

EUROPEAN FINANCIAL STABILITY

PBOC Financial Street Forum

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18 October 2024



FOCUS OF TODAY

The ECB recently cut rates twice in a row, and the Fed lowered rates by 50 points

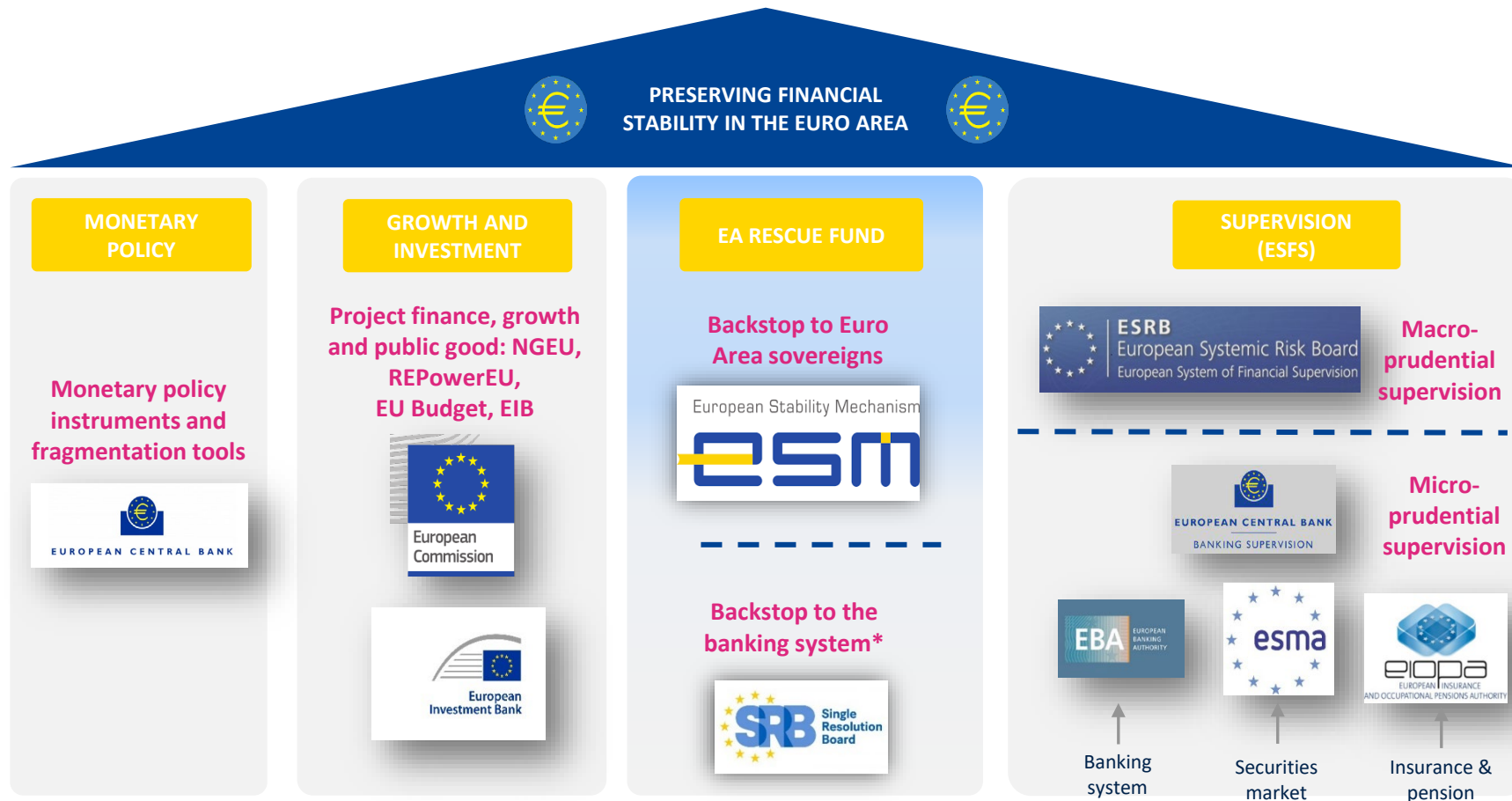
"How the ESM coordinate with ECB's monetary policy to jointly maintain European financial stability"?

ESM ROLE IN EUROPEAN FINANCIAL ARCHITECTURE AND MAIN ACHIEVEMENTS



1

ESM WITHIN THE EUROPEAN FINANCIAL ARCHITECTURE

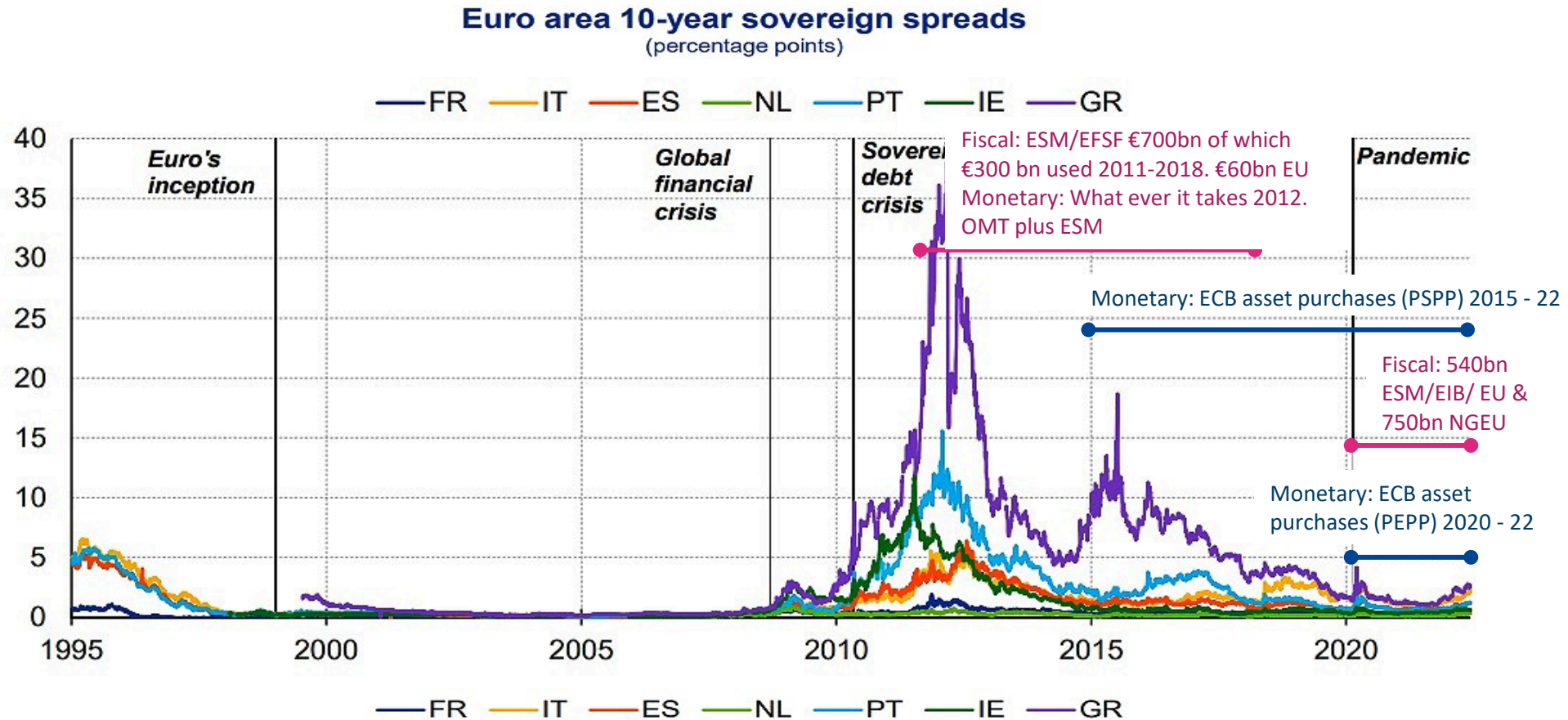


* Ratification of the Amending Agreement to the ESM Treaty ongoing

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



FIRST CRISIS: UNITED FISCAL AND MONETARY RESPONSE MADE EURO AREA STRONGER AND CALMED DOWN MARKETS



THE SECOND CRISIS: ESM PARTICIPATED IN THE EUROPEAN INITIAL ANSWER TO THE COVID CRISIS (2020-2022)

In May 2020, the EU Heads of State committed €540 billion to fight the Covid-19 crisis



Support for workers:

Up to €100 bn in loans to EU member states under the **European Commission's SURE** programme in support of national unemployment schemes.



Support for companies

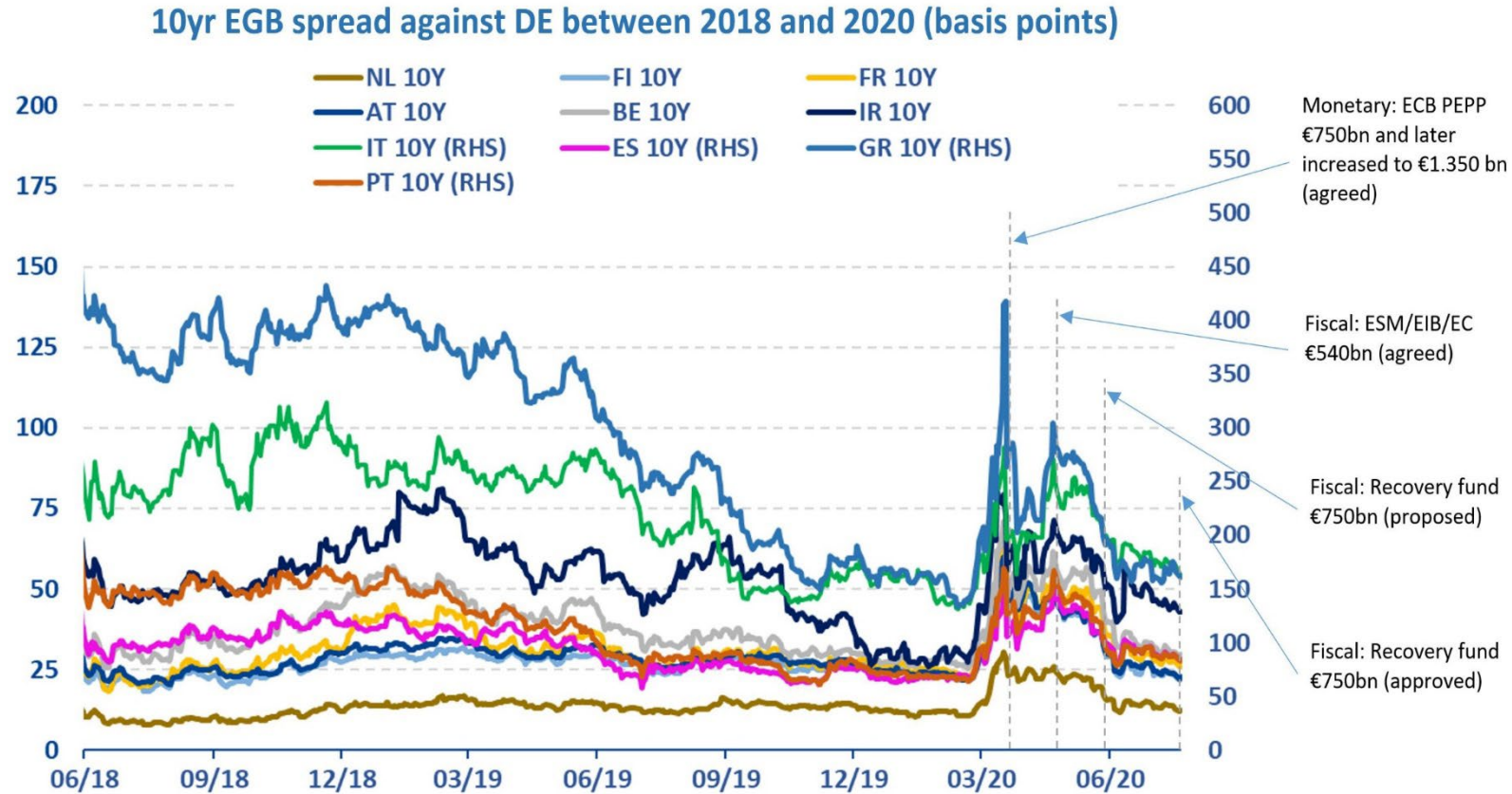
A pan-European **guarantee fund** by the European Investment Bank (EIB) of €25 bn, which could provide around €200 bn of financing for companies (SMEs)



Support for countries

The **ESM's Pandemic Crisis Support**, a precautionary credit line with a total volume of up to €240 bn, available to all EA countries until the end of 2022 to support healthcare-related costs of up to 2% of GDP. The ESM set up a Social Bond framework to finance this lending instrument. **The ESM's PCS instrument was ultimately not triggered by member states.**

EUROPEAN COMBINED POLICY RESPONSE CALMED DOWN MARKETS



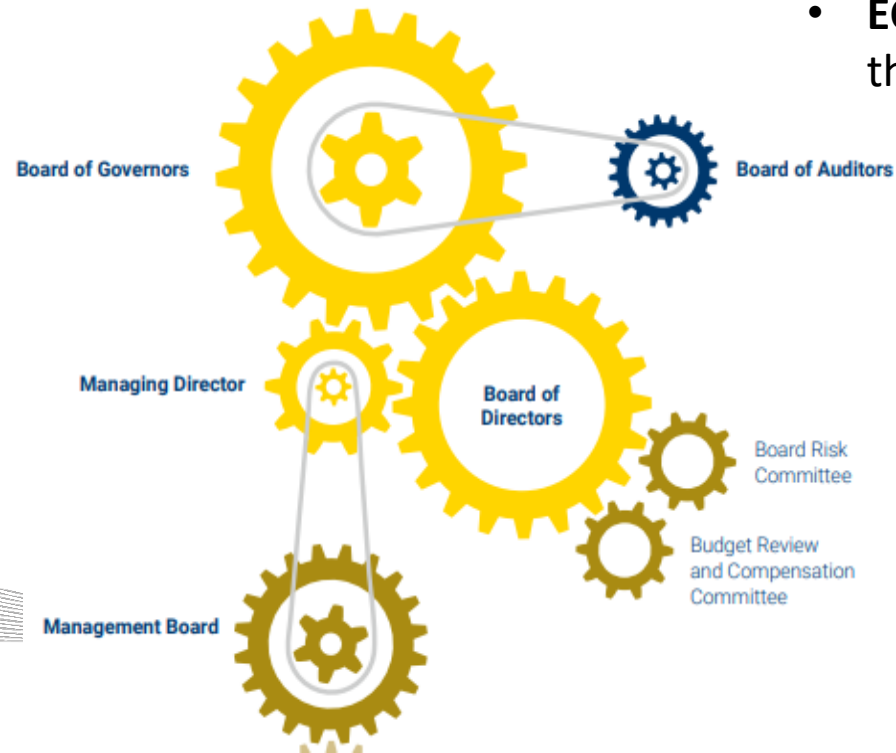
ESM INTERACTION WITH THE EUROPEAN CENTRAL BANK (ECB) AND PERSPECTIVE FOR THE COMING MONTHS



2

GOVERNANCE: 20 EURO COUNTRIES + ECB AND EC OBSERVERS

Governance



- **ESM Board of Governors** are the Ministers of Finance of the Euro Area
- **ECB** and **European Commission** are observers in the Board of Governors



ECB AND ESM COLLABORATION



Macro programmes collaboration: ECB, ESM and EC (IMF in the past)



ECB Outright Monetary Transactions (OMT) – ESM programme (launched 2012)



ECB Transmission Protection Instrument (TPI) - ESM Debt analysis (launched 2022)



Monthly Eurogroup meetings: 20 EA Ministers of Finance + EC, ECB and ESM

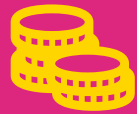


Market groups exchange

TO SUM IT UP



European Central Bank – support on the monetary side



ESM is the European IMF – support on the fiscal side

Together ensuring Financial Stability

FINANCIAL MARKETS NEXT CHALLENGES

After the fastest rate increases in history

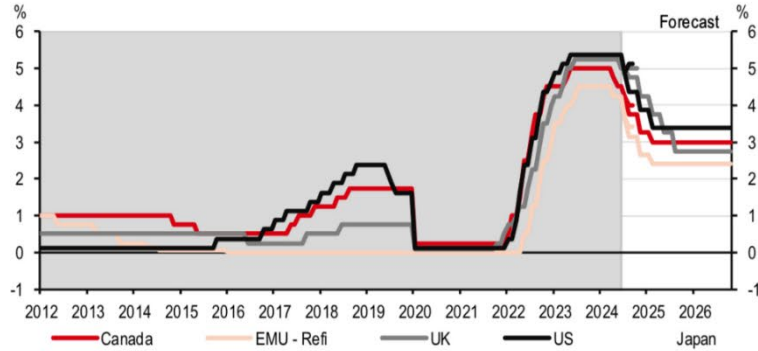
Inflation under control – but on a higher level

A period of rate cuts (ECB, FED, etc) has started

Some changes in Europe and US

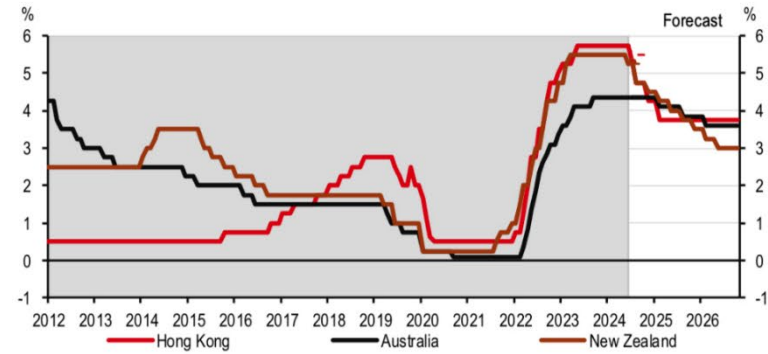
FROM FASTEST HIKING CYCLE TO THE FIRST CUTS

G7



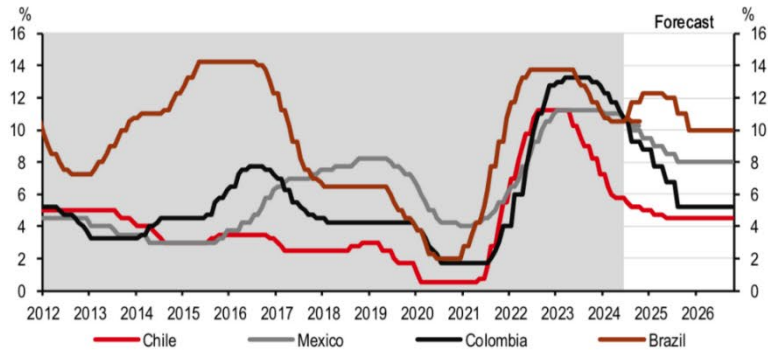
Note: Dashed line represents previous forecasts
Source: LSEG Datastream, Bloomberg, HSBC

Asia-Pacific



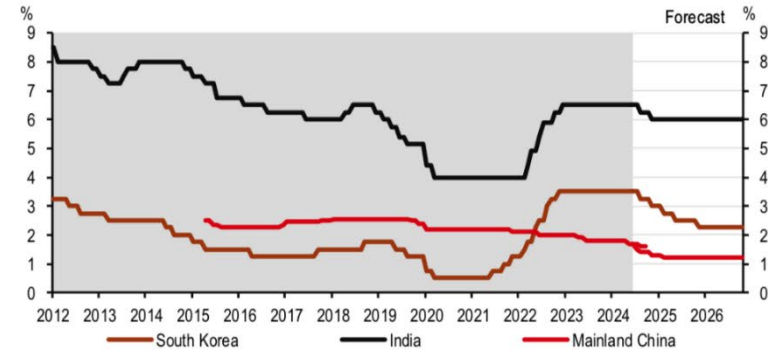
Note: Dashed line represents previous forecasts
Source: LSEG Datastream, Bloomberg, HSBC

Latin America



Note: Dashed line represents previous forecasts
Source: LSEG Datastream, Bloomberg, HSBC

Asia

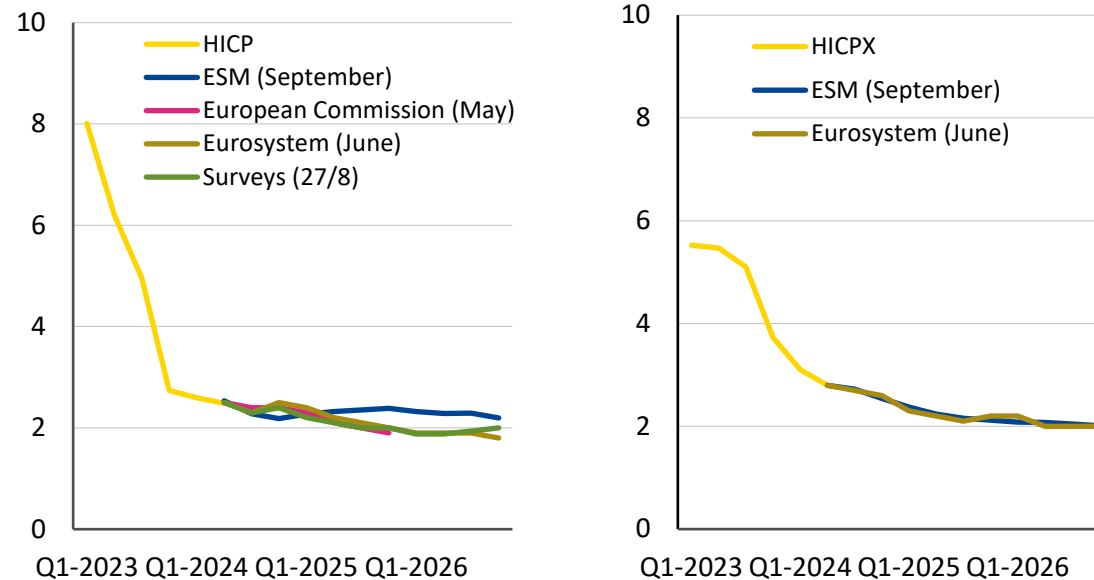


Note: Dashed line represents previous forecasts
Source: LSEG Datastream, Bloomberg, HSBC

EA INFLATION CLOSER TO 2% BUT CORE PRESSURES PERSIST

Inflation forecasts

(YoY growth rates in %, lhs: headline, rhs: core)



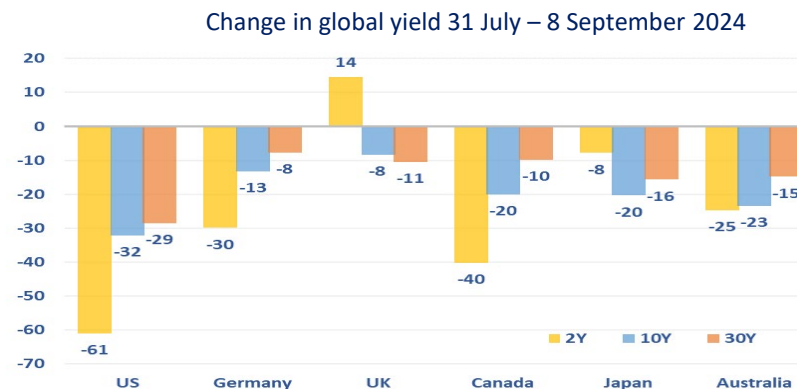
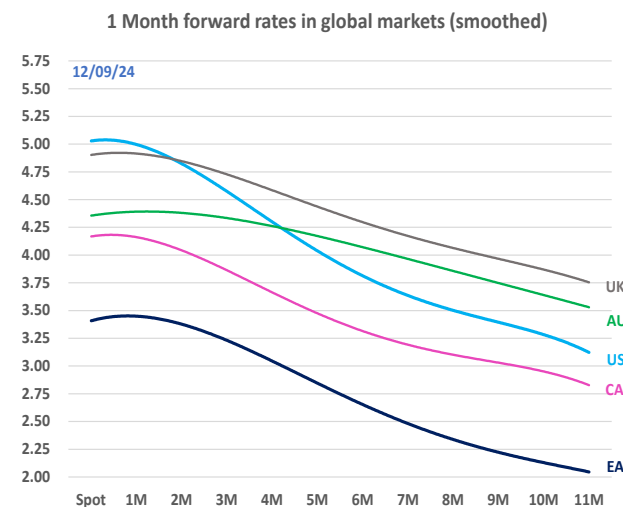
Source: European Commission, Focus Economics, European Central Bank and ESM estimate.

Note: Focus Economics Survey from 27/8. ESM forecast is model based. European Commission forecast is from Spring 2024 Forecast, May-24, and Eurosystem one from Eurosystem staff macro projections Jun-24.

HICPX excludes energy, food, alcohol and tobacco.

MARKETS ARE PREPARING FOR FURTHER CUTS

- **Government Bond yields** primarily dropped as market was positioning for the start of the easing cycle in the US and upcoming rate cuts from major Central Banks
- **Australia:** RBA left the rate unchanged in August at 4.35%, while the market is pricing-in the first cut in November
- **UK:** After a cautious 25 bps cut in August, the BoE is expected to deliver the next cut in November
- **Canada:** BoC delivered third 25 bps cut in a row taking key rates to 4.25%. The cut came after inflation decelerated to 2.5%
- **Japan:** After the surprise hike in July, BoJ signals rate hike still in play for upcoming meetings, if economy evolves in line with the projections. JPY appreciated around 5% since end-July.



SOME POLICY CHANGES IN EUROPE AND US



- New European Commission has new priorities 2024-2029
 - More focus on Security, Defence and Migration
 - More focus on competitiveness and single market ([Draghi](#), [Letta](#) reports)



- US elections and future direction 2025-2029
 - Extent of policy change depends on both President and Congress
 - Fiscal policy change is possible
 - Potential impact on deficit and inflation

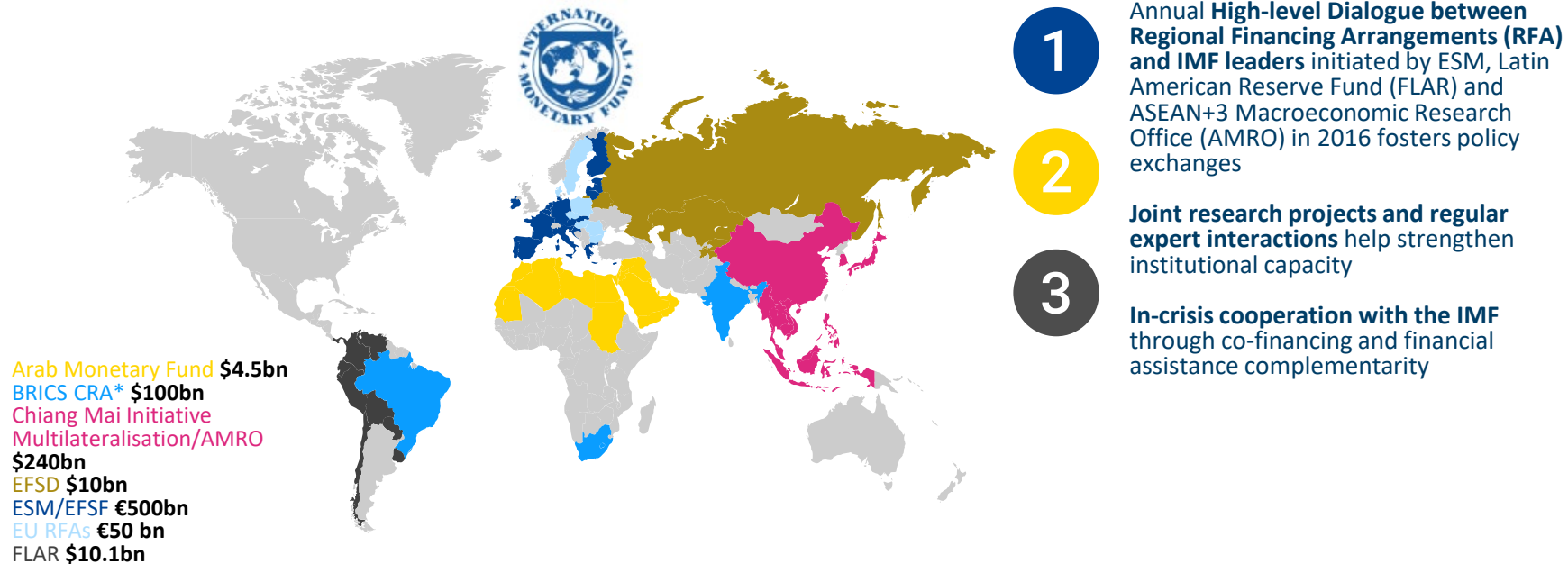
Monetary, rate
and policy
changes can be
**shocks to
markets**

A strong global
**financial safety
net** is therefore
important



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



* 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.

RATING AGENCIES HIGHLIGHT ESM'S IMPORTANCE IN THE FINANCIAL ARCHITECTURE AND FOR FINANCIAL STABILITY

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

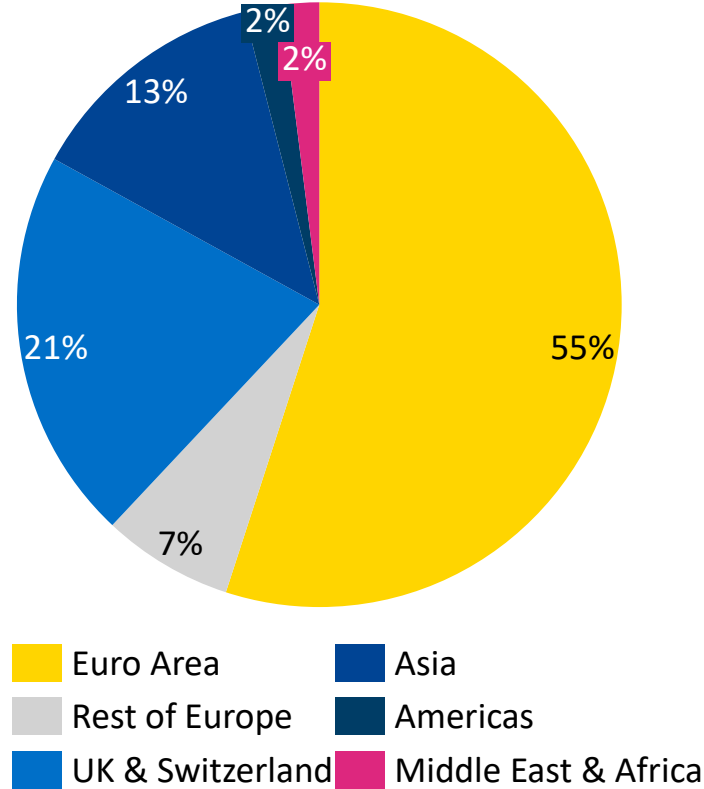
Unsolicited rating

AAA Outlook Stable
Short-term: S-1

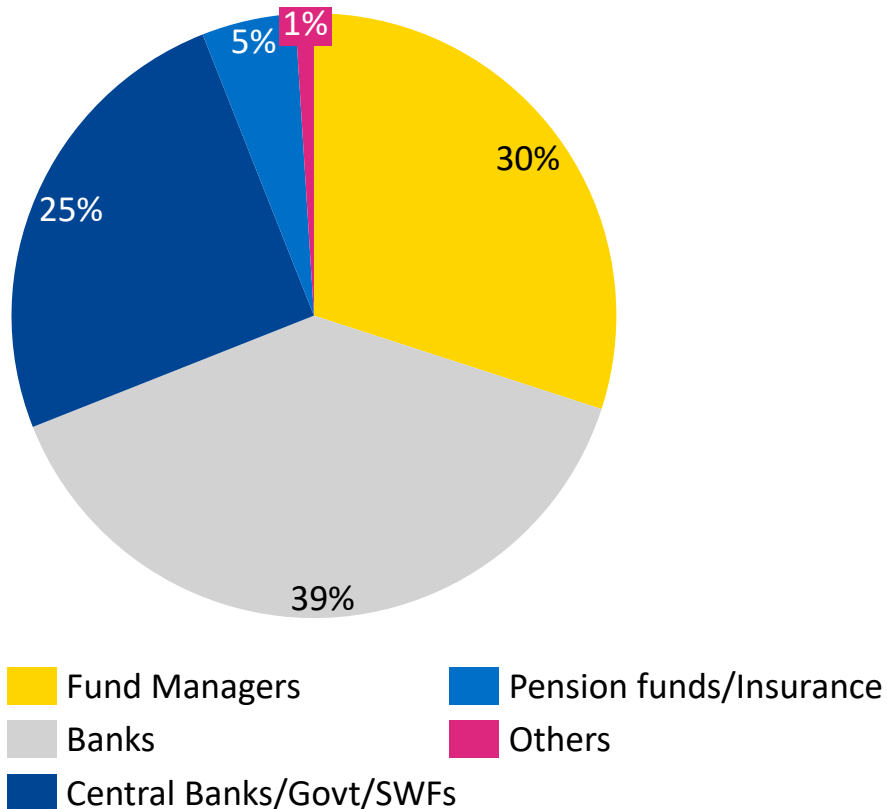
Commentaries selectively chosen for information purposes.

THIS IS ONLY POSSIBLE WITH A SOLID AND DIVERSIFIED INVESTOR BASE – GLOBALLY

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

THANK YOU



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