

# EUROPEAN STABILITY MECHANISM

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July 2023



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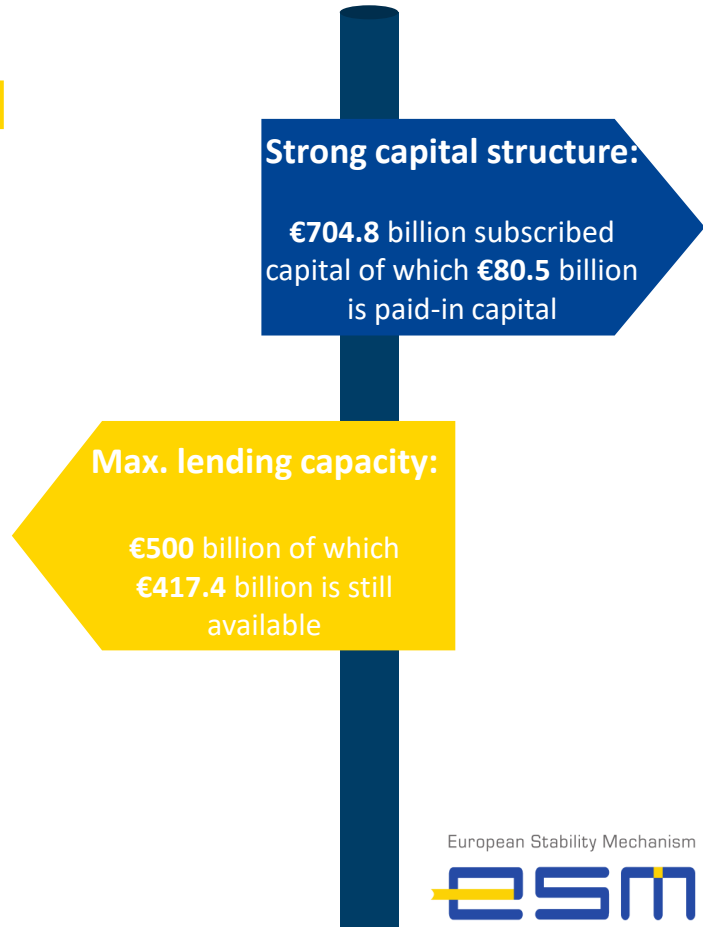
# ESM MANDATE

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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

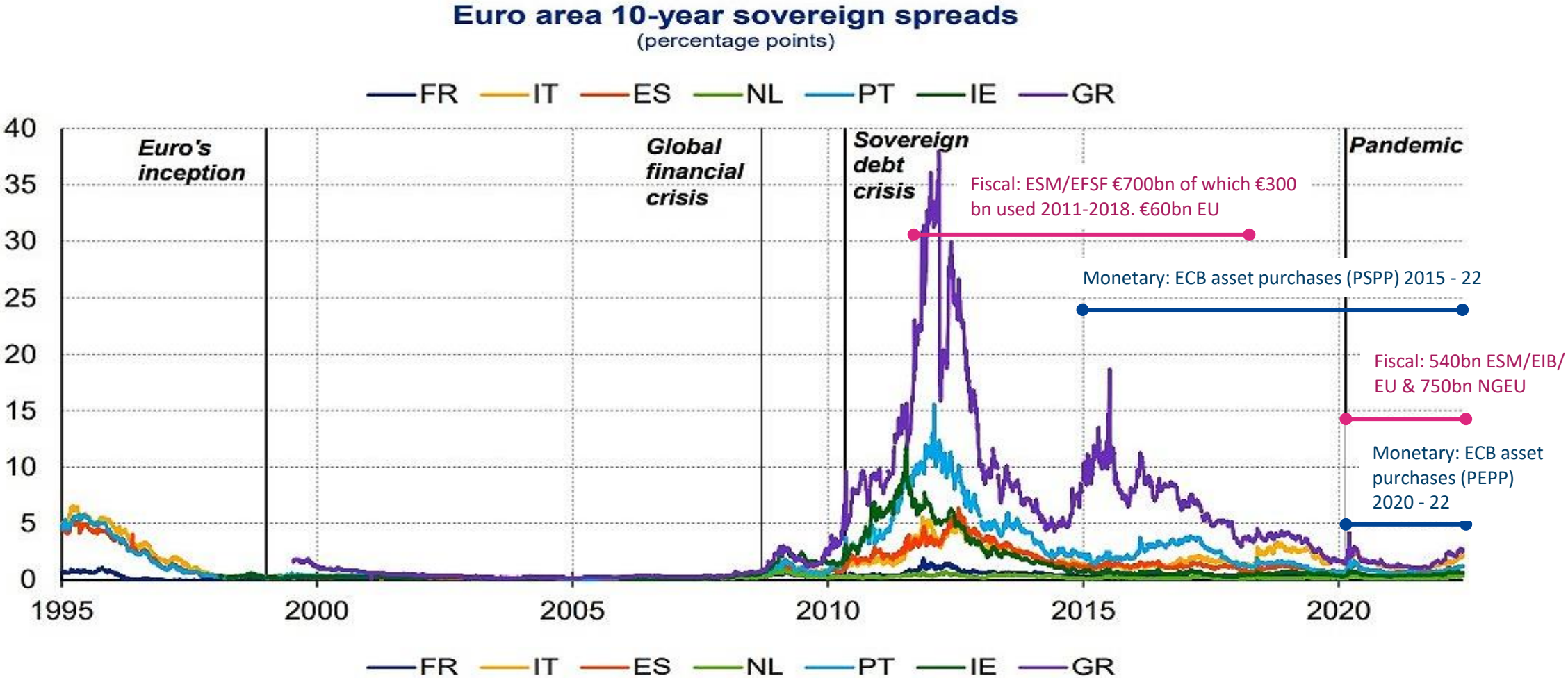
## Crisis prevention and market trust

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

## Enhanced mandate\*

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

# UNITED FISCAL AND MONETARY RESPONSE MADE EURO AREA STRONGER AND CALMED DOWN MARKETS



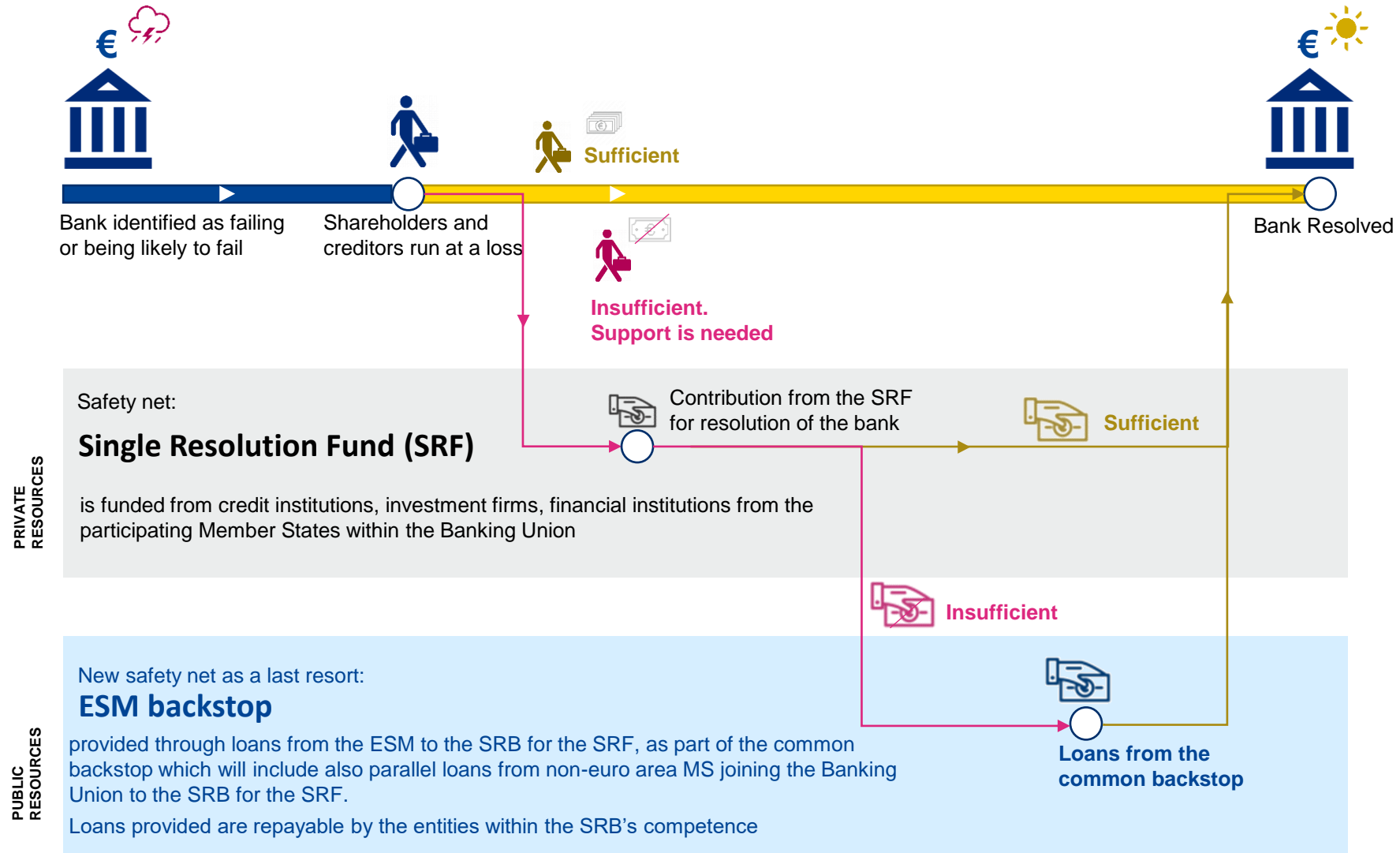
Source: ECB and ESM

# ESM WITHIN THE EUROPEAN FINANCIAL ARCHITECTURE



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

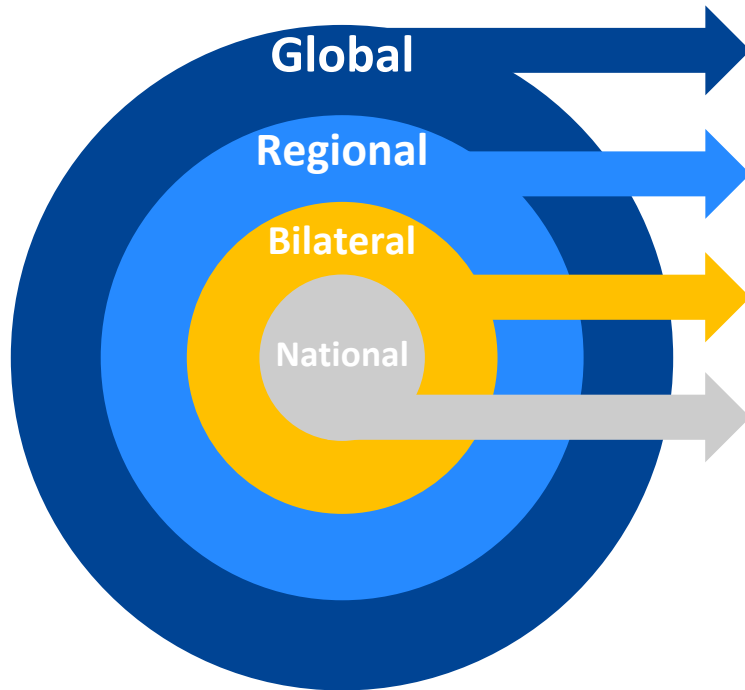
# ESM BACKSTOP TO THE SINGLE RESOLUTION FUND





# ESM IN THE MULTILATERAL CONTEXT: THE GLOBAL FINANCIAL SAFETY NET (GFSN)

GFSN provides insurance against crises, financing to mitigate their impact, and incentives for sound macro-economic policies to ensure long-term prosperity

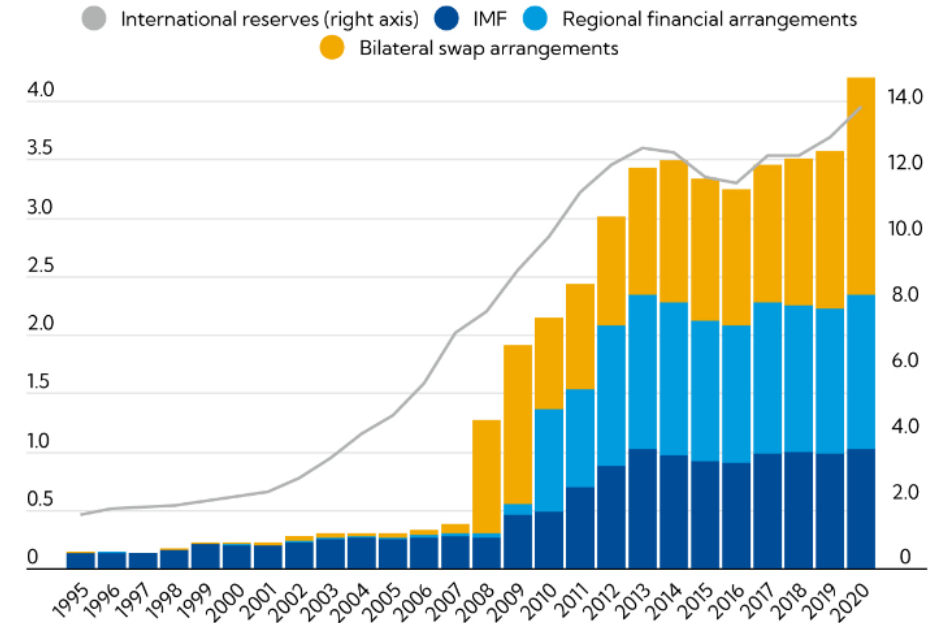


At the **global** level, the IMF provides a financial backstop;

At the **regional** level, protection comes from the **Regional Financial Arrangements (RFAs)**;

At the **bilateral** level, there are swap lines concluded bilaterally among countries;

At the **national** level, countries can self-insure against external shocks using foreign reserves or fiscal space.



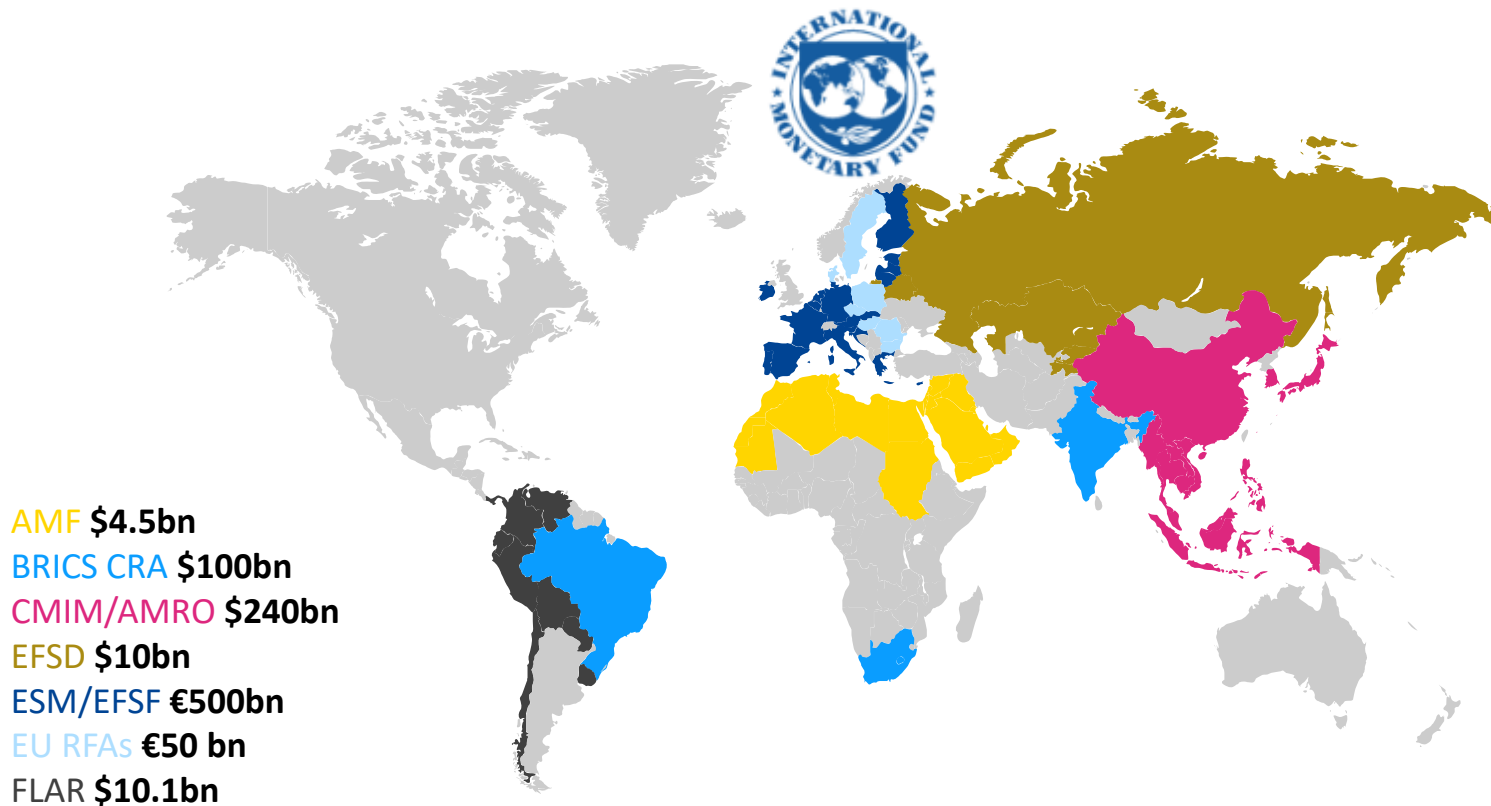
Source: IMF

GFSN firepower expansion (trillions of USD)

GFSN layers and their functions

# THE ESM IS COMMITTED TO STRENGTHEN THE GFSN

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



RoW

1

Annual **High-level Dialogue between RFA and IMF leaders** initiated by ESM, FLAR and 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





# CROATIA BECOMES 20<sup>TH</sup> MEMBER OF THE ESM

- By joining the euro area on 1 January 2023, Croatia also became eligible for membership in the ESM. Croatia officially joined the ESM on 22 March 2023
- The minister of Finance of Croatia is now a member of the ESM Board of Governors, which takes all the important decisions regarding the ESM.
- Each Member contributes to the ESM authorised capital based on its respective share of the EU total population and gross domestic product (GDP). Croatia will benefit from a temporary correction period of 12 years, during which its initial capital subscription to the ESM will be lower, thus leading to a temporarily lower paid-in capital contribution.
- Croatia now benefits from the solidarity that comes with ESM membership, with access to financial assistance tools, which is a signal of protection for investors.



## HIGHEST RATINGS FROM TOP 3 RATING AGENCIES

Ratings	Long Term	Short Term	Outlook	Commentary	
<b>STANDARD &amp; POOR'S</b>	AAA	A-1+	Stable	<i>"Very strong capital adequacy, further reinforced by strong access to market funding and a robust liquidity position"</i>	<i>"ESM is a key pillar for the euro area's financial architecture, alongside institutions such as the EIB and the ECB"</i>
<b>MOODY'S</b>	Aaa	P-1	Stable	<i>"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"</i>	<i>"The ESM has established a strong market presence since its inception. It has proved its ability to issue bonds in size within a short period of time."</i>
<b>FitchRatings</b>	AAA	F1+	Stable	<i>"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."</i>	



## HIGH RATINGS FROM TOP 3 RATING AGENCIES

Ratings	Long Term	Short Term	Outlook	Commentary
<b>STANDARD &amp; POOR'S</b>	AA	A-1+	Negative	<i>"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."</i>
<b>MOODY'S</b>	Aaa	P-1	Stable	<i>"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."</i>
<b>FitchRatings</b>	AA-	F1+	N/A	<i>"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."</i>

# ESM FUNDING PROGRAMME

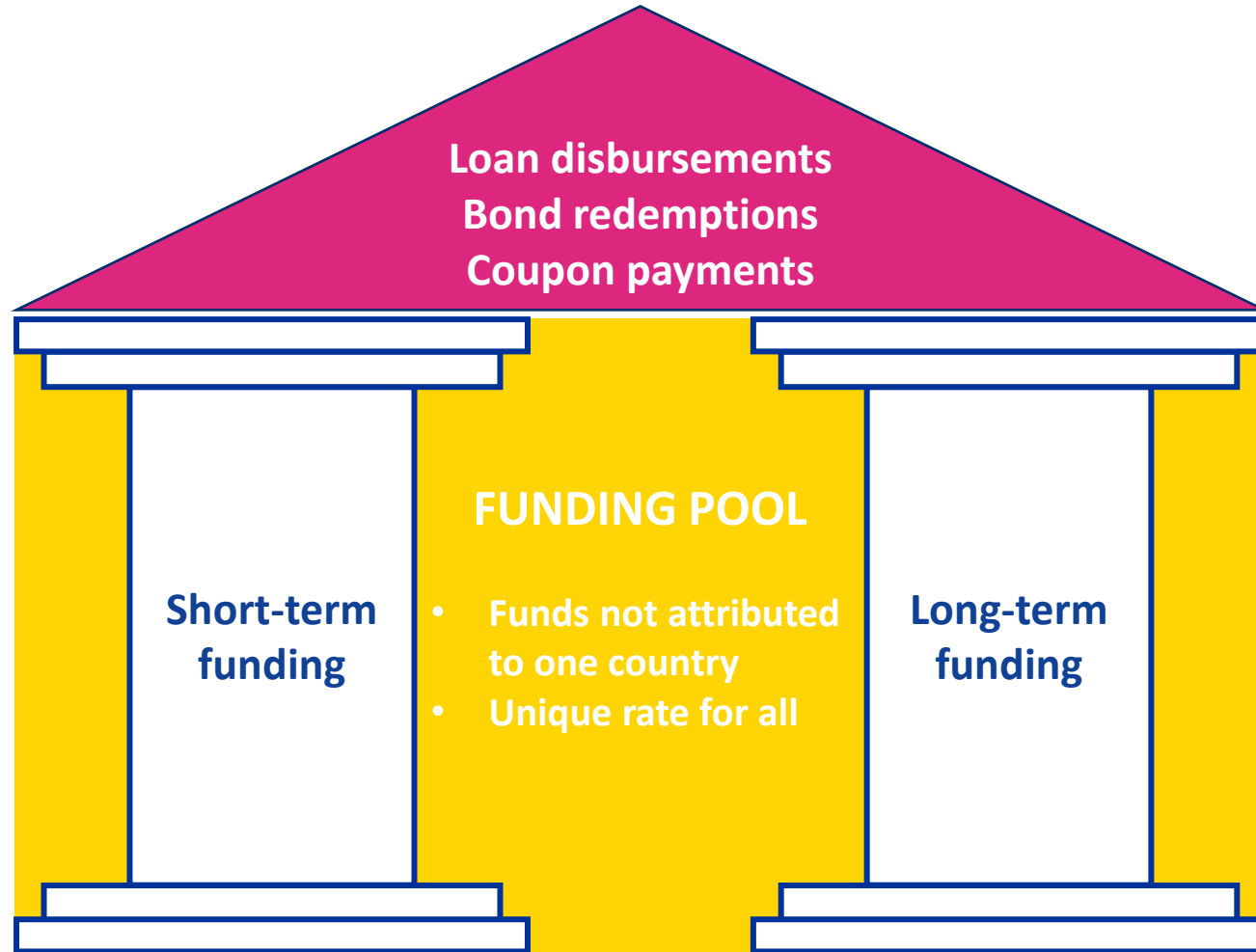
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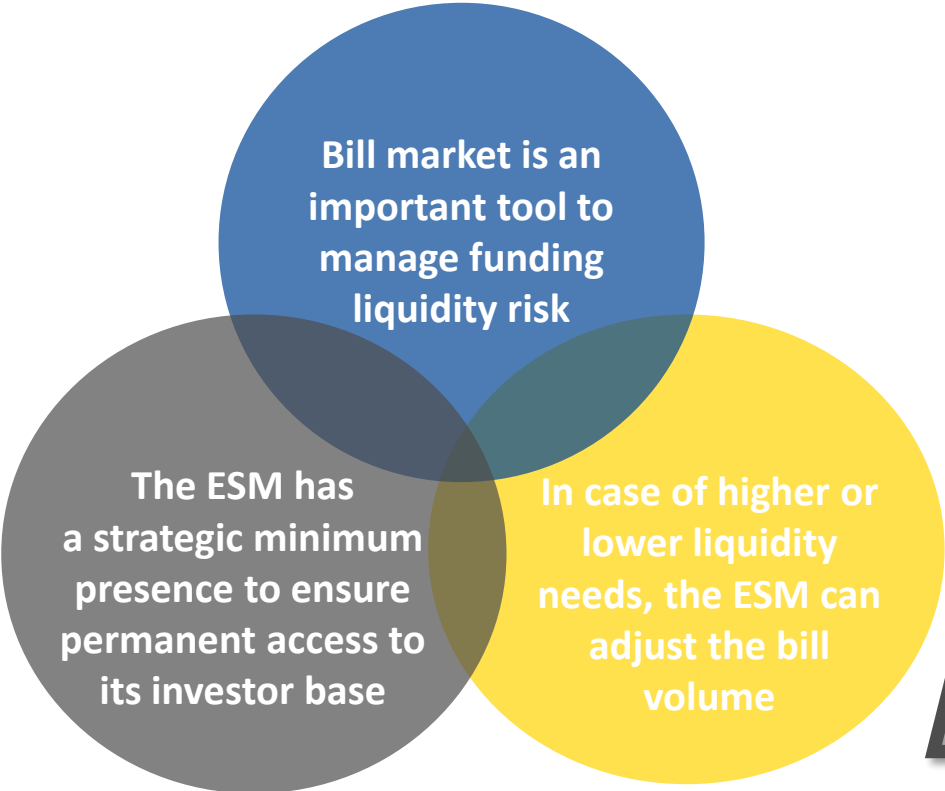
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# FUNDING STRATEGY WITH TWO PILLARS

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# SHORT-TERM FUNDING



**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 Moody's, Fitch and S&P  
**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**

2023	July	August	September	October	November	December
<b>3-month</b>	Tuesday 04	Tuesday 01	Tuesday 05	Tuesday 03	Tuesday 07	Tuesday 05
<b>6-month</b>	Tuesday 18	Wednesday 16	Tuesday 19	Tuesday 17	Tuesday 21	



# 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 BofAML, J.P. Morgan, iBoxx, FTSE and Barclays

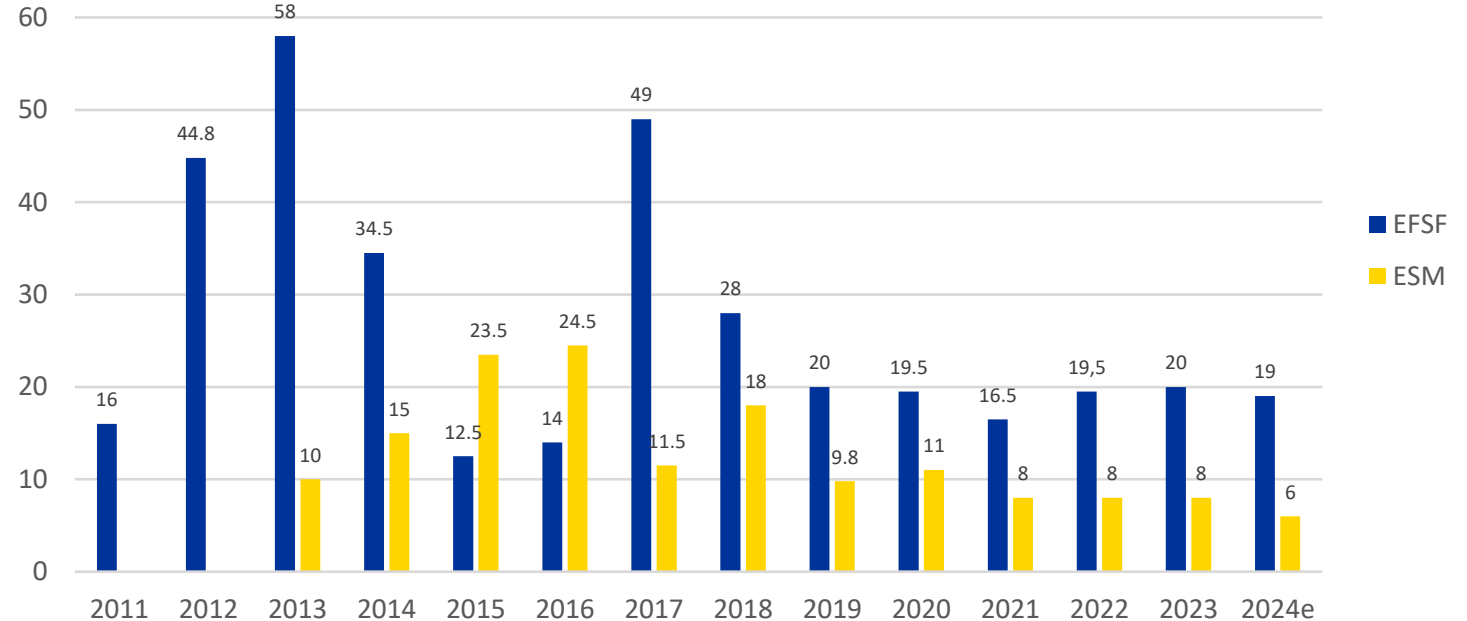
# ESM/EFSF FUNDING PROGRAMME

The combined funding for EFSF & ESM for 2023 will be **€28 billion**

- €20 billion for EFSF
- €8 billion for ESM



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



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

# ESG AT THE ESM

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# THE ESM HAS A HOLISTIC APPROACH TO ESG

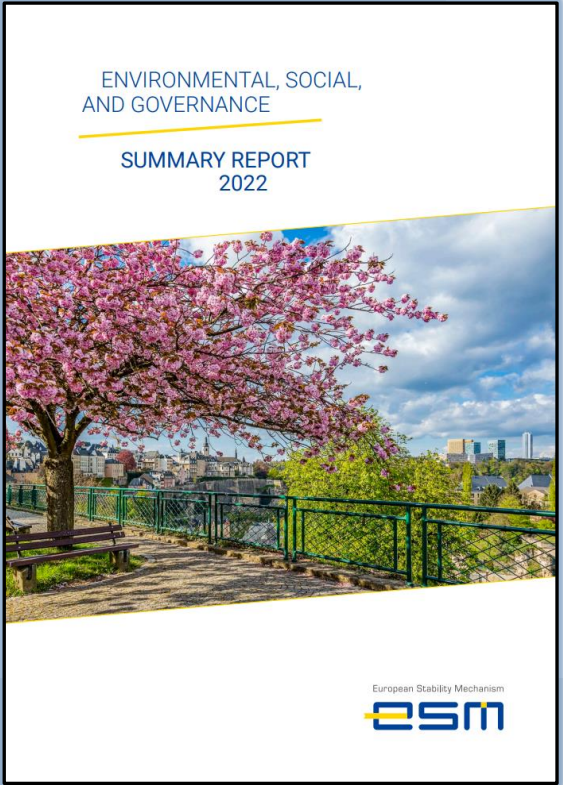


## ESG Summary Report 2022

The ESM has published its first ESG Summary Report in July, where we communicate about all the ESG activities and initiatives implemented at the ESM

→ [Link to ESG Report](#)

→ QR code



# THE ESM IS ENGAGED IN ESG

## Environmental



Since 2019 ESM publishes its annual **Carbon Footprint Report** as part of ongoing efforts to monitor, measure, and report the institution's environmental impact.



ESM continuously implements measures to improve the internal environmental impact. Environmental certificates from Luxembourg government encouraging our staff's environmentally conscious behaviour.

## Social



ESM fosters a **diverse working environment**, the highest standards of **integrity**, as well as promotes a healthy **work-life balance**.

**ESM Pandemic Crisis Support** focused on social lending to finance health-related costs of Covid-19.



ESM set up a **Social Bond Framework** to finance this credit line with the issuance of Social Bonds.

## Governance



**Robust ESM governance framework** ensuring strong accountability and transparency vis-à-vis the ESM shareholders and other stakeholders.

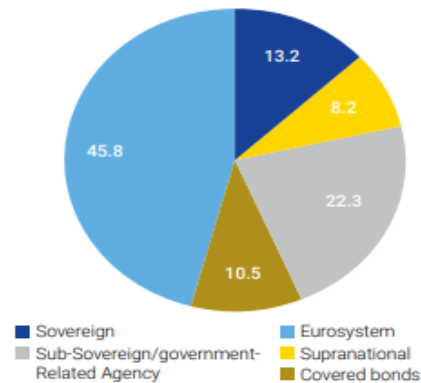
Reflected in the latest **upgrade Rating report** from Moody's



**Three layers of audit** oversight to ensure accountability of the ESM.

# ESM AS AN INVESTOR

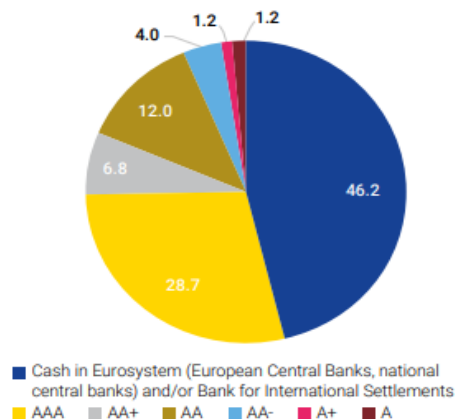
Asset class distribution of investments (in %)



## □ The ESM is a significant investor in the SSA space

- ✓ With €80.5bn 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 highly secured liquid fixed income assets rated “A” and above.

Ratings distribution of investments (in %)



## □ Participation to 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 73 out of 100 at the end of 2022, corresponding to the provider's "Advanced" ESG category.

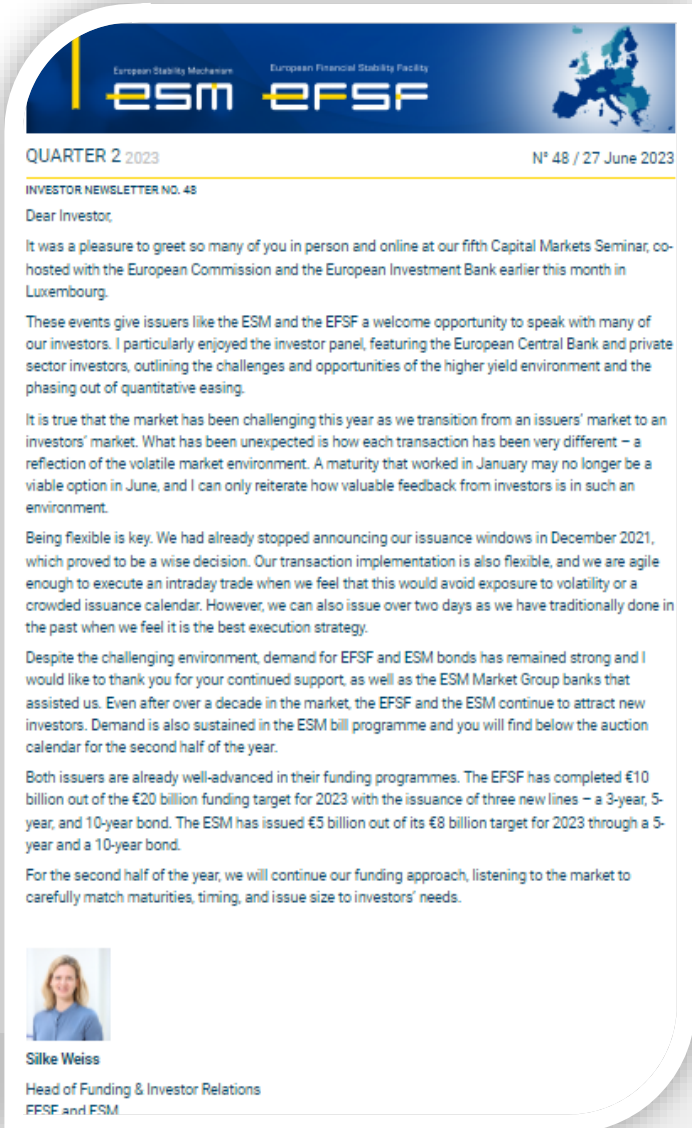
# WHY INVEST IN ESM AND EFSF ?

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# TRANSPARENCY: HIGH DEGREE OF COMMUNICATION TO INVESTORS



INVESTOR RELATIONS  
NEWSLETTER SUBSCRIPTION



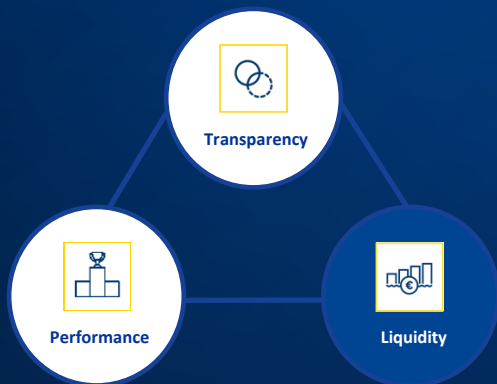


## TRANSPARENCY: HIGH DEGREE OF COMMUNICATION TO INVESTORS

- 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.

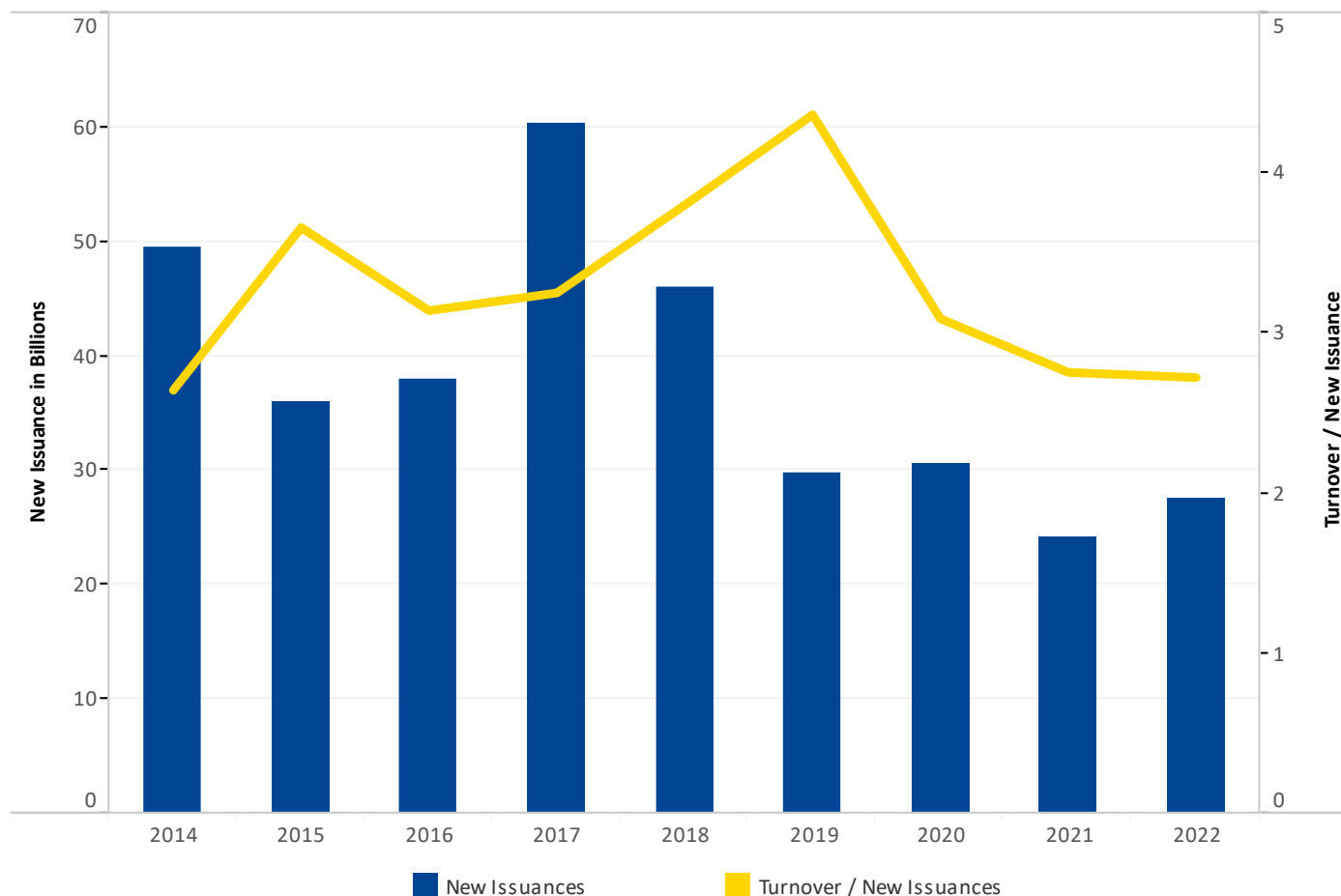


# LIQUIDITY: A KEY ROLE IN THE FUNDING STRATEGY



Secondary market turnover remains stable in line with issuance volumes

## ESM & EFSF Bond Issuance and Turnover



NB: This data is sourced and compiled from trading activities in ESM / EFSF bonds from the market group banks. The data is compiled in a Harmonised Reporting Format used by all Euro Governments and Debt Management Offices.



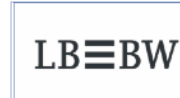




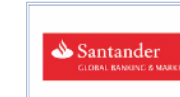



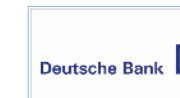






# SUPPORTED BY A STRONG MARKET GROUP

ESM/EFSS Market Group comprises the following international institutions:

## Americas

## Europe

## Asia

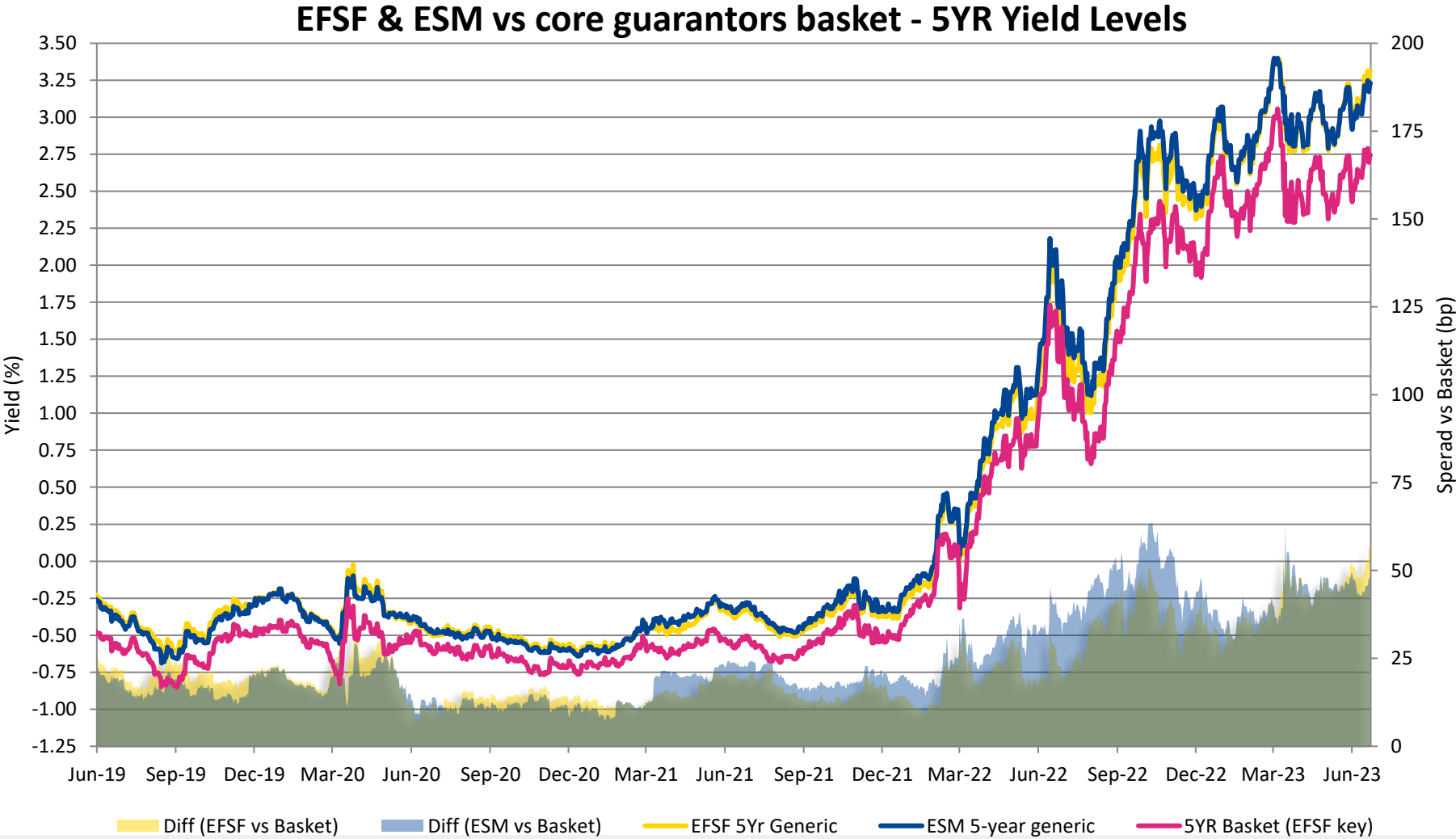

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# PERFORMANCE: OPPORTUNITIES COMBINED WITH ROBUST STRUCTURE

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>

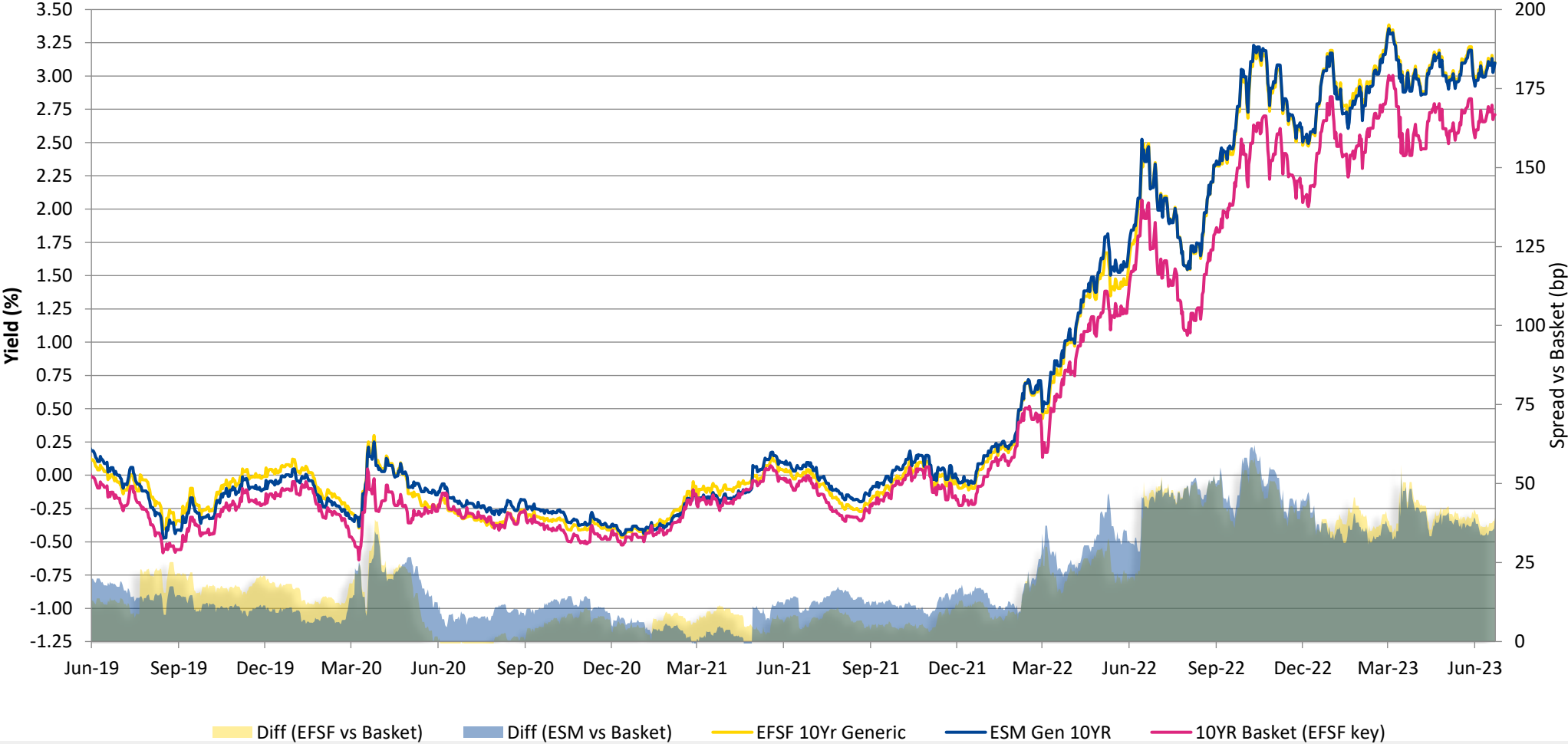
# PERFORMANCE: OPPORTUNITIES COMBINED WITH ROBUST STRUCTURE



Source: Bloomberg, as of 22 June 2023

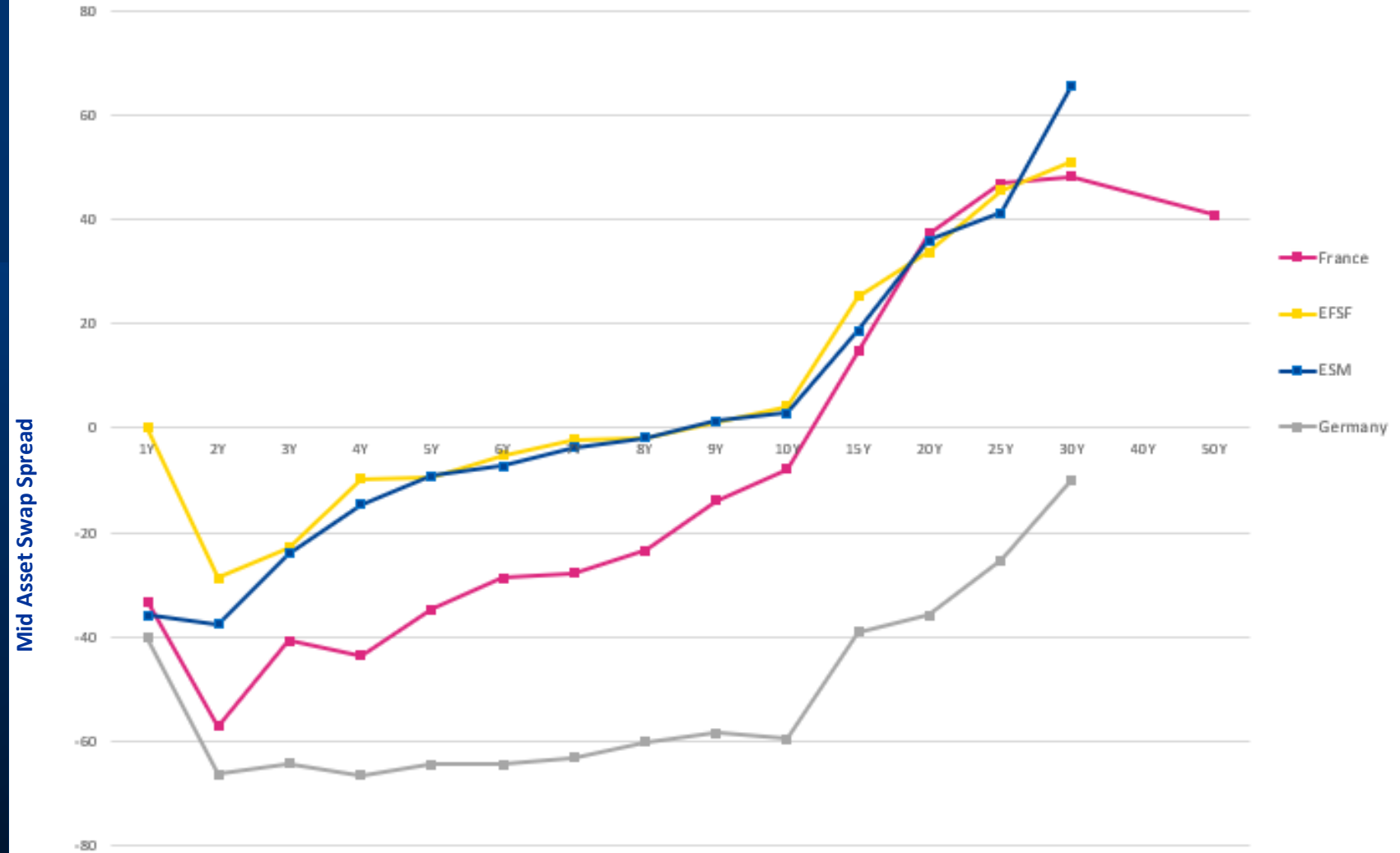
# PERFORMANCE: OPPORTUNITIES COMBINED WITH ROBUST STRUCTURE

EFSF & ESM vs core guarantors basket - 10YR Yield Levels



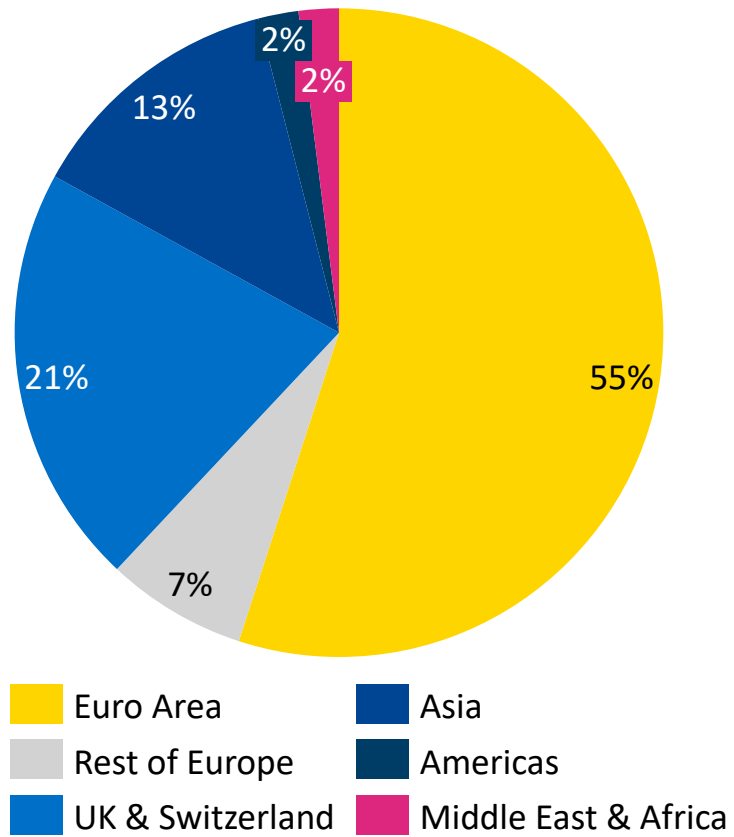
Source: Bloomberg, as of 22 June 2023

# EFSF & ESM VS FRANCE AND GERMANY BOND CURVES

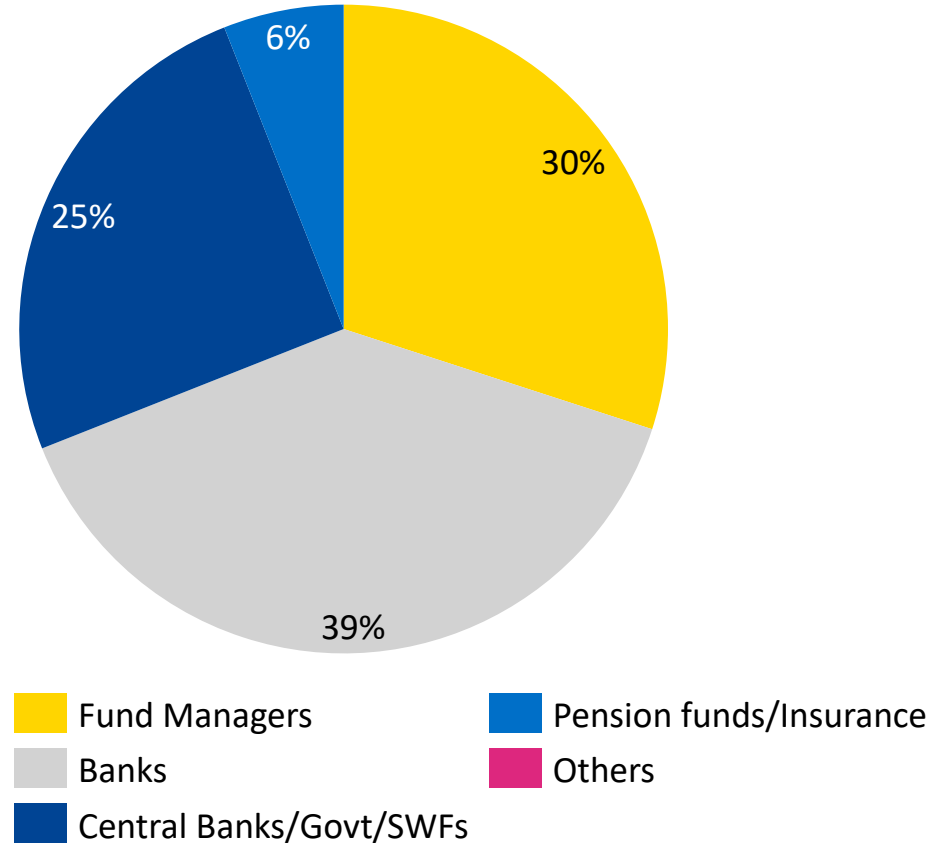


# EFSF AND ESM: SOLID AND DIVERSIFIED INVESTOR BASE

**Geographical Breakdown**



**Breakdown by Investor Type**

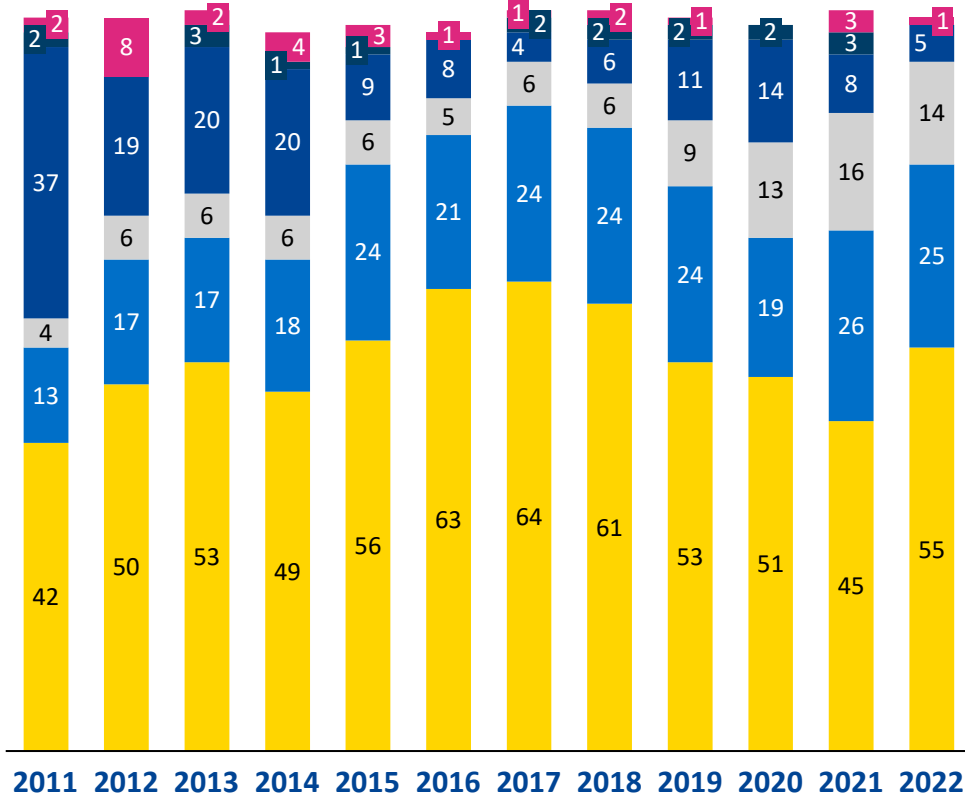


\*Total breakdown includes all EFSF & ESM syndicated bond issues at time of issue. Placements by auction are not included. As at 15/05/2023. Data source: ESM



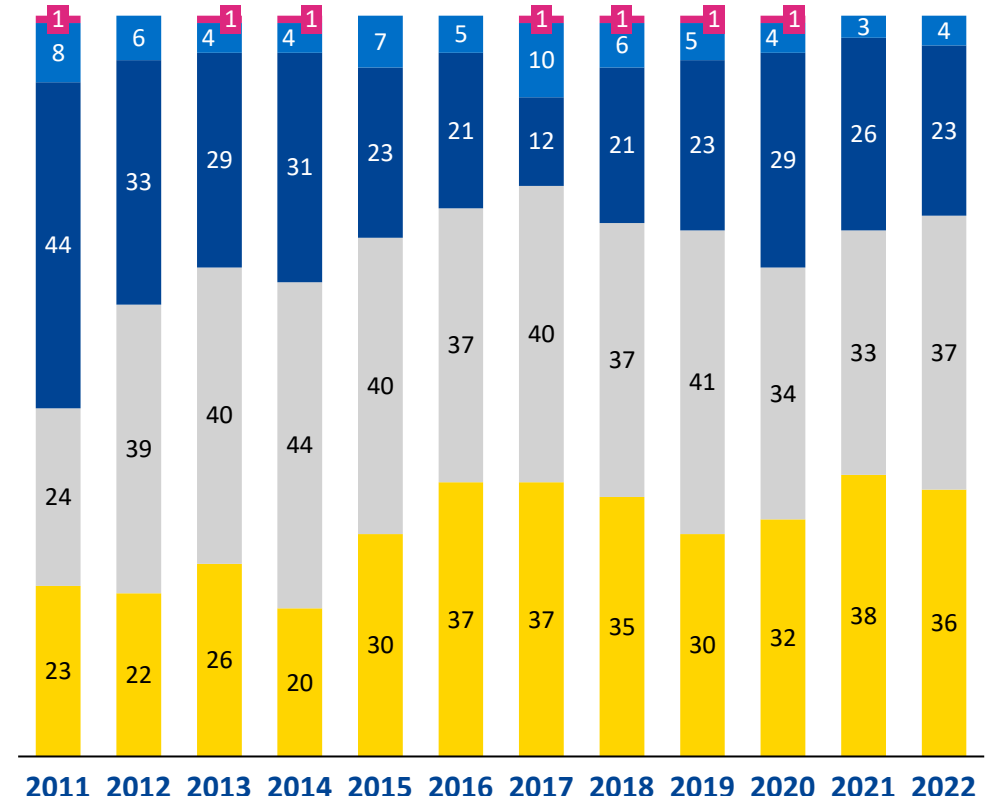
# ESM & EFSF: ANNUAL INVESTOR BREAKDOWN

### Geographical Breakdown



■ Middle East & Africa   
 ■ Asia   
 ■ UK & Switzerland  
■ Americas   
 ■ Rest of Europe   
 ■ Euro Area

### Breakdown by Investor Type



■ Others   
 ■ Central Banks/Govt/SWFs   
 ■ Fund Managers  
■ Pension funds/Insurance   
 ■ Banks

\*2011 & 2012 EFSF Only

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