

NAVIGATING A CHANGING WORLD

ICMA Public Sector Issuer Forum

Kalin Anev Janse, ESM Chief Financial Officer and Management Board Member

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OVERVIEW: NAVIGATING A CHANGING WORLD

- 1 **Macro** - megatrends that will define Europe's future
- 2 **Micro and finance** - market topics to watch
- 3 **A changing world for SSAs?**

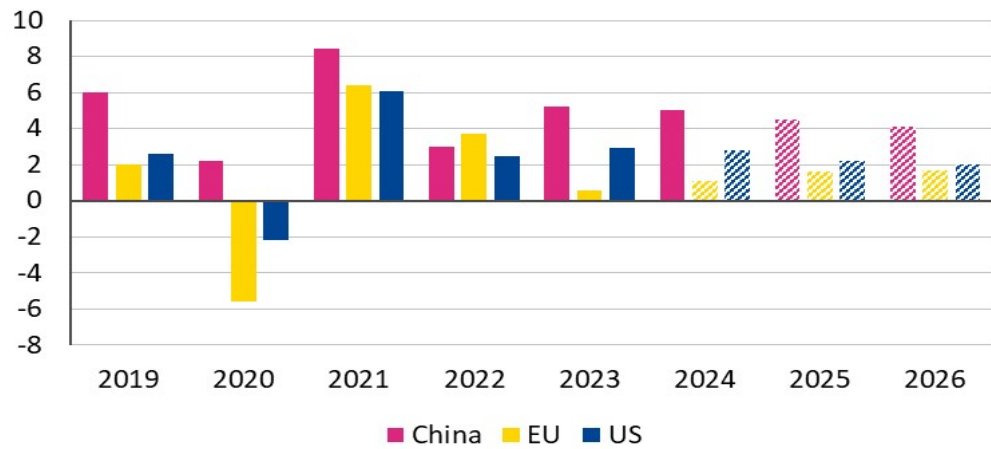


MEGATRENDS THAT WILL DEFINE EUROPE'S FUTURE



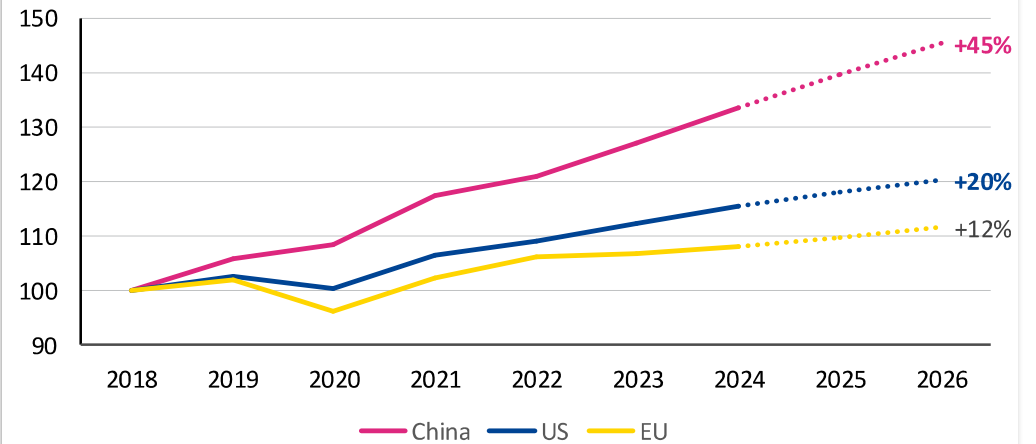
EUROPE, US, AND CHINA GROW DIFFERENTLY

Real GDP growth, year on year, %



Source: IMF

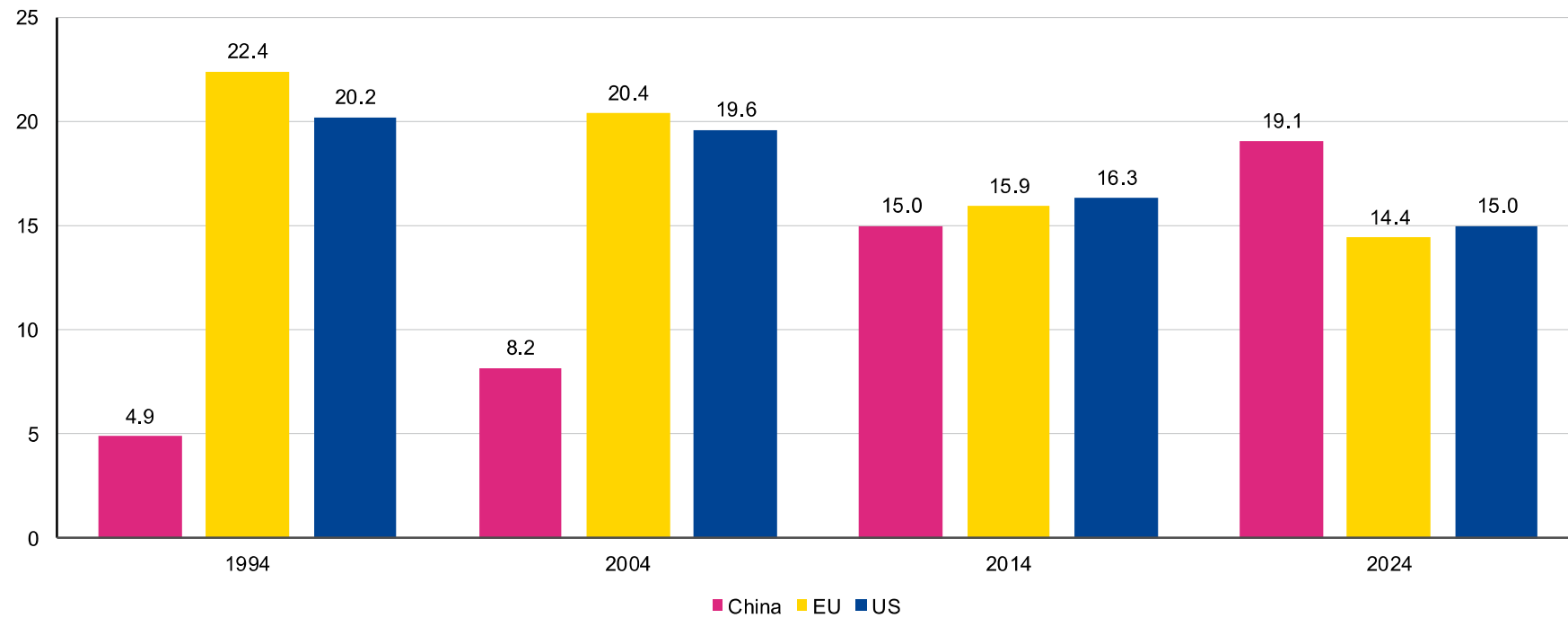
Real GDP growth



Source: IMF

EUROPE, US AND CHINA – GROW DIFFERENTLY

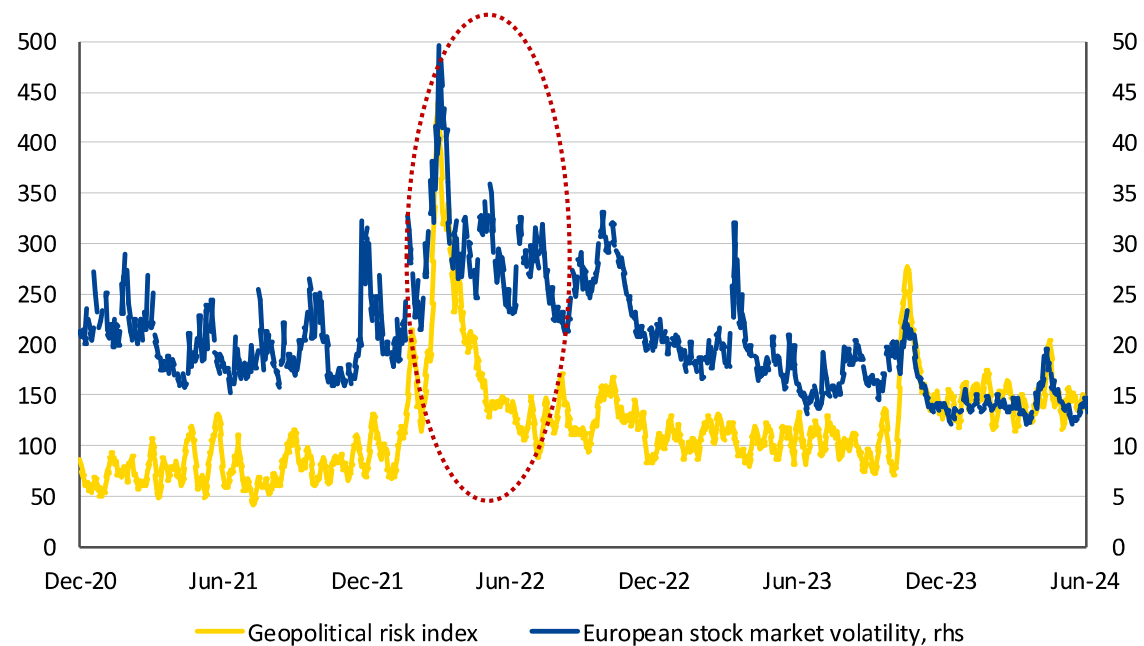
Share of world GDP, PPP terms, %



Source: IMF

GEOPOLITICAL DEFRAGMENTATION HITS ECONOMICS

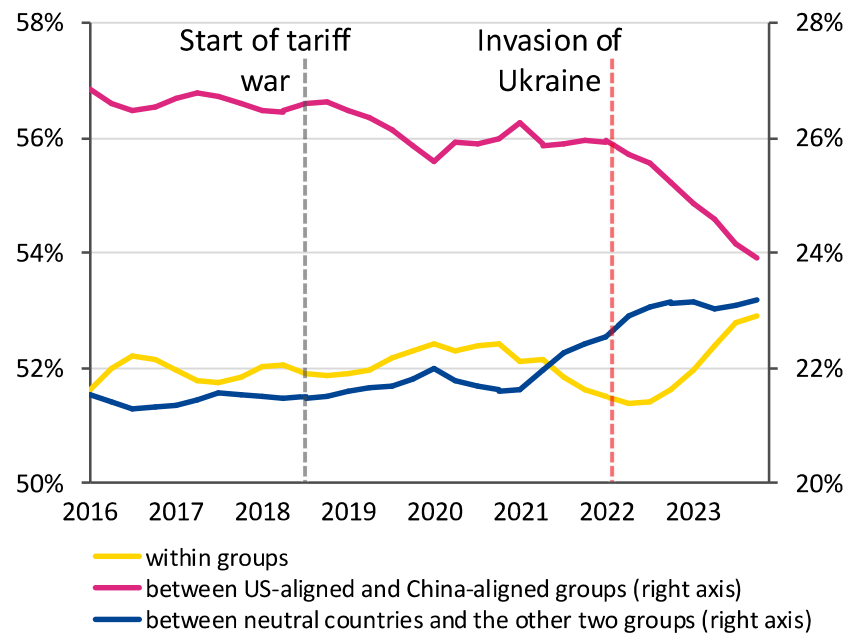
Geopolitical risk triggers market volatility...
Impact of Russia's attack against Ukraine in February 2022



Source: Caldara and Iacoviello (2022) and Bloomberg

GEOPOLITICAL DEFRAGMENTATION HITS ECONOMICS

Trade between groups pulling apart...
Shares of global trade within and between geopolitical groups

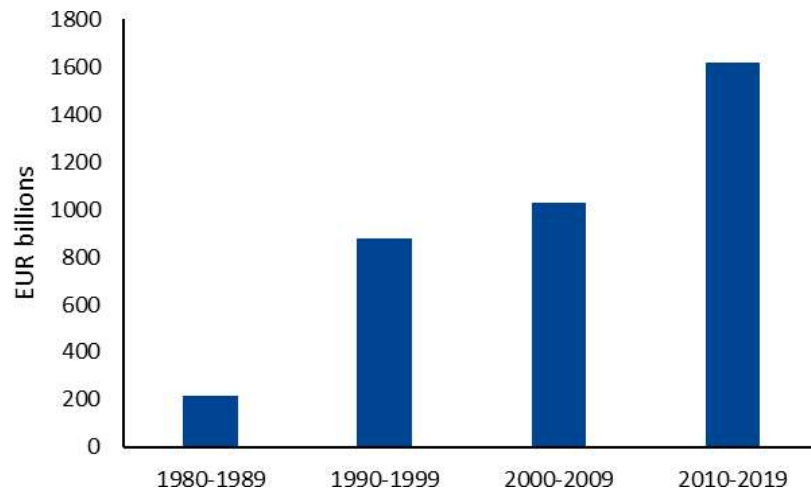


Note: shares of global trade in goods within and between stylized groups of countries based on United Nations General Assembly votes in 2022

Sources: ESM's calculations based on UNGA voting dataset from Voeten (2013, version 30) and IMF Direction of Trade Statistics

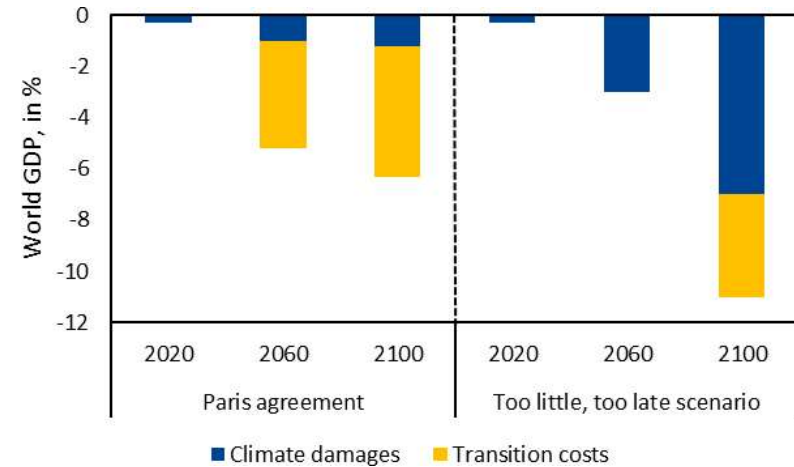
CLIMATE CHANGE CARRIES IMPORTANT IMPLICATIONS FOR GROWTH AND FINANCIAL AND ECONOMIC STABILITY

Global economic losses from weather-related catastrophes have been on the rise...



Source: SwissRe (2020)

Global temperature is rising fast ...
... while long-run GDP losses will depend on the ambition of transition policies.

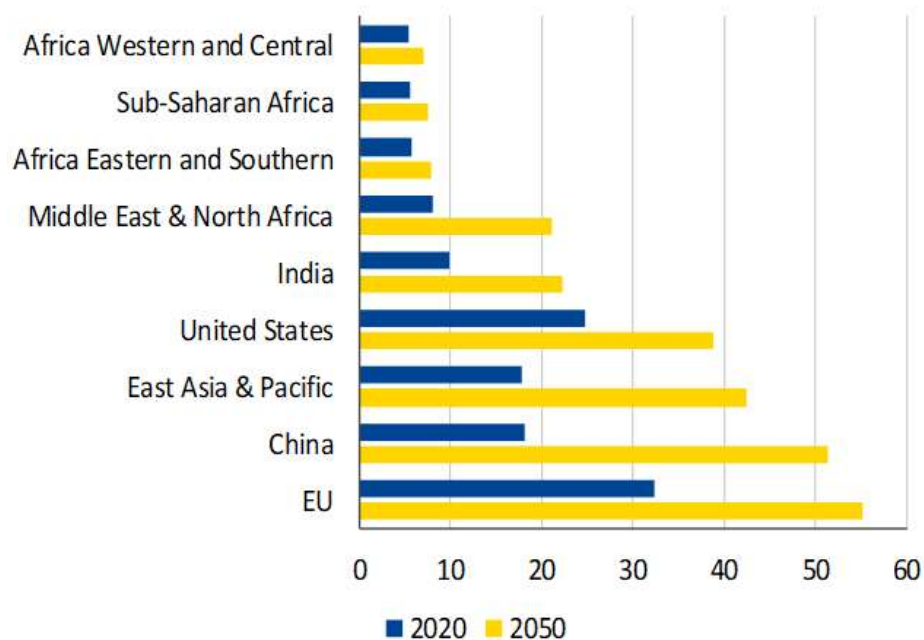


Note: The “too- little, too-late” scenario is based on the assumptions defined by the NGFS.

Source: ECB, Climate-related risk and financial stability

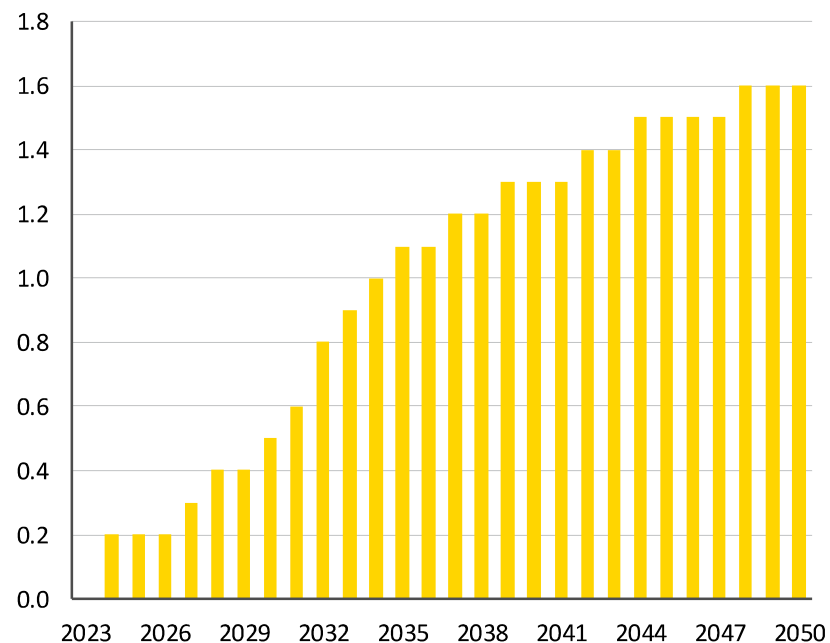
AGEING POPULATION TO WEIGH ON GROWTH AND PUBLIC FINANCES

Old age dependency ratio
(% of working age population)



Source: World Bank

Euro area public finances:
expected increase in ageing spending
(cumulative increase 2023-2050, % of GDP)



Note: Ageing costs: pensions, health care, education and long-term care costs
Source: EC

FIVE MARKET TOPICS TO WATCH – A CFO VIEW



OUTSIDE OF THE BOX: WHAT TO LOOK OUT FOR IN 2025?

1

A new world order with new priorities for Europe

2

From billions to trillions – the money to finance Europe's priorities

3

Markets change eagerly and rapidly

4

Electronic trading and AI technology

5

ESG is maturing, but must remain in focus

LARGE CHANGES IN EU PRIORITIES FOR 2024-2029

Old Priorities (2019 – 2024)

- Green Deal
- Covid response

New Priorities (2024 – 2029)

Focus on a **free, democratic, strong, secure, prosperous, and competitive Europe.**

- European security and defense, migration
- Competitiveness
- Deepening the single market



Enrico Letta's financing proposals:

Leverage **EU budget** and **EIB project lending**

Put in place **ESM precautionary credit line** for defense and security funding



Mario Draghi's call to action:

€750–800 billion additional annual investments needed to bridge the EU's gap

80% from the private sector

20% from the public sector

FROM BILLIONS TO TRILLIONS – FINANCING EUROPE’S PRIORITIES



In March 2024, **European safe assets** (bonds issued by the European Commission, EIB, ESM, and EFSF) surpassed **€1 trillion mark** for first time
Only 40% of available capacity: close to €1 trillion **more** available, €427 billion ESM, €200-300 billion EU and €100 billion EIB

Benefits of financing via European institutions

New priorities (e.g., security, competitiveness, single market) could be funded as **European public goods**.

Supports public finance consolidation:

- Creates fiscal space for investments.
- Provides protection against future shocks.

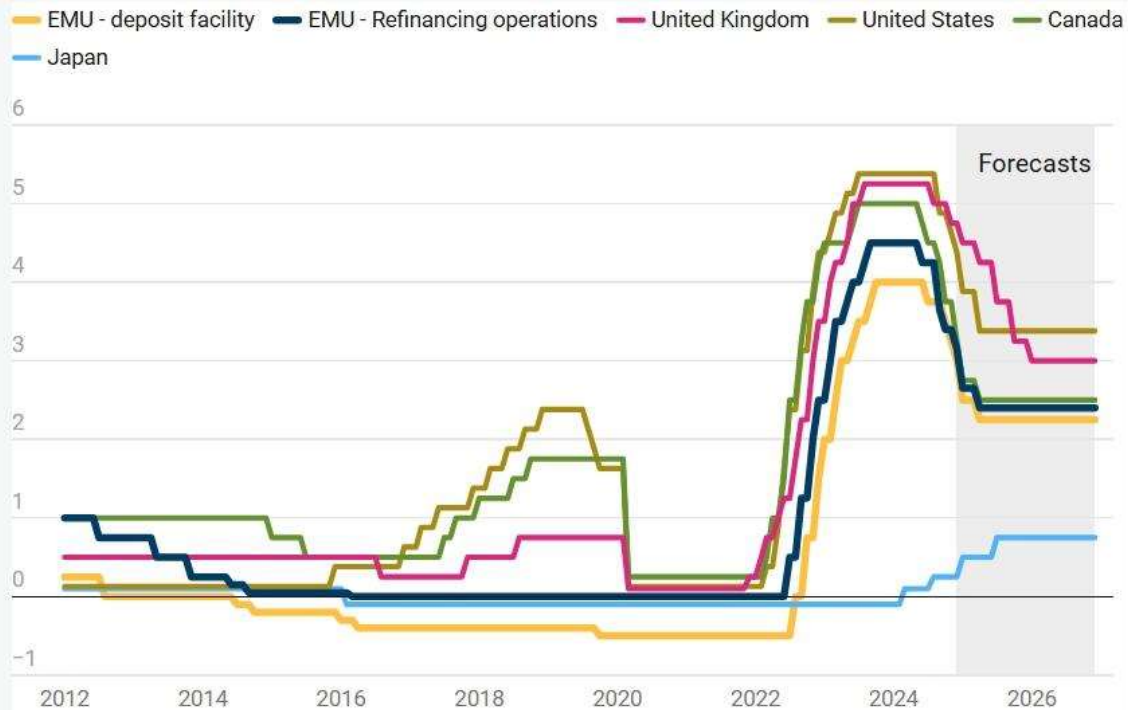


ESM advantage:

- Borrows at rates **cheaper than 16 of 20 euro area countries**.
- Financing costs below the **GDP-weighted average euro area cost**.

...AND SO DOES DELAYING OR NOT ACTING

From fastest hiking cycle to the first cuts



Source: HSBC

Monetary Policy Shifts

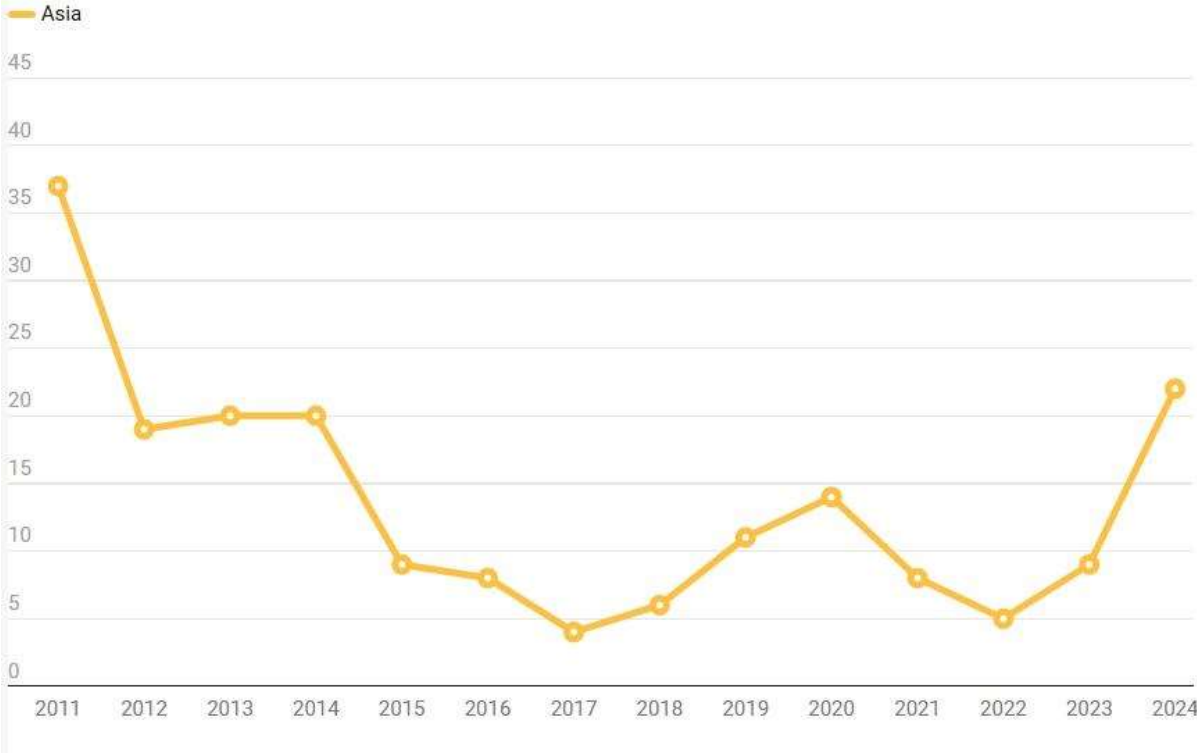
- **Fastest interest rate hike cycle** in 50 years followed by rate cuts in most countries.
- Markets anticipate **more cuts in 2025**
- Risks remain: **2nd Trump administration** and potential tariff wars could delay cuts or reverse policies.

Monetary Policy Market Implications for 2025

- Anticipated increase in **diversification** strategies.
- Rising role of the euro as the **world's second reserve currency** after the USD.
- Reserve managers are **hedging against risk** in a volatile market.

ASIA IS INCREASING INVESTMENTS

Asian investors interest in ESM/EFSF bonds on the rise
(% of ESM/EFSF issued bonds allocated to Asia)



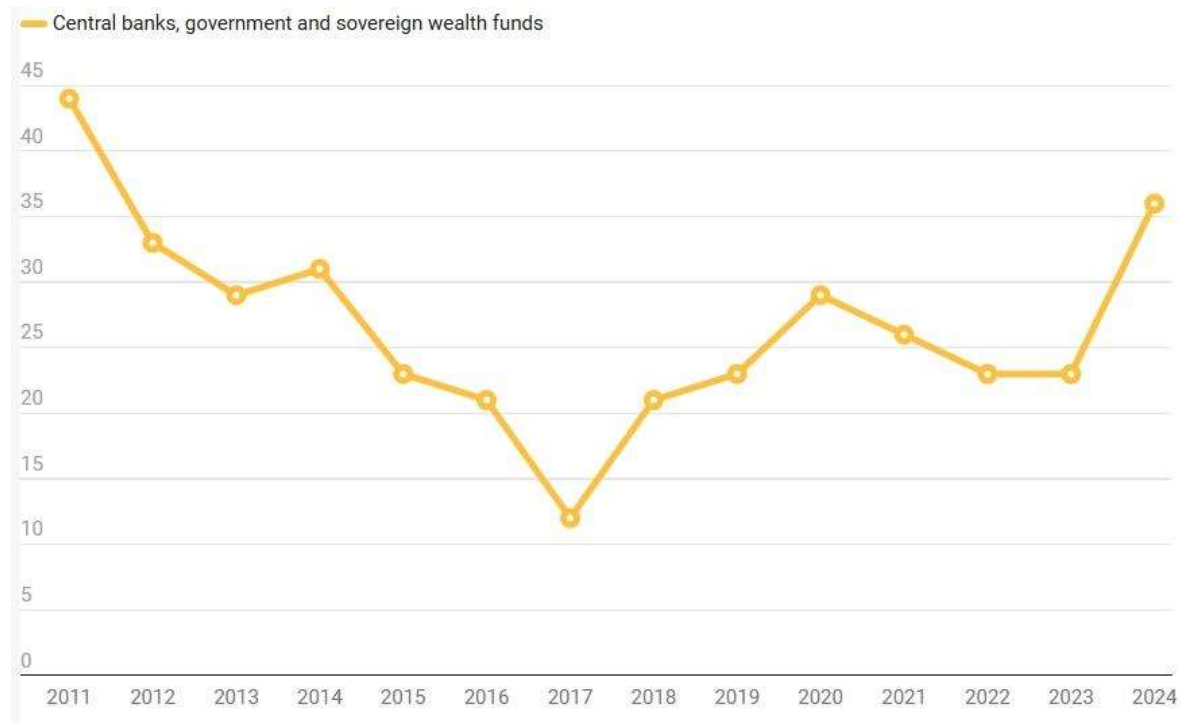
Asian investors took 22% of ESM/EFSF bonds – highest since 2011, a fourfold increase compared to 2022. Rising interest in euro-denominated assets.

Source: ESM calculations

CENTRAL BANKS ARE INCREASING INVESTMENTS

Central banks buying more ESM/EFSF bonds

(% of ESM/EFSF issued bonds allocated to central banks, government and sovereign wealth funds)



36% of ESM/EFSF bonds in 2024 purchased by central banks, sovereign wealth funds, and official institutions

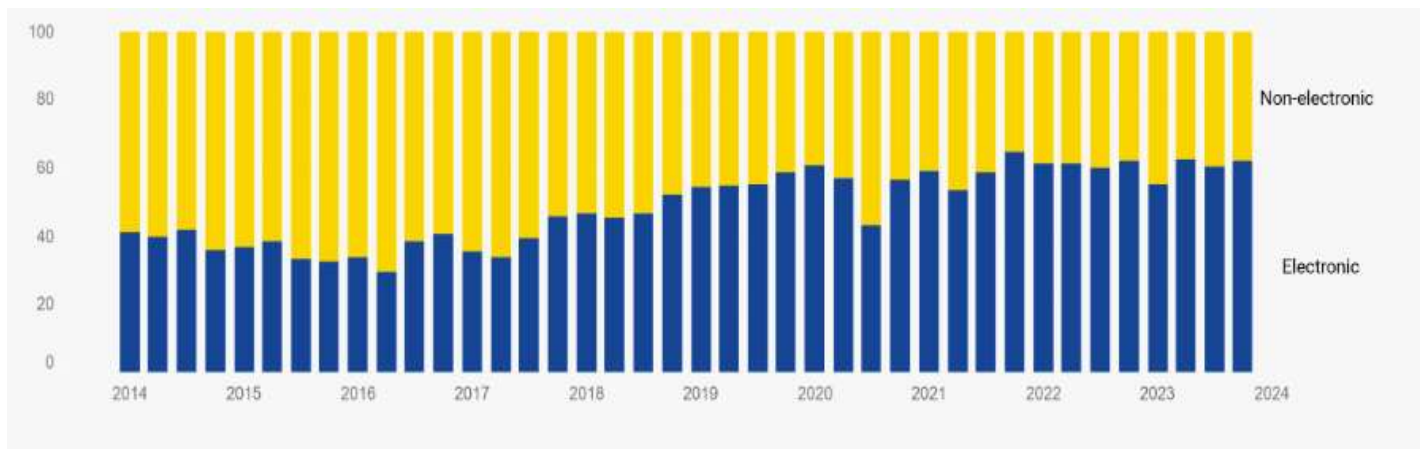
Highest level since 2011.

Indicates trust in:

- Euro area economy
- Euro as a currency
- Triple-A rated European safe assets

ELECTRONIC TRADING IS REALLY ON THE RISE

Electronic versus non-electronic trading activity in ESM/EFSF bonds
(% share of volumes traded in secondary markets)



Note: volumes are in terms of bond face value.
Source: ESM



MARKO MRAVLAK, IOANNIS VAZOURAS

Electronic trading – a boost to ESM bond market resilience

25/11/2024

BLOG

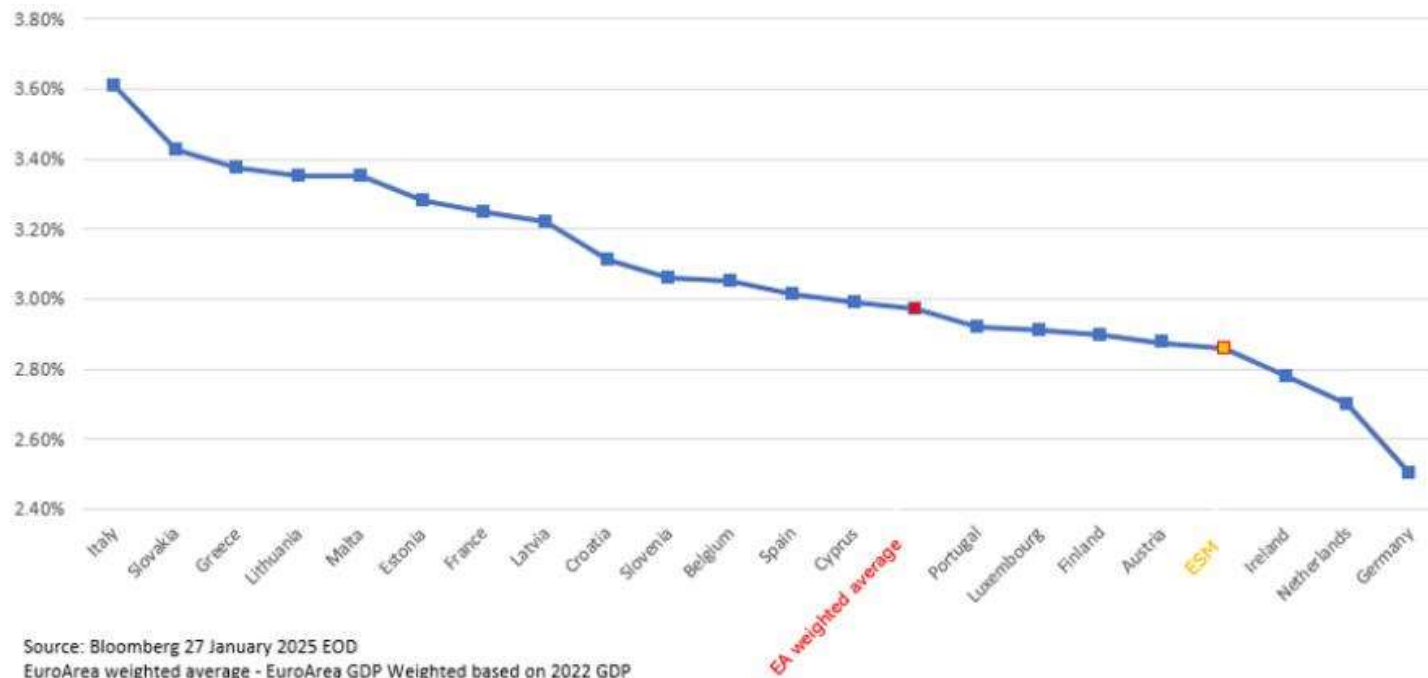


STRONG MARKET CONFIDENCE – ESM TRADES BETTER THAN 16 OF THE 20 EA COUNTRIES AND BELOW EA WEIGHTED AVERAGE

ESM yield being below the euro area GDP-weighted average signals **strong market confidence** in ESM as a supra-national issuer

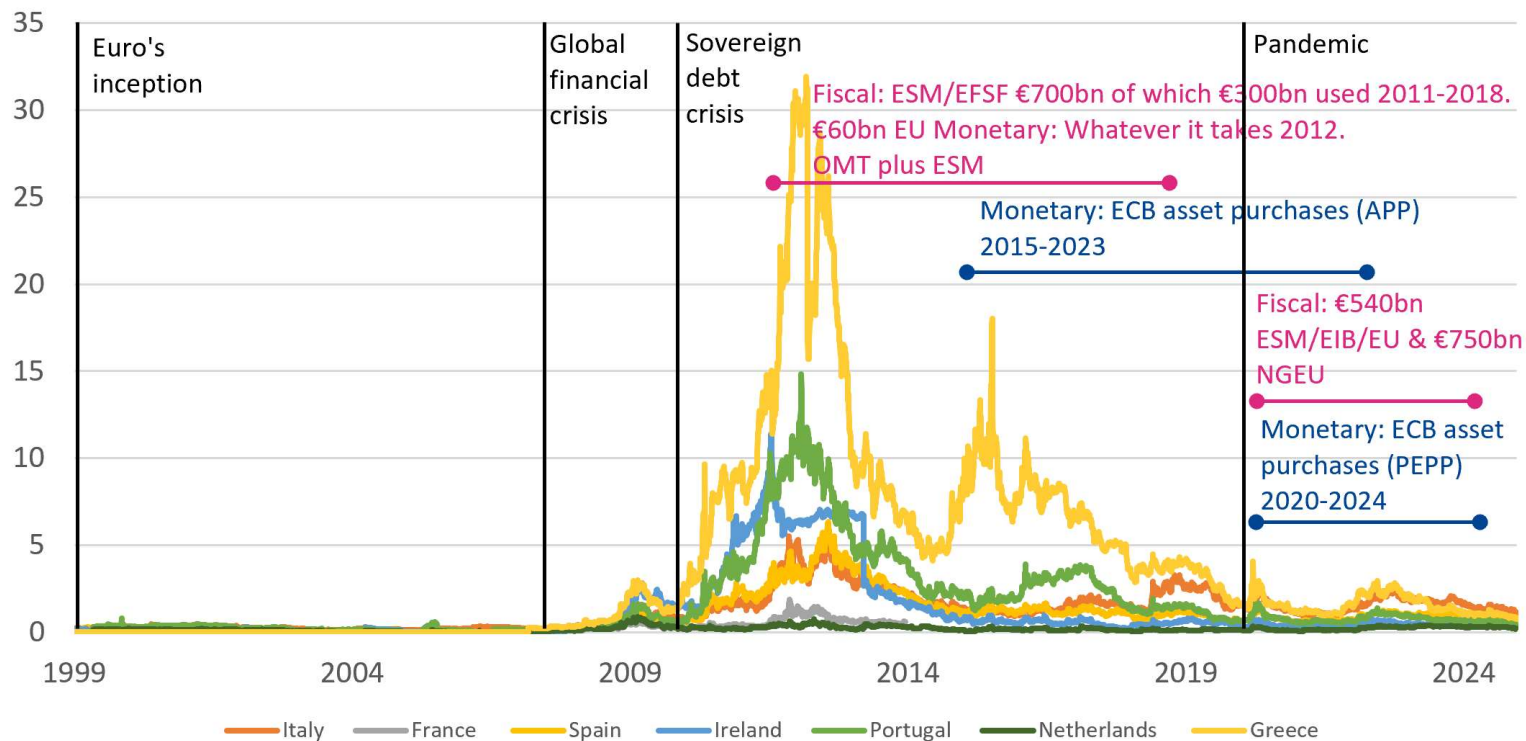
ESM benefits from lower yields, showcasing its **high creditworthiness** and **reliable status** in the market

Euro area 10-year yield levels



BOTTOM LINE: UNITED FISCAL AND MONETARY RESPONSE MADE EURO AREA STRONGER AND CALMED DOWN MARKETS

Euro area 10-year sovereign spreads
(percentage points)

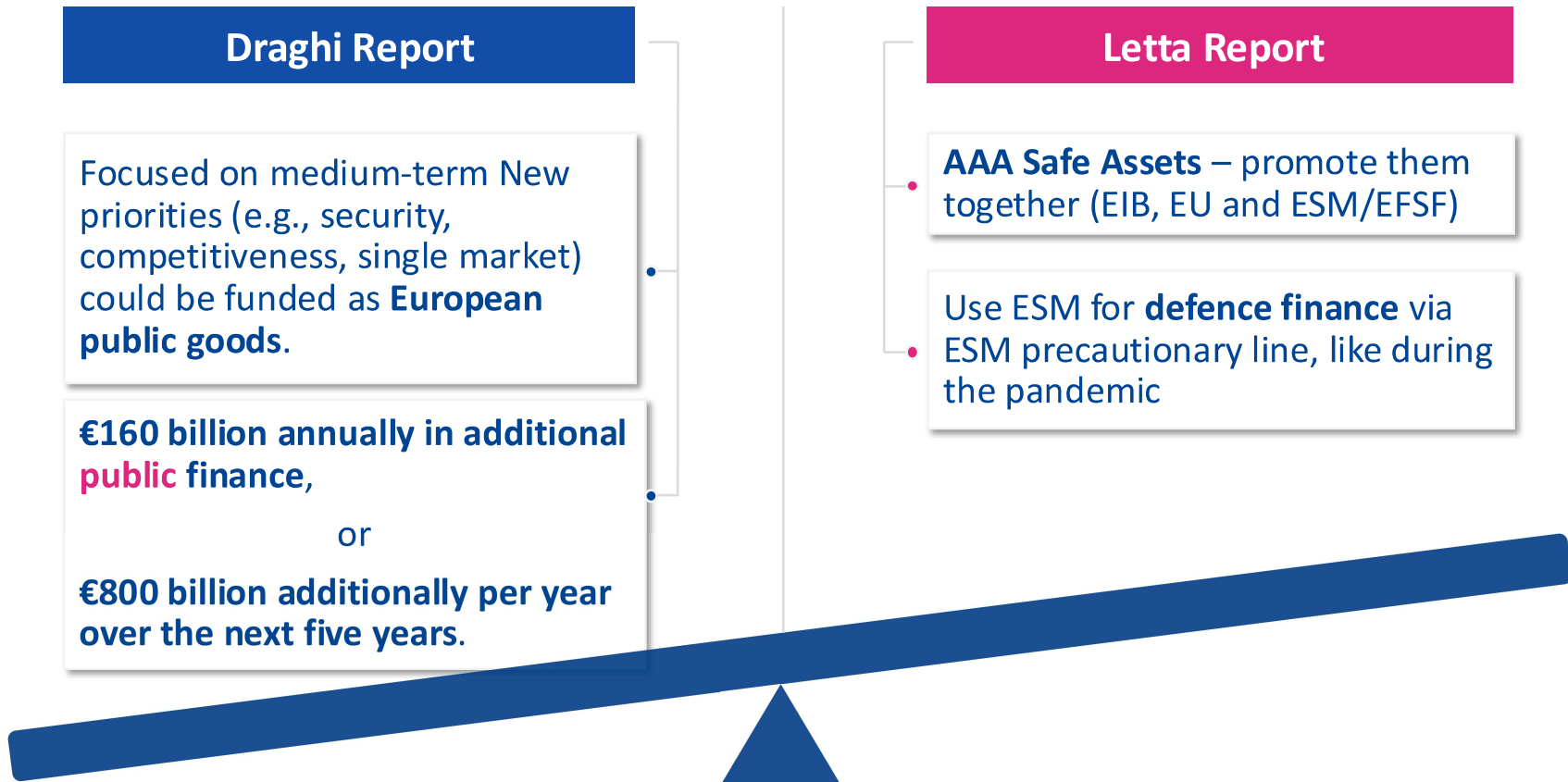


Source: ECB and ESM

A CHANGING WORLD FOR SUPRANATIONAL, SOVEREIGNS AND AGENCIES (SSA)?



WILL DEFENCE FINANCE TAKE OFF?



TOPICS AND QUESTIONS TO SHAPE THIS YEAR

Will defence finance
take off?
How do investors look at it?

New US administration
– will there be changes
for SSA?

Is ESG cooling in US
and Europe?
Will it impact labelled bonds?

Will tariffs impact
funding and issuance?

Will central banks
invest into crypto?
Will issuers issue crypto?
CDBC or Bitcoin?

Will there be a
difference in issuance
currencies due to
geopolitical change?



Thank you

CONTACT

Kalin Anev Janse

+ (352) 260 962-400

k.anevjanse@esm.europa.eu



European Stability Mechanism
6a Circuit de la Foire Internationale
L-1347
Luxembourg

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