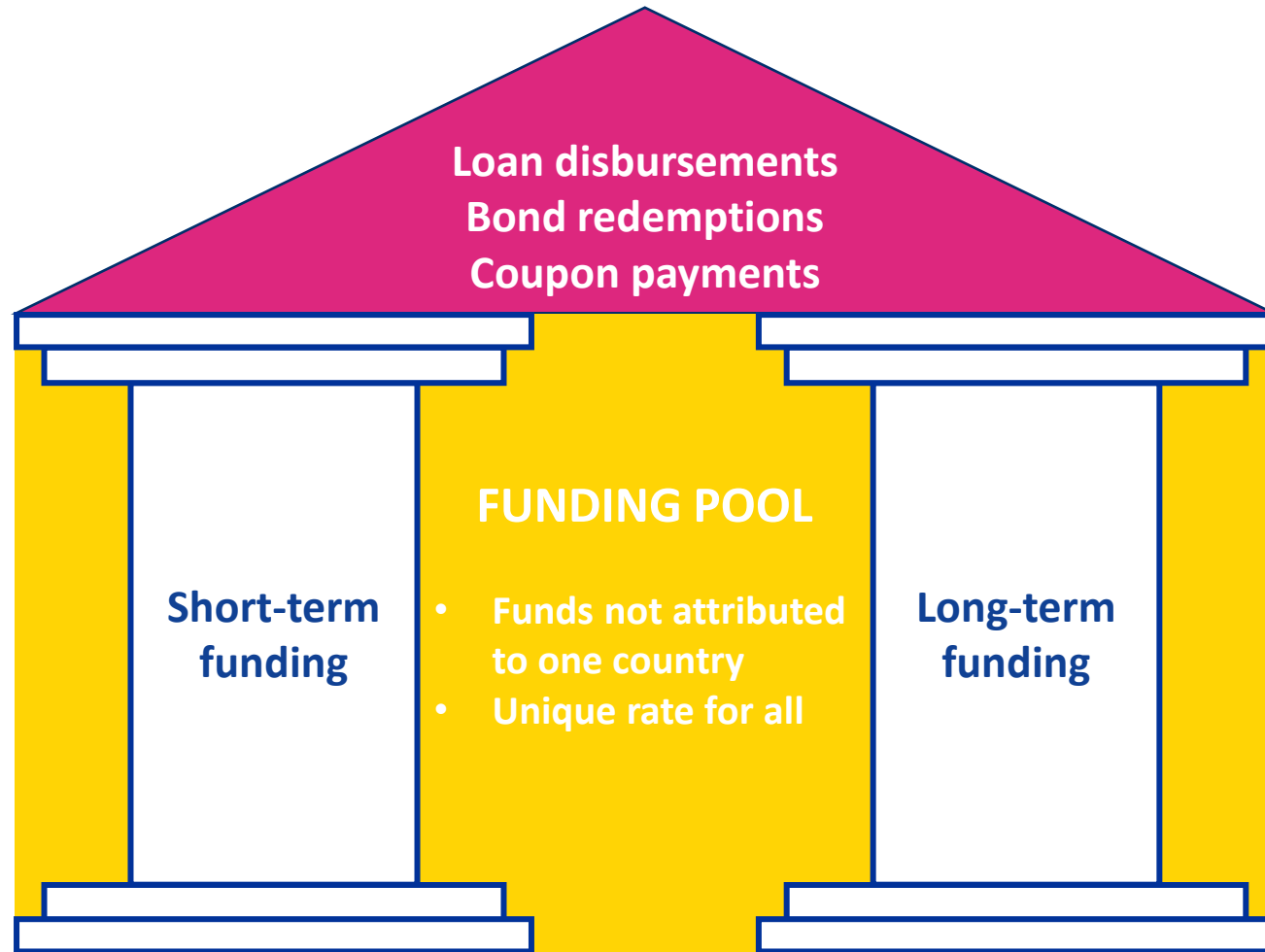
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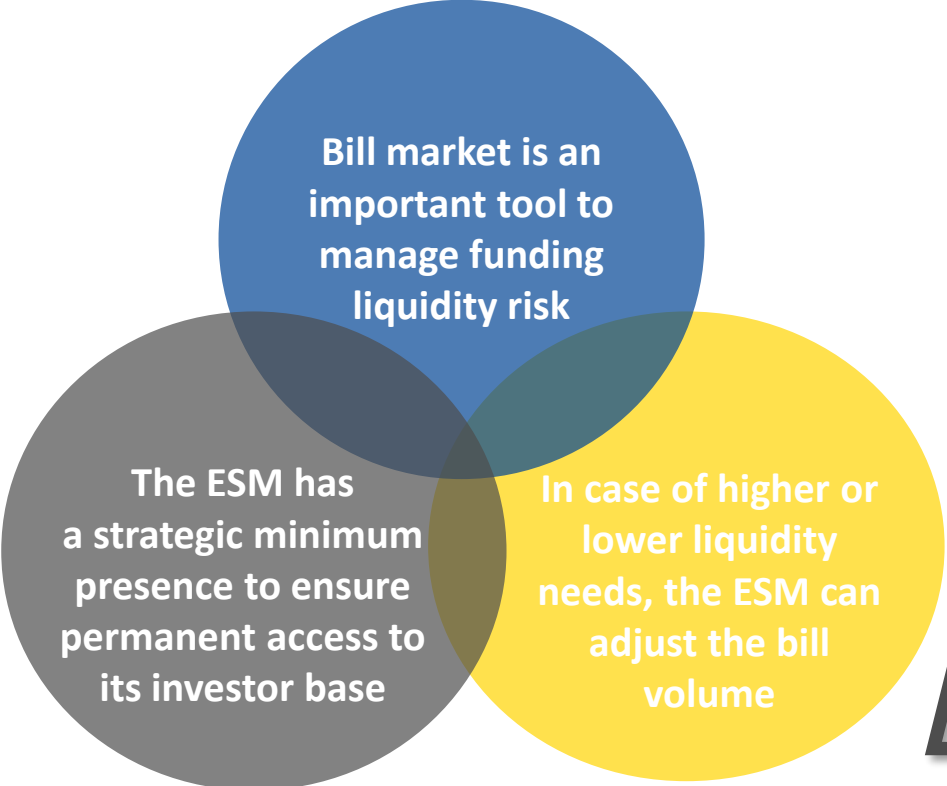
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# FUNDING STRATEGY WITH TWO PILLARS

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# SHORT-TERM FUNDING – ESM BILL PROGRAMME



**Current characteristics**

**Size:** Min. target size of €1.1bn  
**Timing:** 1<sup>st</sup> and 3<sup>rd</sup> week of the month (see calendar below)  
**Bidding period:** 08:00 - 12:30 CET  
**Features:** Multiple price auction, each bill is rated by S&P and Moody's  
**Access:** Via ESM market group  
**Information:** Bloomberg ESM pages, 4 {GO}, Buba {GO} and GAM {GO}

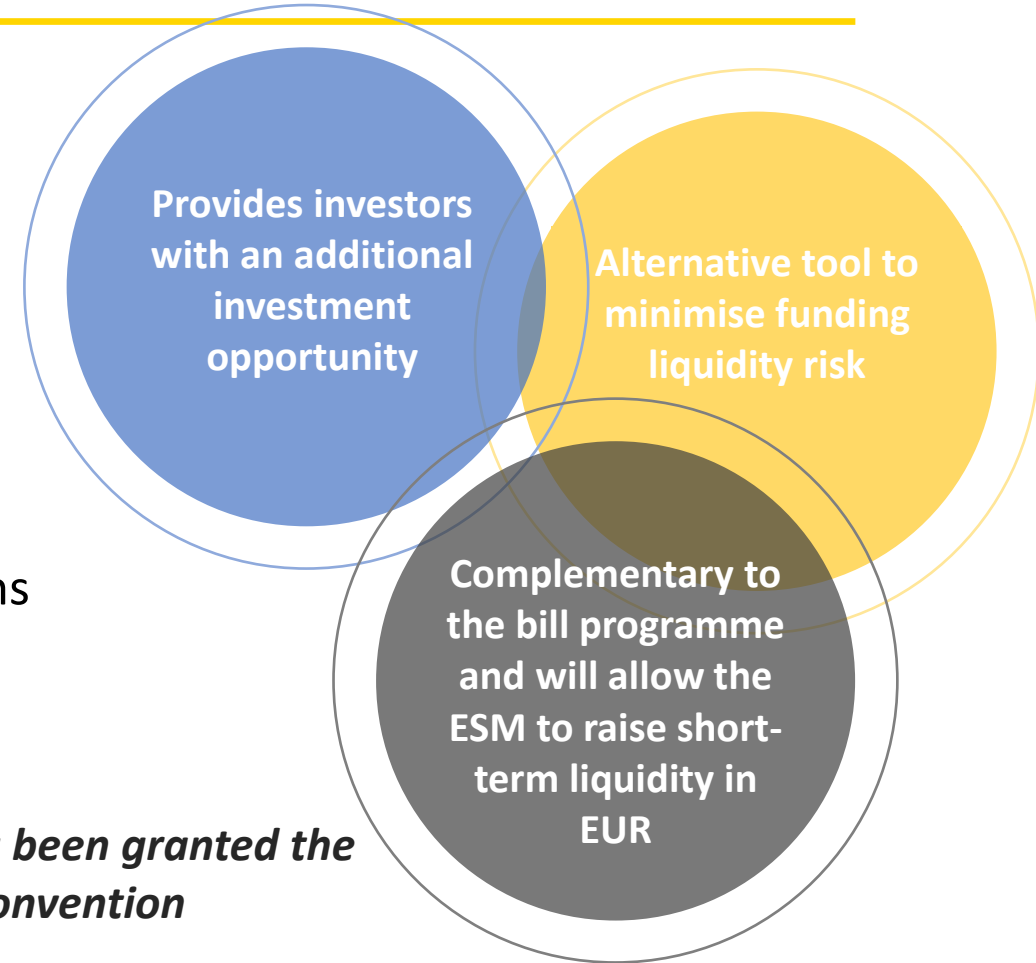
**Auction dates for each half-year announced in advance**

2024	July	August	September	October	November	December
<b>3-month</b>	Tuesday 02	Tuesday 06	Tuesday 03	Tuesday 01	Tuesday 05	Tuesday 03
<b>6-month</b>	Tuesday 16	Tuesday 20	Tuesday 17	Tuesday 15	Tuesday 19	-

# ESM EURO-COMMERCIAL PAPER PROGRAMME

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- **Size of the programme:** €20 billion
- **Arranger:** BARCLAYS
- **Dealers:** BARCLAYS, BofA Securities, BRED Banque Populaire, Citigroup, Crédit Agricole CIB, Goldman Sachs International, J.P. Morgan and NatWest Markets
- **Access:** Via private placements through 8 dealers
- **Minimum ticket size:** €25 million
- **Maturities:** Up to 1 year with focus on 1 week – 2 months
- **Rating:** S&P A-1+and Moody's P-1
- **Information:** Bloomberg ESM pages



*The ESM Euro- Commercial Paper Programme has been granted the STEP label, in accordance with the STEP Market Convention*

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# LONG-TERM FUNDING



## FLAGSHIP PRODUCTS

### Highly liquid € benchmark bonds

- Flagship product with regular presence in all parts of the curve
- ESM up to longest loan with maximum limit of 45 years, EFSF<2070
- Use of taps to increase liquidity
- Syndication and auction



## STRATEGIC PRODUCTS

### USD market

- Strategic tool utilised subject to market conditions and funding needs
- Issuance format: RegS/144A
- All proceeds swapped back to euros

### N-bonds

- Minimum issue size: €25 million
- Maturity: Maximum limit of 45 years, EFSF<2070
- Frequency: Issuance via reverse enquiry
- Distribution: Via ESM/EFSF market group members

The EFSF and ESM are included in the major SSA and government bond indices such as ICE, J.P. Morgan, iBoxx, FTSE and Bloomberg

# ESM/EFSF FUNDING PROGRAMME

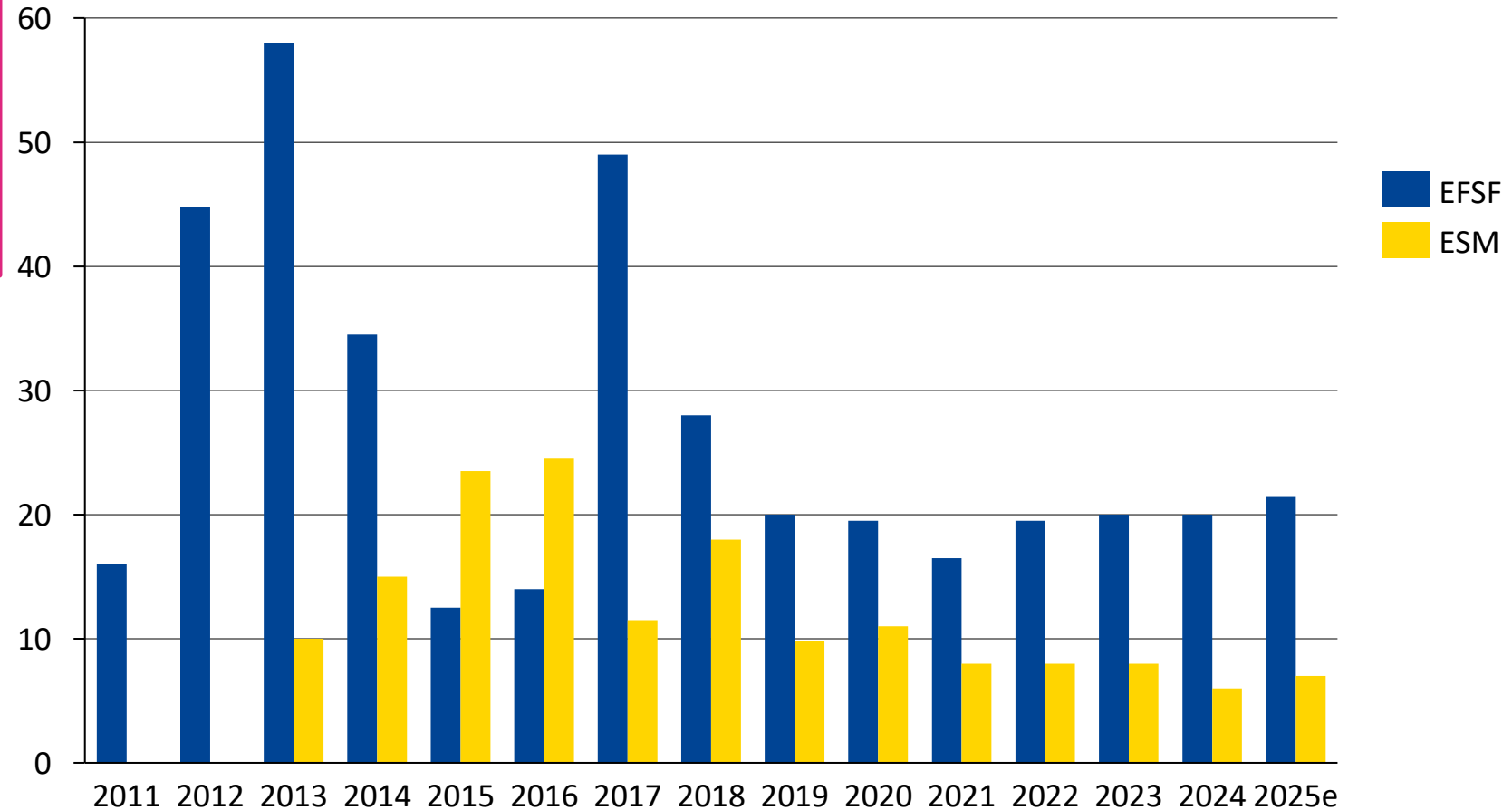
**EFSF / ESM Bond issuance**  
(€ billion)\*

The combined funding for EFSF & ESM for 2024 is **€26 billion**

- €20 billion for EFSF
- €6 billion for ESM

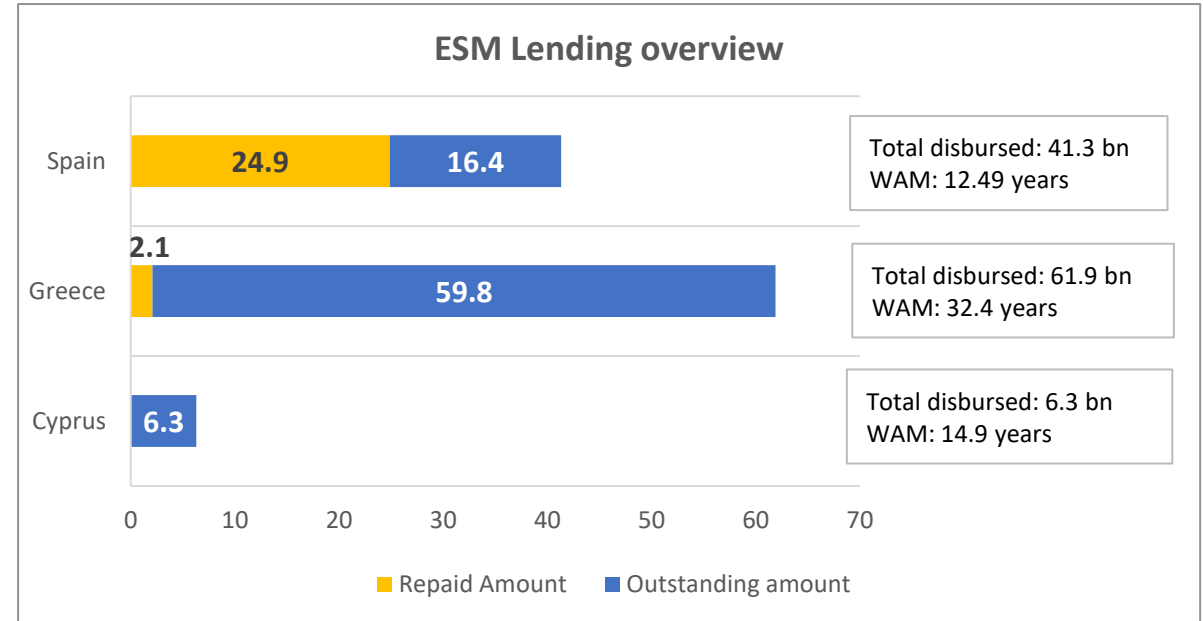
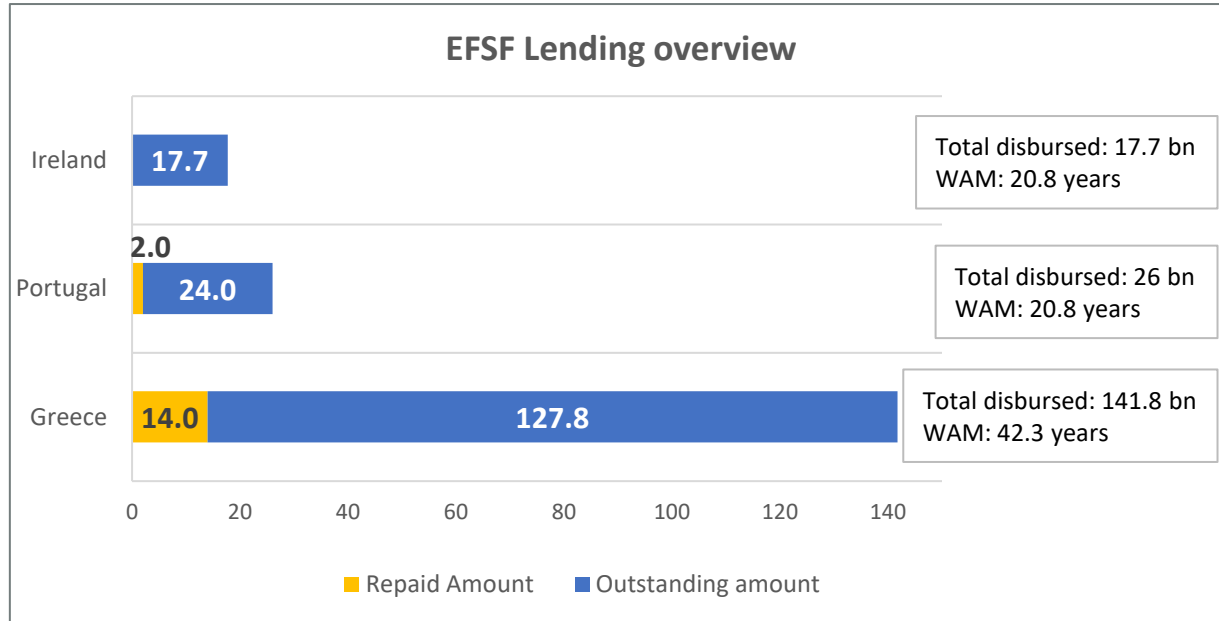
The estimated funding for EFSF & ESM for 2025 is **€28.5 billion**

- €21.5 billion for EFSF
- €7 billion for ESM



\*Please note that figures are based on estimates and may vary. These figures do not include any cashless operations.

# WHAT IMPACTS OUR FUNDING AMOUNTS?



- EFSF disbursed € 185.5 bn, its longest loan is **2070**
- ESM disbursed € 109.5 bn, its longest loan matures in **2060**
- **€ 295 bn was the total amount of loans disbursed by ESM/EFSF**



# ESG AT THE ESM

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# THE ESM IS ENGAGED IN ESG



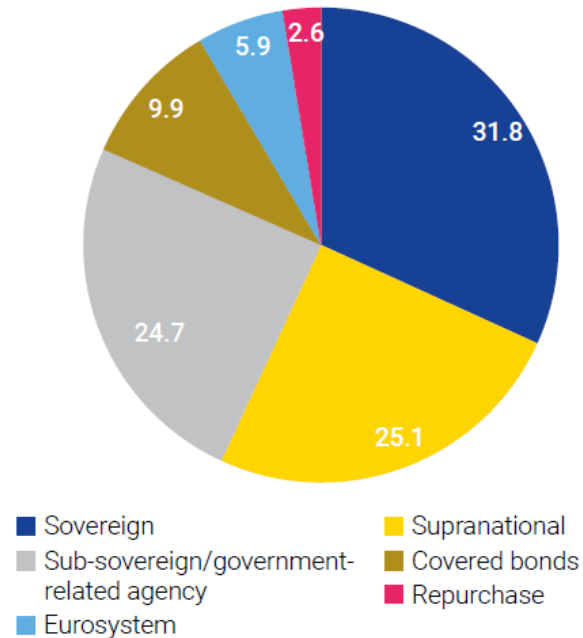
## ESG Ratings

- In 2023, both the ESM and the EFSF were assessed by Morningstar Sustainalytics to be at low risk of experiencing material financial impacts from ESG factors.
- In 2022, both the ESM and the EFSF received a rating of A (on a scale of AAA-CCC) in the MSCI ESG Rating assessment.

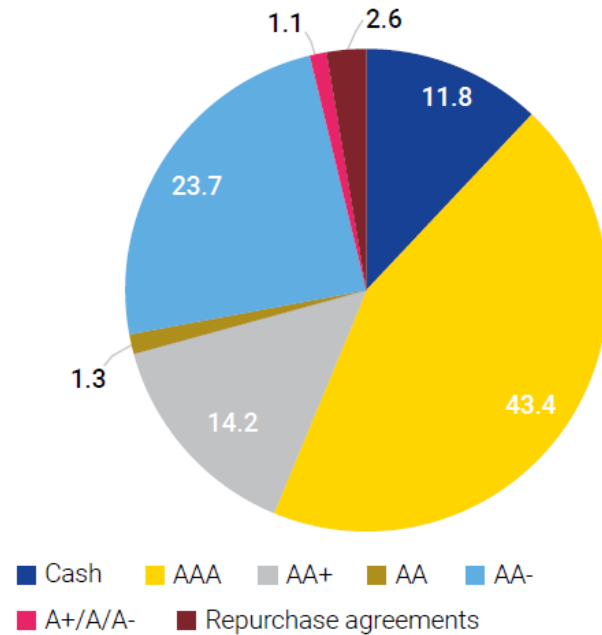


# ESM AS AN INVESTOR

**Asset class distribution of investments**  
(in %)



**Ratings distribution of investments**  
(in %)



**☐ The ESM is a significant investor in the SSA space**

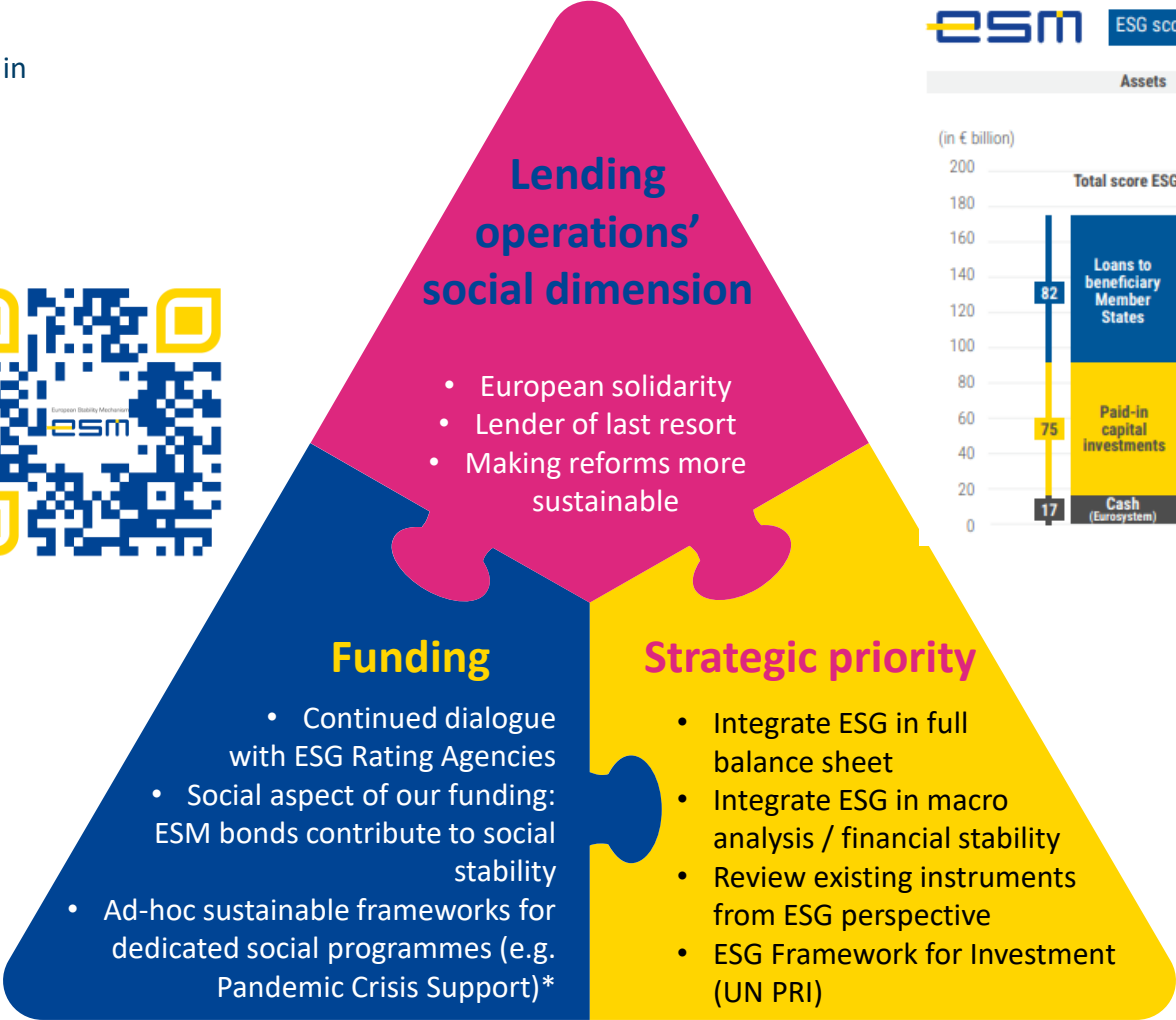
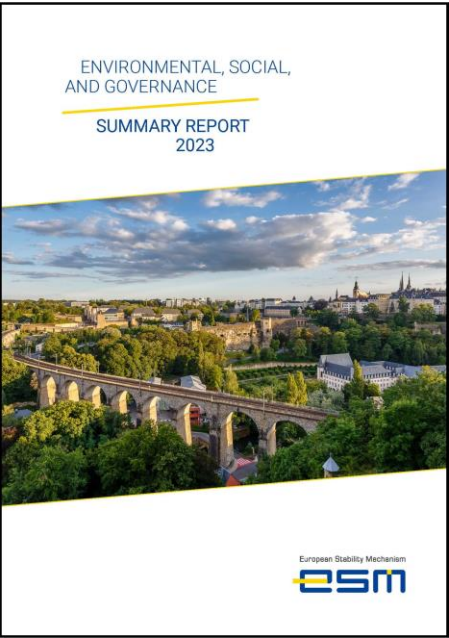
- ✓ With €81bn paid-in capital, ESM is the highest capitalised IFI globally.
- ✓ Unlike other peers, the ESM does not use its Paid-in capital to provide loans.
- ✓ We invest in secure liquid fixed income assets rated “A” and above.
- ✓ At the end of 2023, the ESM held €5.2 billion of ESG labelled bonds in marked-to-market terms.

**☐ Participation in the Principles for Responsible Investment (PRI)**

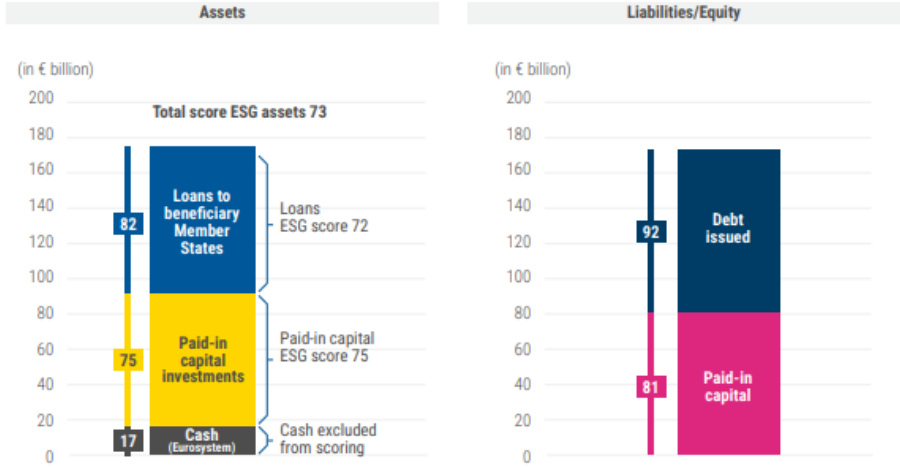
- ✓ As a PRI signatory, the ESM has enhanced its responsible investment approach by implementing an issuer-based ESG scoring of its paid-in capital.
- ✓ The ESG weighted score, based on Moody’s (Vigeo-Eiris) data, stood at 75 out of 100 at the end of 2023, corresponding to the provider's "Advanced" ESG category.
- ✓ During 2023, the ESM completed its first Principles for Responsible Investment public transparency report.

# THE ESM HAS A HOLISTIC APPROACH TO ESG

Second ESG Summary Report published in June 2024



ESM ESG scoring of ESM assets



\*Currently, there are no established frameworks in place that address social programmes.

## WHY INVEST IN ESM AND EFSF ?

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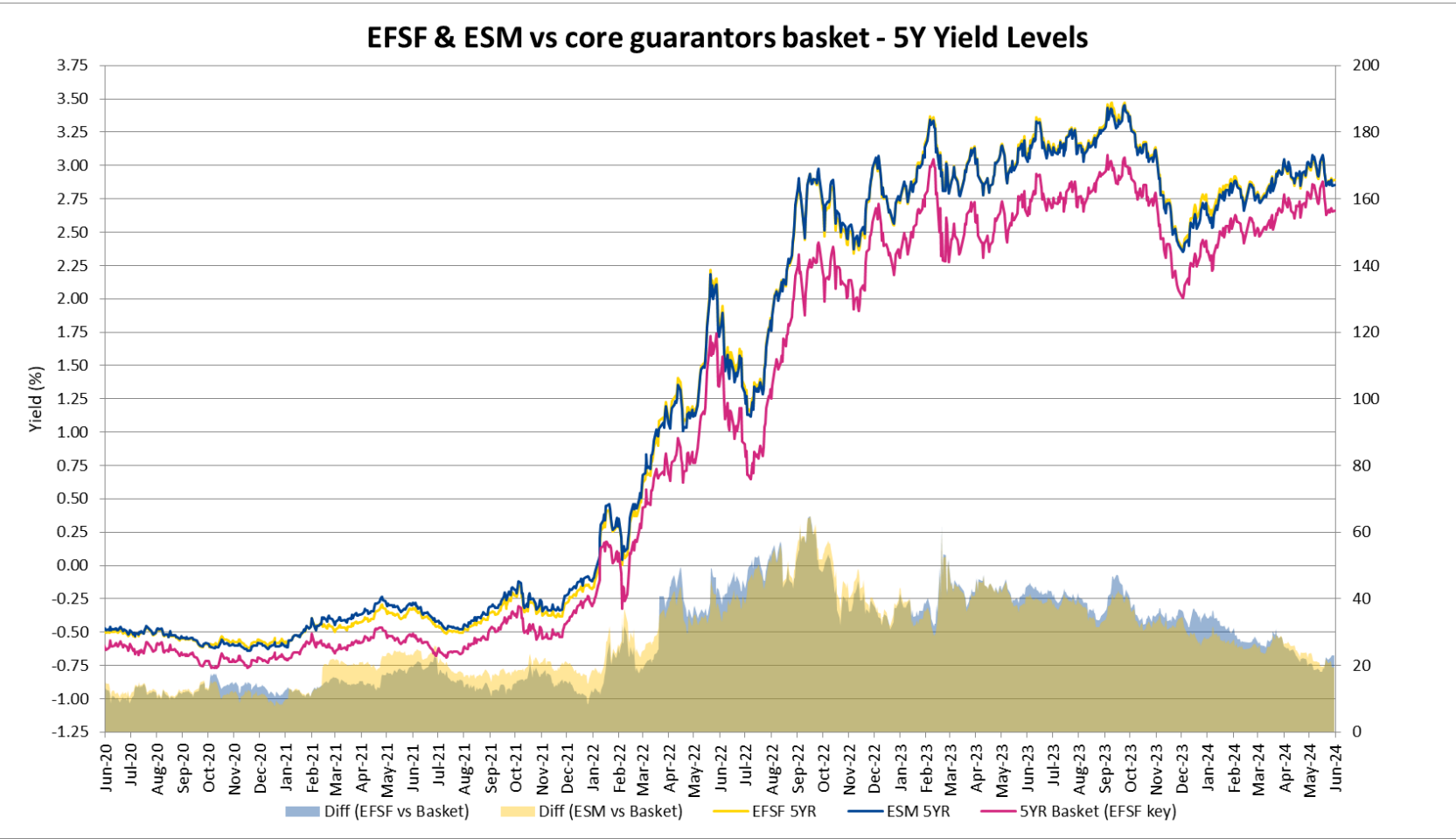
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# PERFORMANCE: OPPORTUNITIES COMBINED WITH ROBUST STRUCTURE

EFSF's issuances benefit from a solid structure with an over-guarantee mechanism from the six best-rated euro area countries

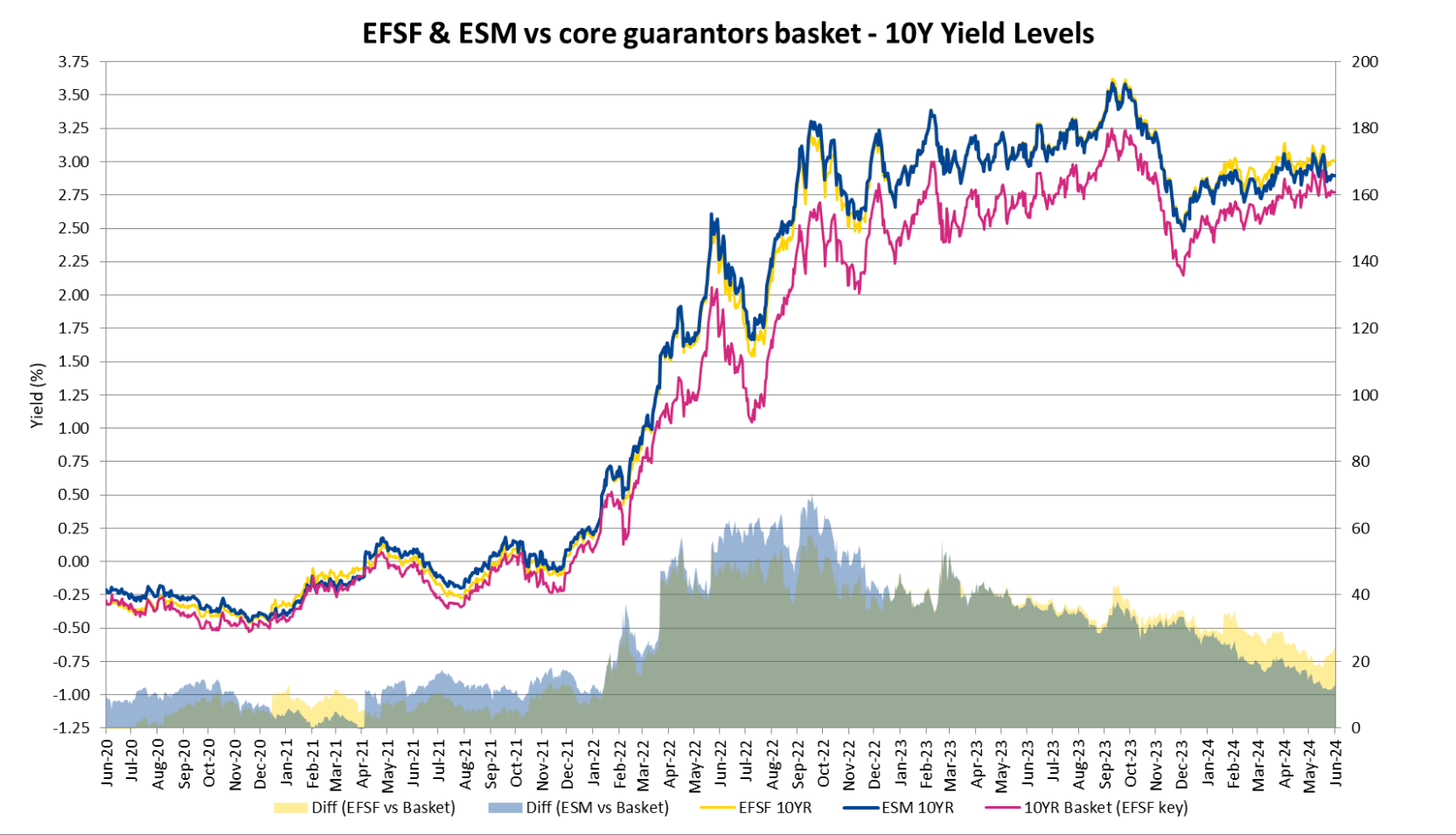
Core EFSF guarantors	Adjusted Cont. Key	Over-guaranteed Cont. Key
Germany	29.13%	46.74%
France	21.88%	35.10%
The Netherlands	6.13%	9.84%
Austria	2.99%	4.79%
Finland	1.93%	3.09%
Luxembourg	0.27%	0.43%
<b>Total</b>		<b>100%</b>

# PERFORMANCE: OPPORTUNITIES COMBINED WITH ROBUST STRUCTURE



Source: Bloomberg, as of 25 June 2024

# PERFORMANCE: OPPORTUNITIES COMBINED WITH ROBUST STRUCTURE

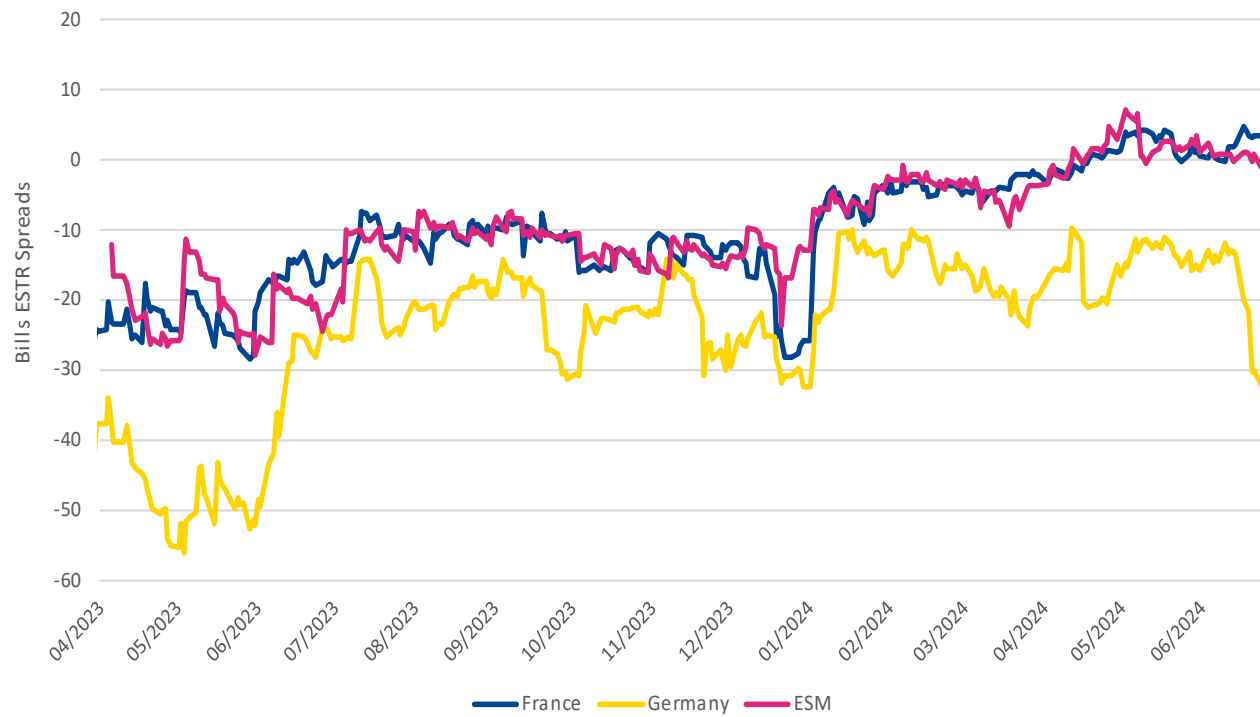


Source: Bloomberg, as of 25 June 2024

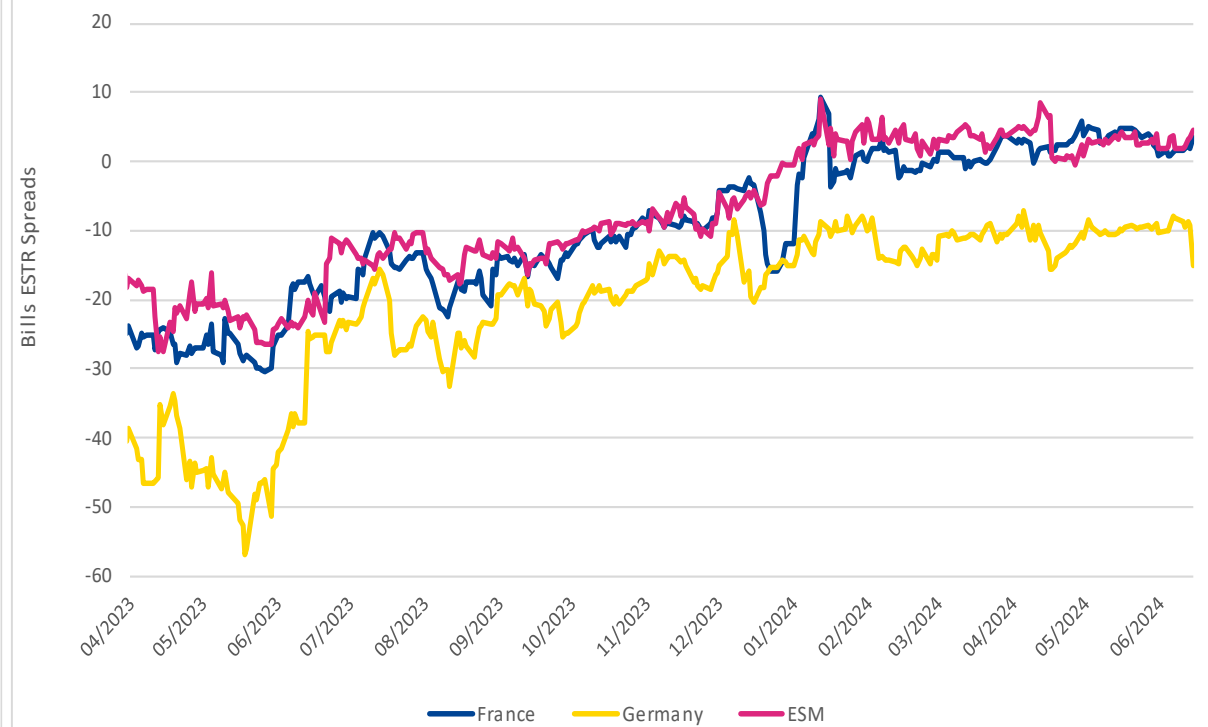


# PERFORMANCE: ESM BILLS

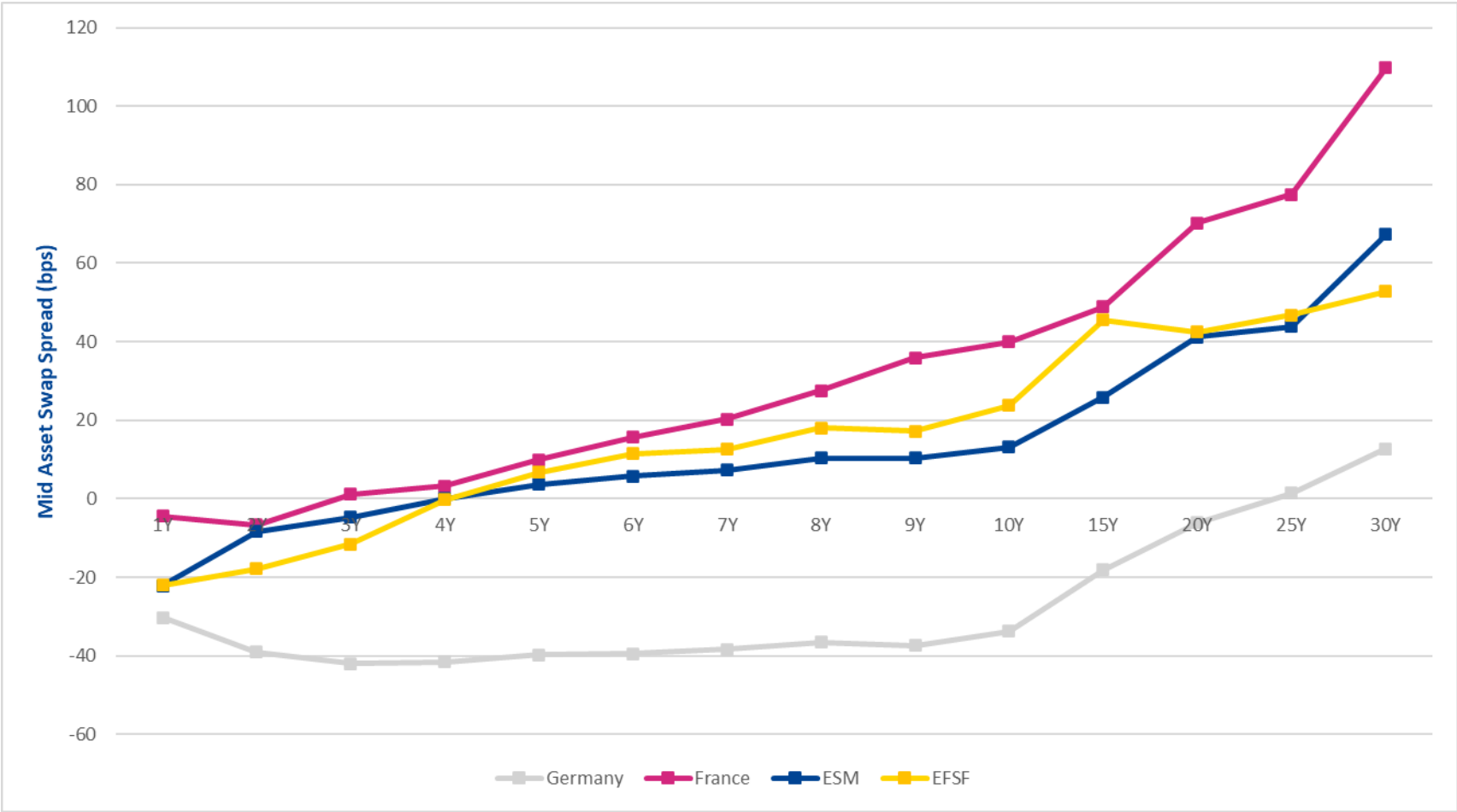
3M bill yield spreads vs €STR



6M bill yield spreads vs €STR



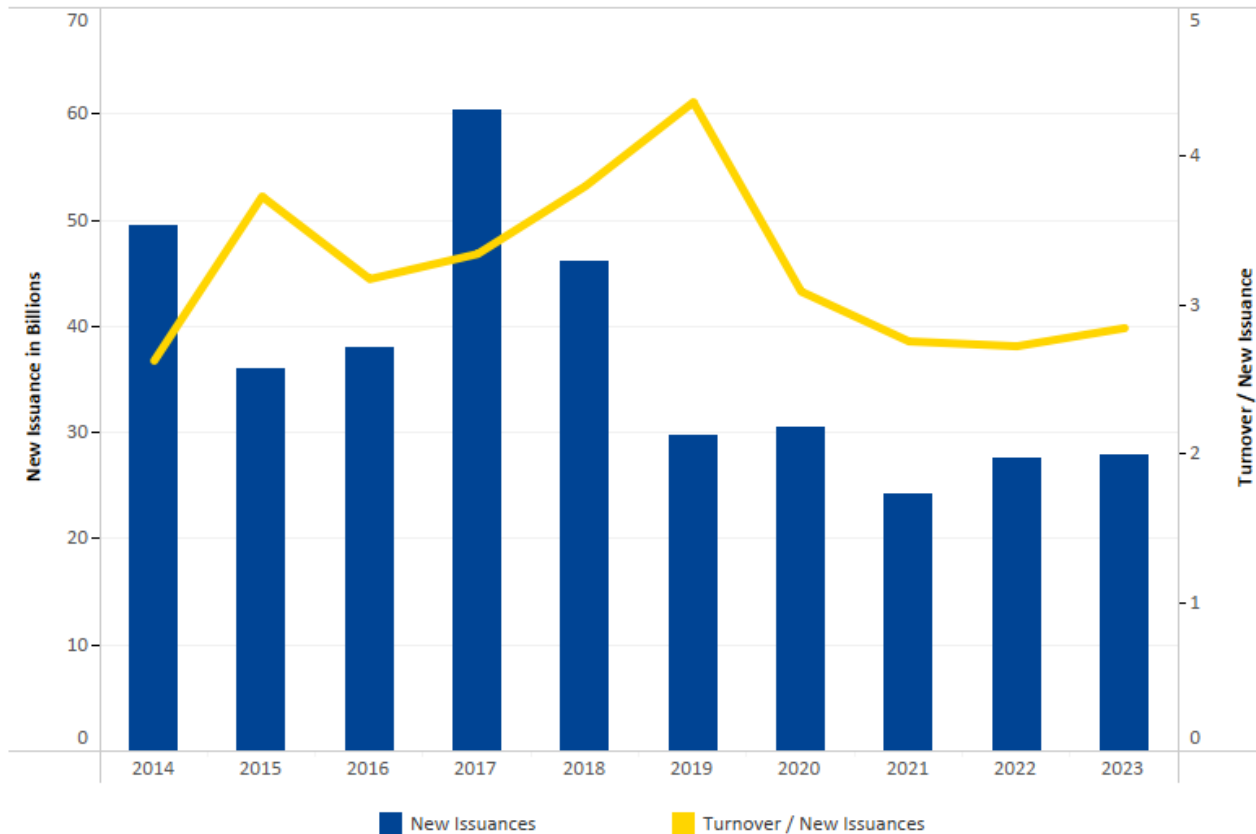
# PERFORMANCE: EFSF & ESM BOND CURVES



Source: Bloomberg, as of 25 June 2024

# LIQUIDITY: A KEY ROLE IN THE FUNDING STRATEGY

## ESM & EFSF Bond Issuance and Turnover

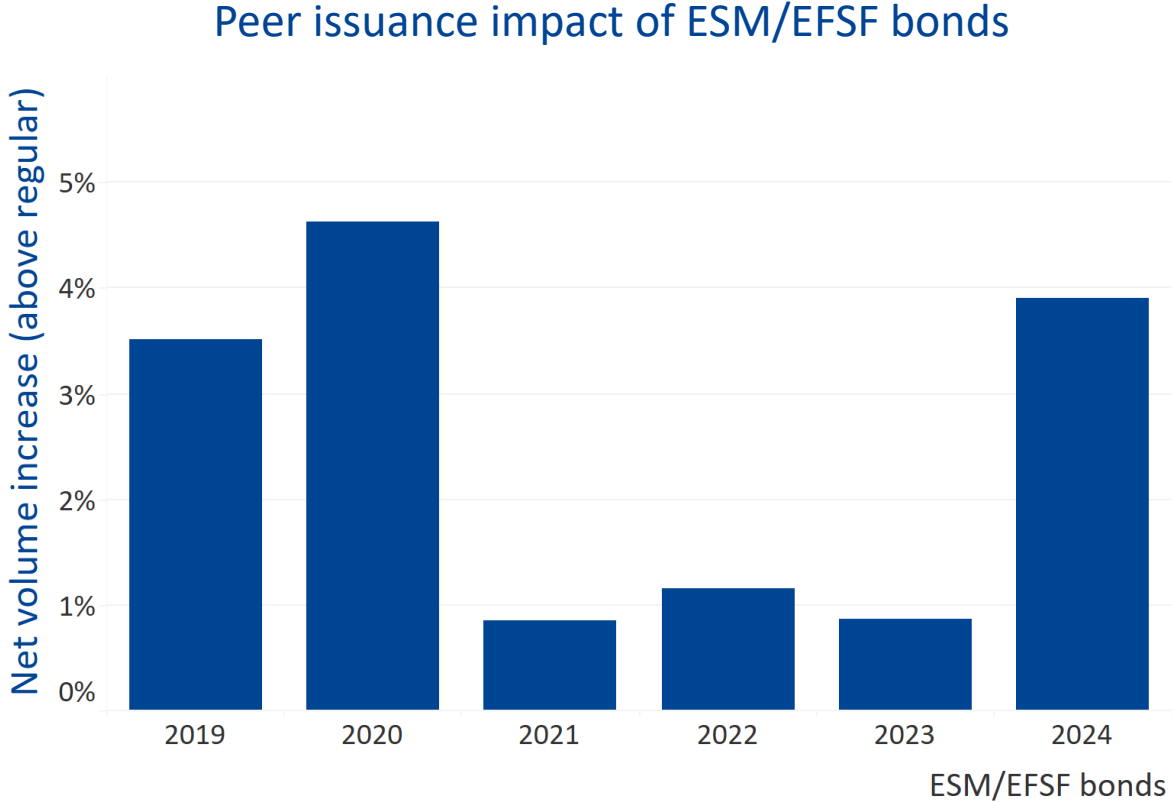


- Market Group Members are required to report their EFSF/ESM secondary market turnover using the harmonized reporting format (HRF2022)
- Turnover rankings are part of the selection criteria for syndicated transactions



Secondary market turnover remains stable

# LIQUIDITY: A KEY ROLE IN THE FUNDING STRATEGY

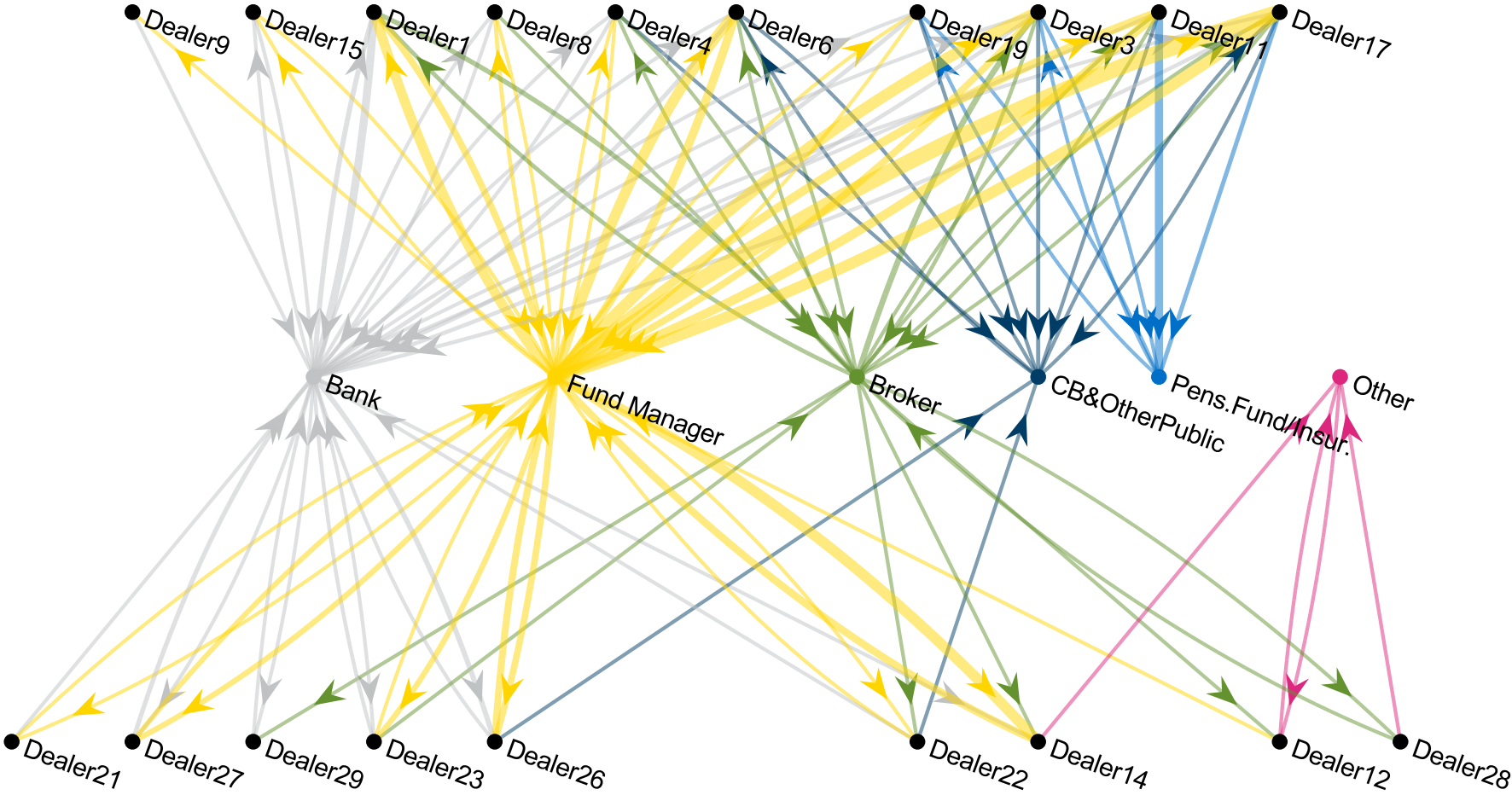


Primary activity from our peer issuers positively impacts our secondary market liquidity

NB: This data is sourced and compiled from trading activities in ESM / EFSF bonds from the market group banks related to Q1.  
Source: ESM data

# LIQUIDITY: SUPPORTED BY A STRONG MARKET GROUP

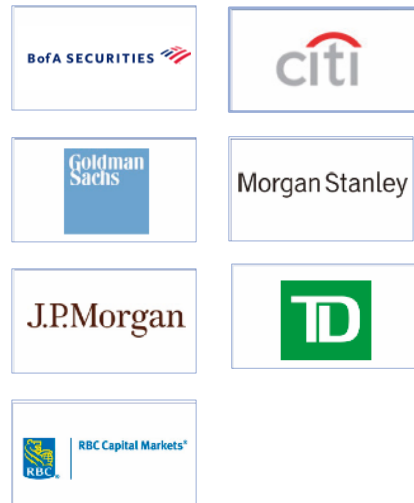
Investor-dealer networks for ESM/EFSF bonds in 2023



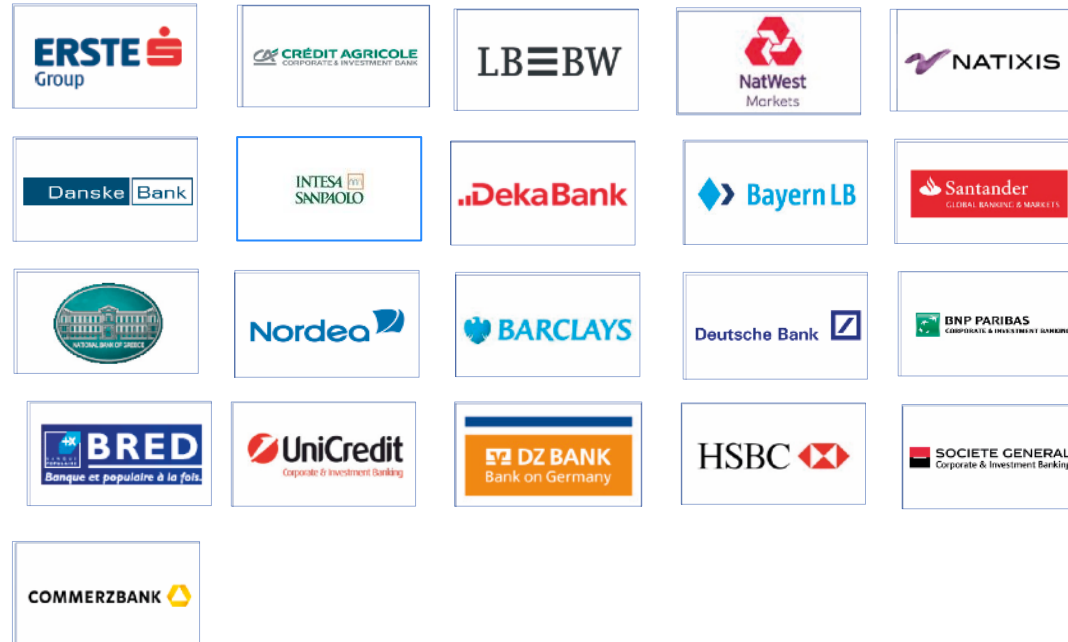
# THE EFSF AND ESM MARKET GROUP

ESM/EFSS Market Group comprises the following international institutions:

## Americas



## Europe



## Asia



# TRANSPARENCY: HIGH DEGREE OF COMMUNICATION TO INVESTORS



QUARTER 2 2024

N° 52/25 June 2024

INVESTOR NEWSLETTER NO. 52

Dear Investor,

It was a great pleasure to see many of you at our Capital Markets Seminar in Luxembourg earlier this month. Now in its sixth year, this event is an opportunity for our institutions – the European Commission, European Investment Bank, and ESM – to bring together participants from the debt capital markets, and we were happy to see investors from near and far who came to attend this year's event.

Covering a wide range of topics, this year's conference featured high level presentations and panels from the leaders of our institutions and discussions with my teams on the issuance of ESM bills and bonds, and on topics around our new euro commercial paper funding instrument. The second day of the seminar concluded with a workshop on secondary market liquidity.

This quarter saw the EFSF coming to the market on 21 May combining a tap of the April 2028 bond with a new 7-year offering. We wished to provide investors with a short-end opportunity and also found that the 7-year maturity had been under supplied so far this year. The €4 billion raised from this dual tranche meant that the EFSF has now completed 75% of its €20 billion funding target for the year.

The ESM has so far issued a €2 billion long 5-year bond and has €4 billion left for the rest of the year. We are going into the second half of the year well-funded and have €9 billion remaining to fund the rest of the year for the two issuers.

In addition to our regular bill and bond programmes, the ESM euro commercial paper programme that was launched in April has got off to a good start. We are quoting regularly on the ESM Bloomberg page.

Finally, you can find in this newsletter the second edition of the ESM's environmental, social, and governance (ESG) summary report. This document brings together all elements of ESG activity within our institution to affirm our commitment to matters related to ESG.

I wish you all a relaxing summer.



Silke Weiss

Head of Funding & Investor Relations  
EFSF and ESM

INVESTOR RELATIONS  
NEWSLETTER SUBSCRIPTION



**Newsletter**  
announces auctions  
in advance for each  
half-year

Any material changes  
communicated in timely  
manner to investor  
community

High degree of  
communication during  
transactions RFP  
announcement,  
mandate

**LinkedIn** page where  
we publish Funding and  
Investor Relations latest  
news and developments

## TRANSPARENCY: HIGH DEGREE OF COMMUNICATION TO INVESTORS

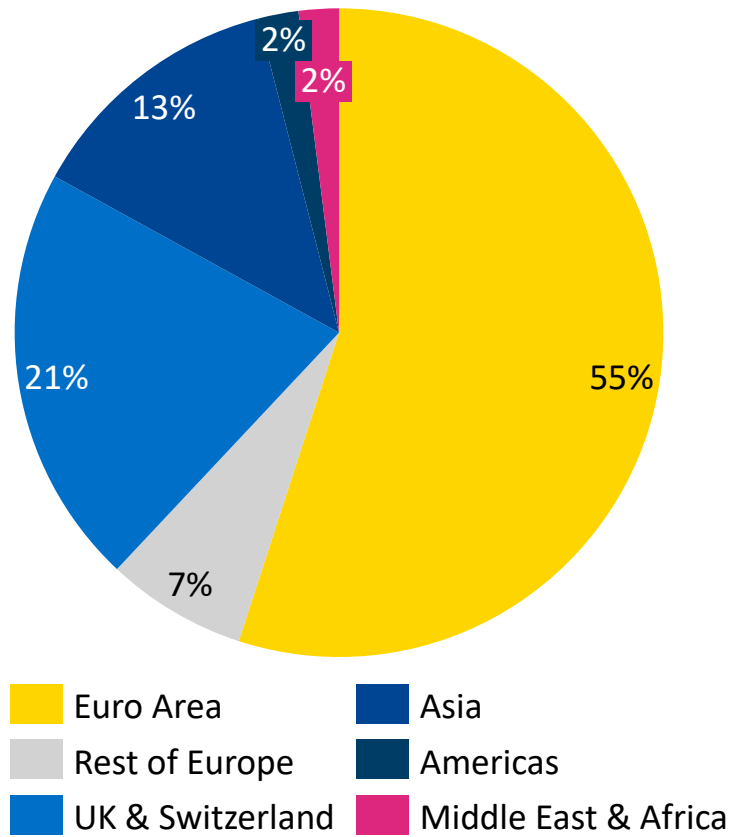
- The European Stability Mechanism, in collaboration with the European Commission, and the European Investment Bank, host an annual **Capital Markets Seminar** addressed to worldwide investors.
- This flagship event is a great opportunity to present the latest developments at the three institutions and in the EU capital markets, with a special focus on the investor perspective.
- The event gathers speakers that include C-Level and operational leaders from host institutions and other capital market participants.



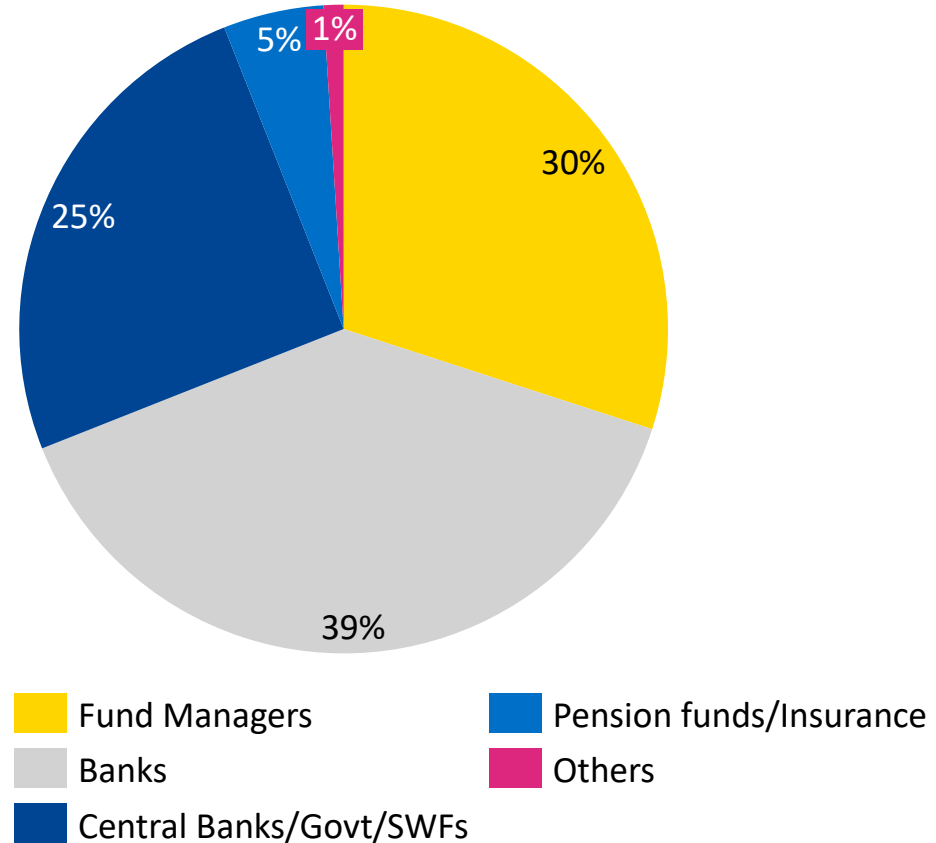


# EFSF AND ESM: SOLID AND DIVERSIFIED INVESTOR BASE

**Geographical Breakdown**

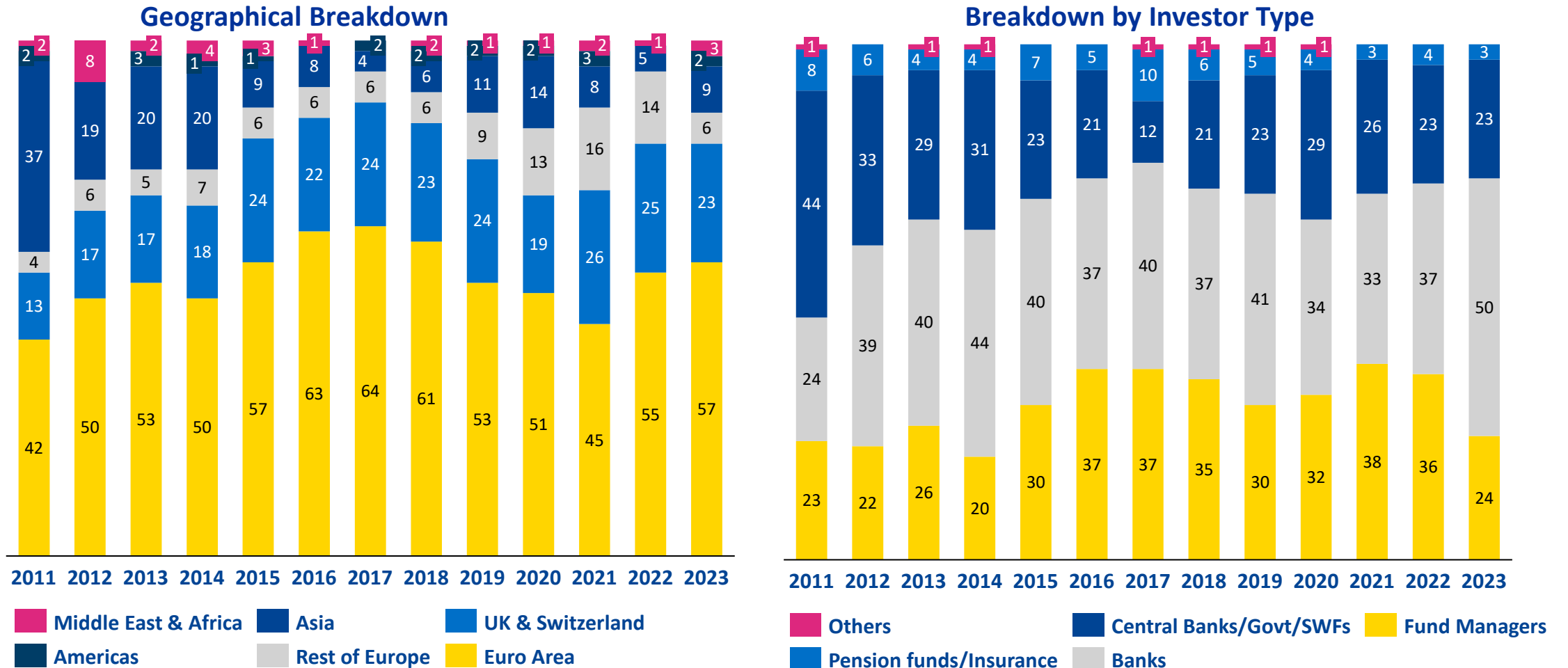


**Breakdown by Investor Type**



\*Total breakdown includes all EFSF & ESM syndicated bond issues at time of issue. Placements by auction are not included. As at Q2 2024. Data source: ESM

# ESM & EFSF: ANNUAL INVESTOR BREAKDOWN



\*2011 & 2012 EFSF Only

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# APPENDIX

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# ESM BACKSTOP TO THE SRB FOR THE SINGLE RESOLUTION FUND

