

A NEW GLOBAL FINANCIAL LANDSCAPE: THE FUTURE OF EUROPE

12th BBVA Seminar for Public Sector Investors & Issuers

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OVERVIEW

1 **Megatrends** that will define Europe's future

2 **Finance** market topics to watch

3 **ESM** trends

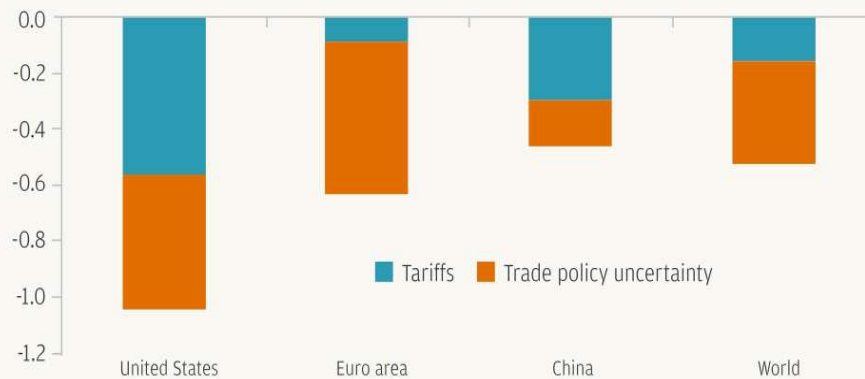


MEGATRENDS THAT WILL DEFINE EUROPE'S FUTURE



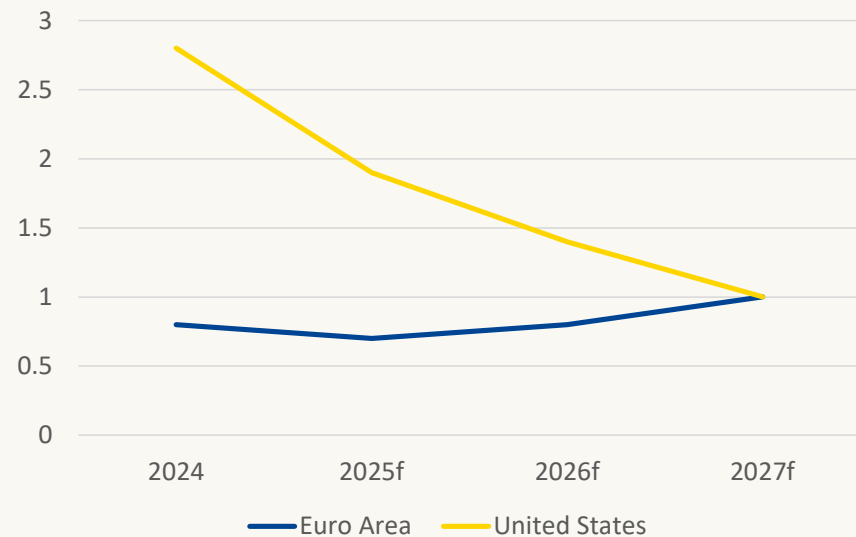
1) GEOPOLITICAL FRAGMENTATION: TARIFFS WILL HIT US ALL

Tariffs and trade policy uncertainty could weigh on both US and global GDP
%-pt change in GDP through 2026



Source: IMF, J. P. Morgan

Real GDP
% YoY



Source: LSEG,SG Economic and Sector Studies

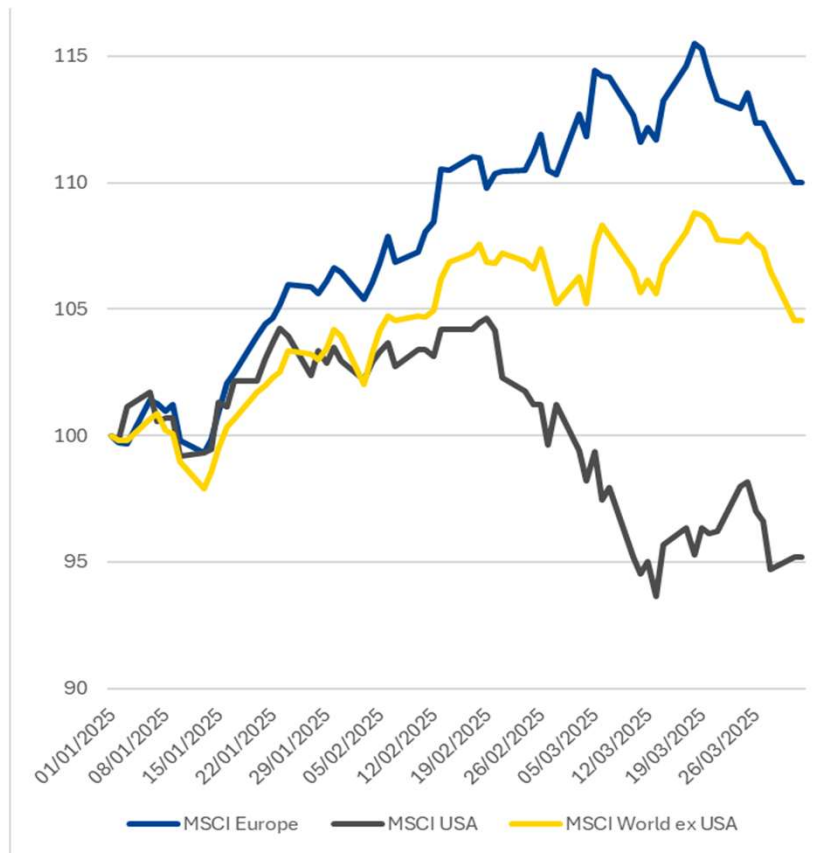
EUROPE DOING BETTER THAN EXPECTED

WEF **Davos consensus** was that US will outperform Europe

Markets turned around and in 2025, European stocks, ETFs and other products are **outperforming the US**

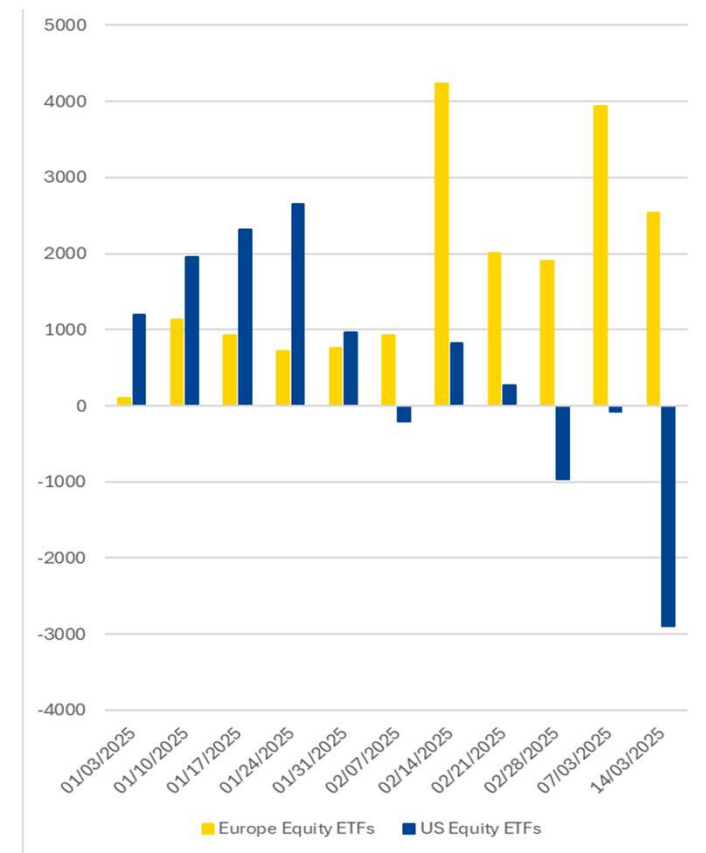
Markets see the **strength of Europe's** economy and political stability

Indices rebased (\$) year to date



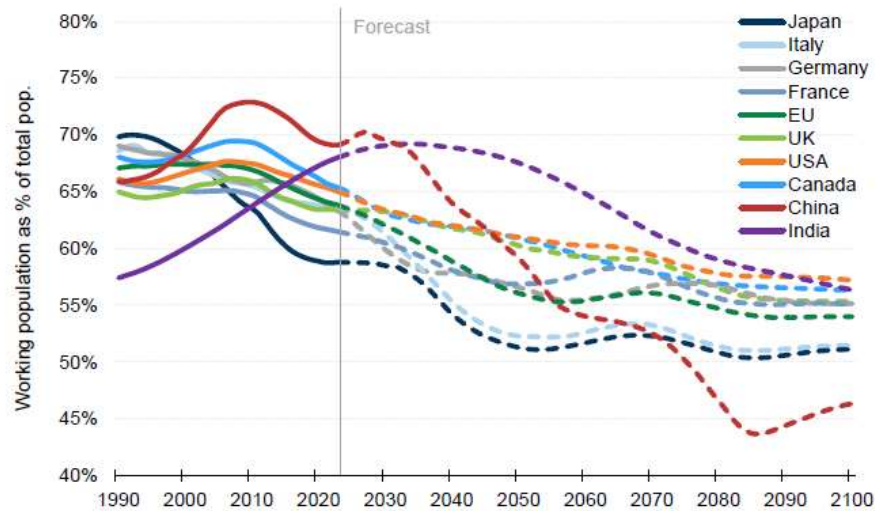
Source: Bloomberg and FT

Weekly Estimated Flows in Europe Equity ETFs and US Equity ETFs (European universe)



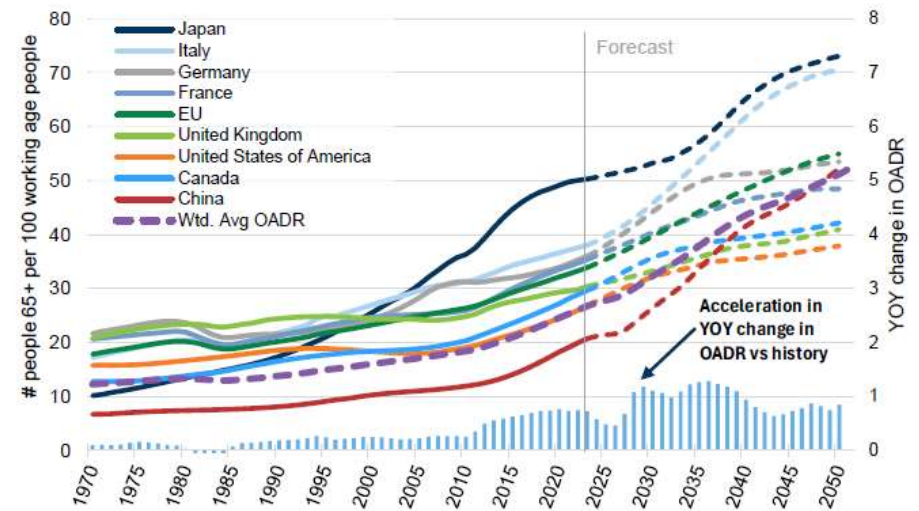
2) DEMOGRAPHICS: AGEING POPULATION TO WEIGH ON GROWTH AND PUBLIC FINANCES

Working populations as a % of total population
1990-2100E



Source: UN, data compiled by Goldman Sachs Global Investment Research

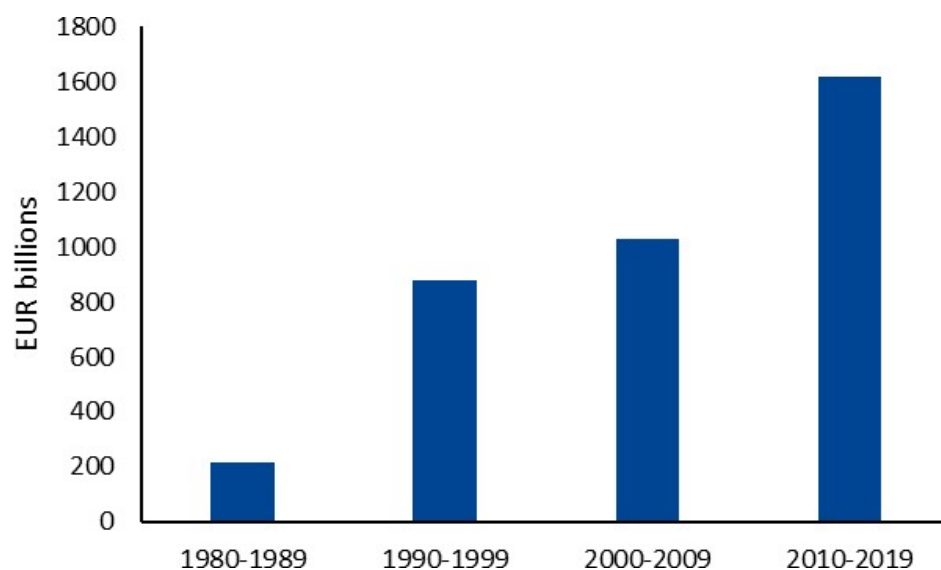
Old-age-dependency ratios for G7 & China
1970-2023, 2024-2050E



Source: UN, data compiled by Goldman Sachs Global Investment Research

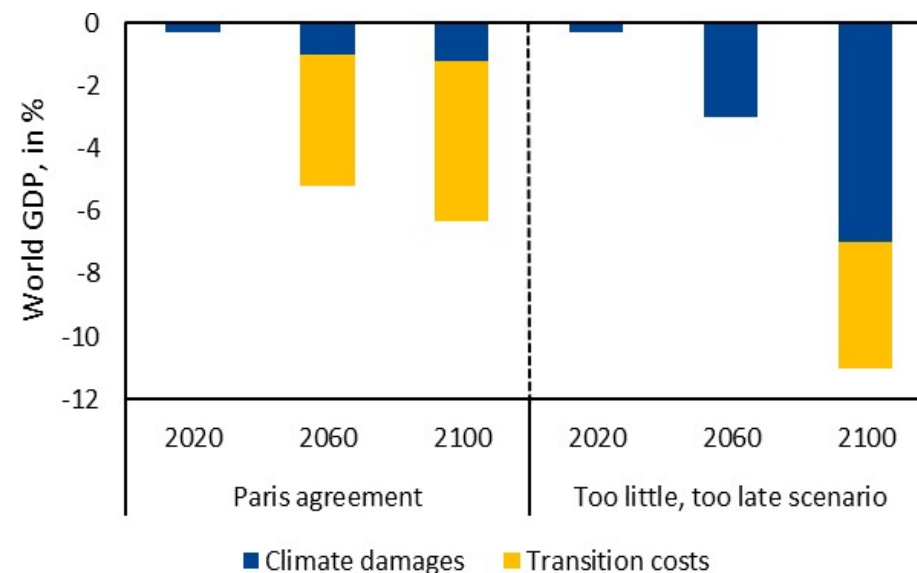
3) CLIMATE EXTREMES TO HITTING GLOBAL ECONOMIES

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



Source: SwissRe (2020)

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

Further reading: <https://www.esm.europa.eu/blog/mind-gap-how-european-risk-sharing-scheme-could-bolster-private-insurance-coverage-natural>

FINANCE MARKET TOPICS TO WATCH



EUROPE'S FUTURE FOCUS

1 A new world order with new priorities for Europe

2 Defence and security

3 Savings and Investment Union

4 Clean Industrial Deal

5 From Billions to Trillions

1) 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

2) DEFENCE AND SECURITY FOCUS: EUROPE'S FIRST RESPONSE



2) MARKET REACTION

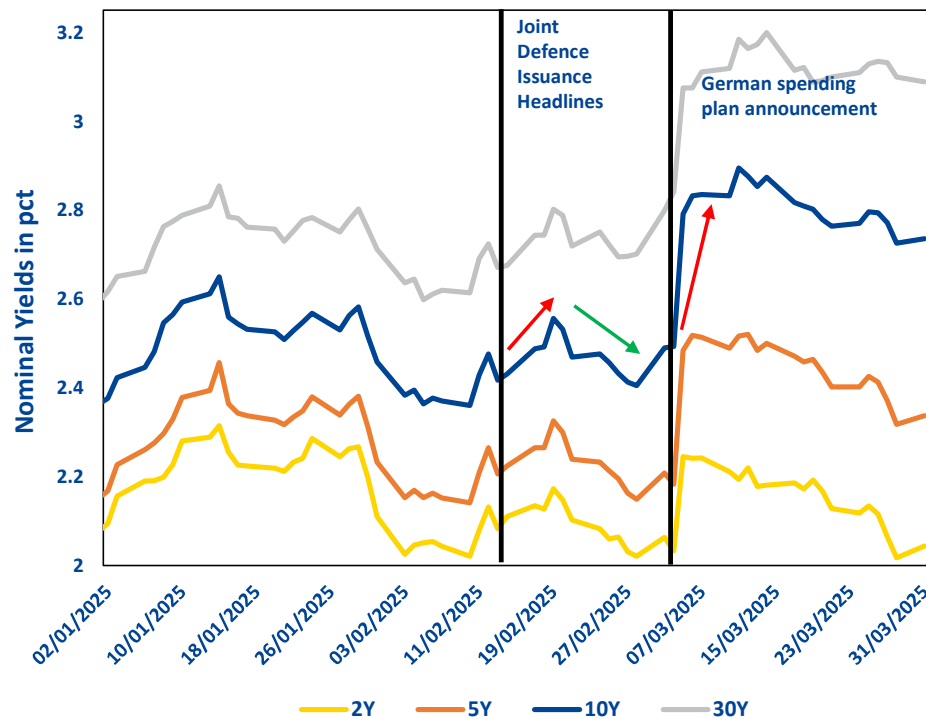
Market reacted by pushing up yields, not only Germany, but the entire EGB (European Government Bond) market, despite ECB cuts

Uncertainty related to spending on defence communicated by the Commission
(17 February 2025)

Higher yields and steeper curves following the German spending package announcement
(5 March 2025)

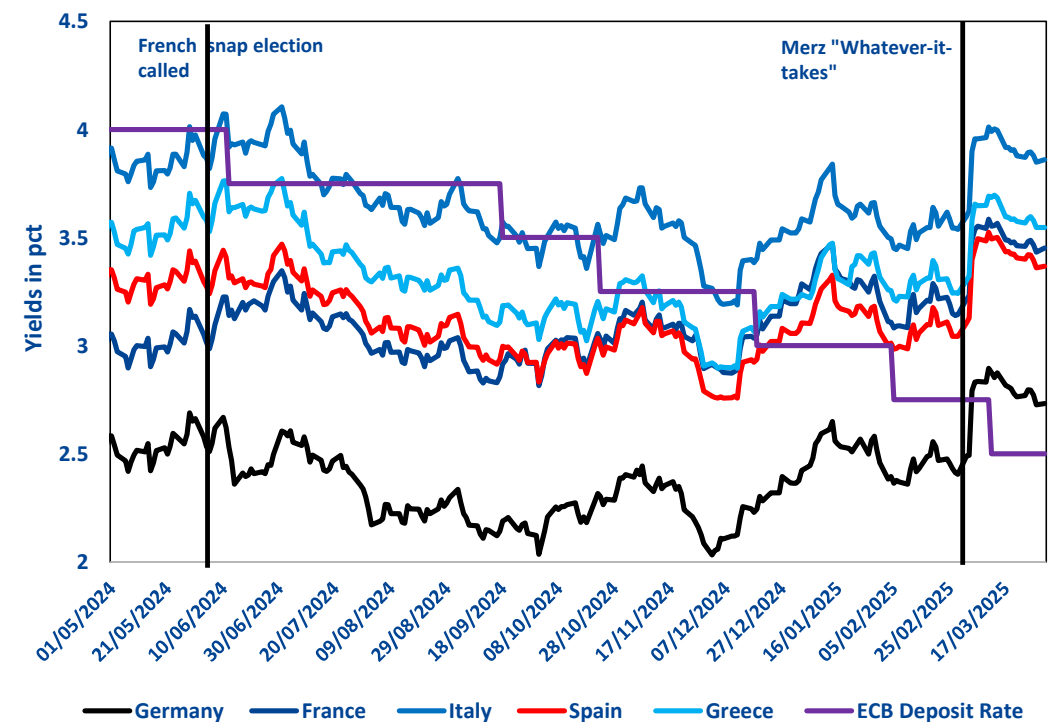
2) MARKET REACTED BY PUSHING UP YIELDS, NOT ONLY GERMANY BUT THE ENTIRE EGB MARKET DESPITE ECB CUTS

German government bond yields



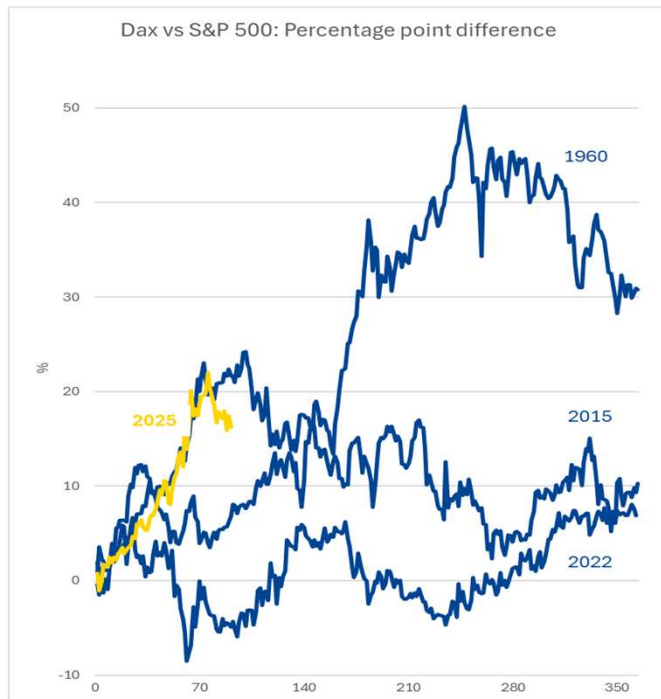
Source: Bloomberg and ESM

10Y Benchmark Yields and ECB Deposit Rate



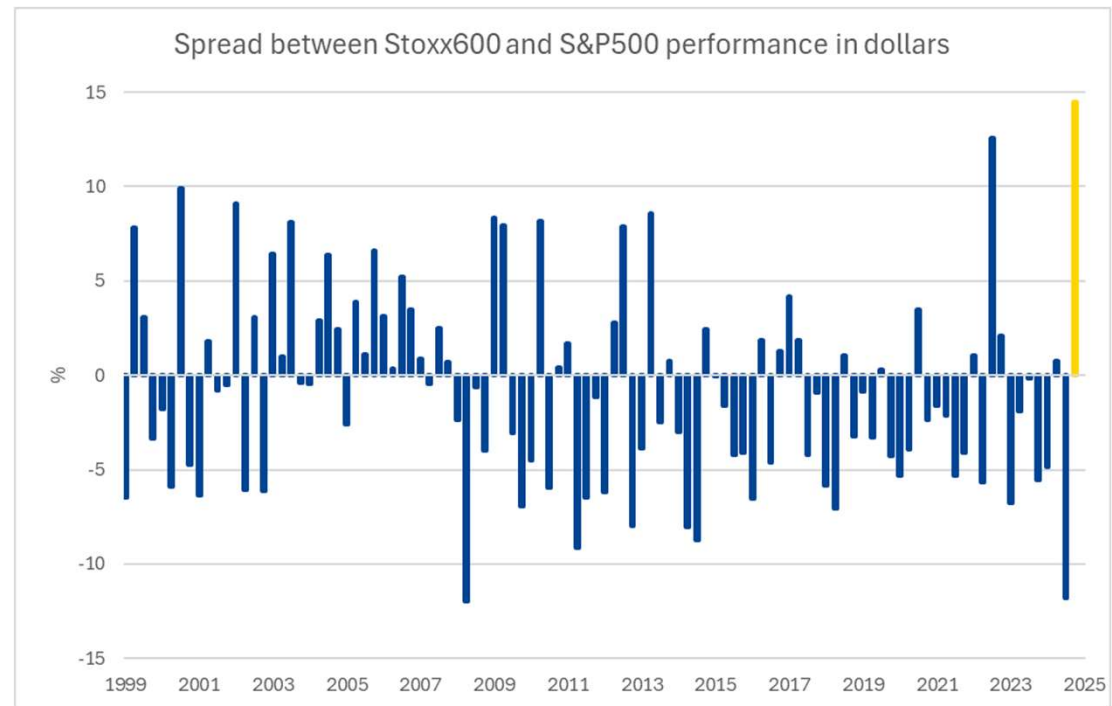
ANTICIPATED FISCAL STIMULUS PUSHED EQUITY MARKETS UP IN GERMANY AND ACROSS EUROPE – OUTPERFORMING US

German stocks biggest lead vs US stocks since 1960



Source: FT and Bloomberg

European stocks are beating US by record



Source: Bloomberg

3) FROM CMU TO SAVINGS AND INVESTMENTS UNION

EUR 10 trillion of EU retail savings are currently held as bank deposits

If EU aligns to US, EUR 8 trillion redirected to market-based investments – flow of EUR 350 billion annually



19 March 2025 – **SIU Paper**: The Commission, together with the European Investment Bank (EIB) Group, the **European Stability Mechanism (ESM)** and national promotional banks among others, will explore how to **increase opportunities for retail investors** to access suitable financial products that allow them to contribute to the funding of EU priorities.

3) FROM CMU TO SAVINGS AND INVESTMENTS UNION



Source: EU Commission

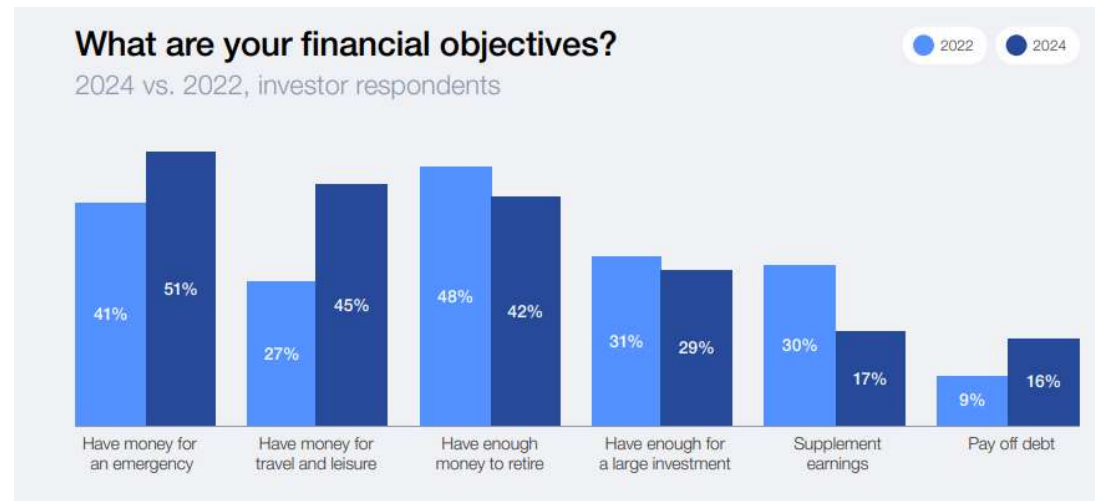
REFOCUS IS GOOD – PUSH MORE EUROPEANS TO INVEST

WEF-BCG-Robinhood Retail Investor Survey

Key takeaways

- GenZ and Millennials start investing much earlier
- 31% use AI assistant, 41% of GenZ/Millennials and 48% emerging markets
- Close to 80% invested domestically

Europe needs to catch up with US and Asia



4) CLEAN INDUSTRIAL DEAL: FROM PURE GREEN TO INDUSTRIAL POLICY

A business plan to decarbonise, reindustrialise and innovate

- Lower energy costs
- Boosting demand for clean products
- Financing clean transition
- Deregulations
- Recalibrating regulation on ESG

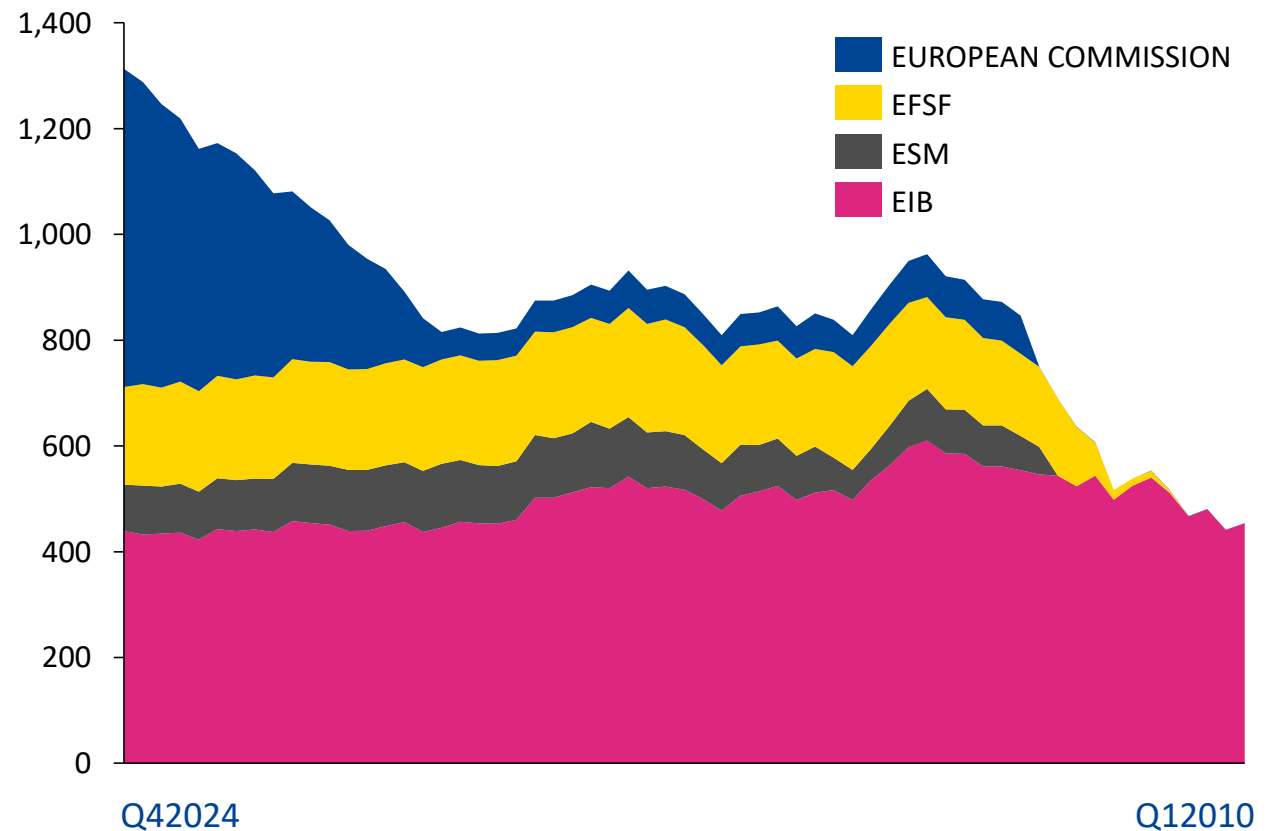
Goal: reduce red tape and make Europe more competitive globally

5) FROM BILLIONS TO TRILLIONS OF EUROPEAN SAFE ASSETS

Over the last 15 years, European safe assets have grown

- From €400 billion to **above €1 trillion**
- Together, they represent **5th largest country in Europe**
- Only DE, FR, IT and SP are larger with €1.5 - 3 trillion outstanding
- They have close AA+ to AAA rating

Safe assets still have available capacity, for ESM, this is around €430 bn



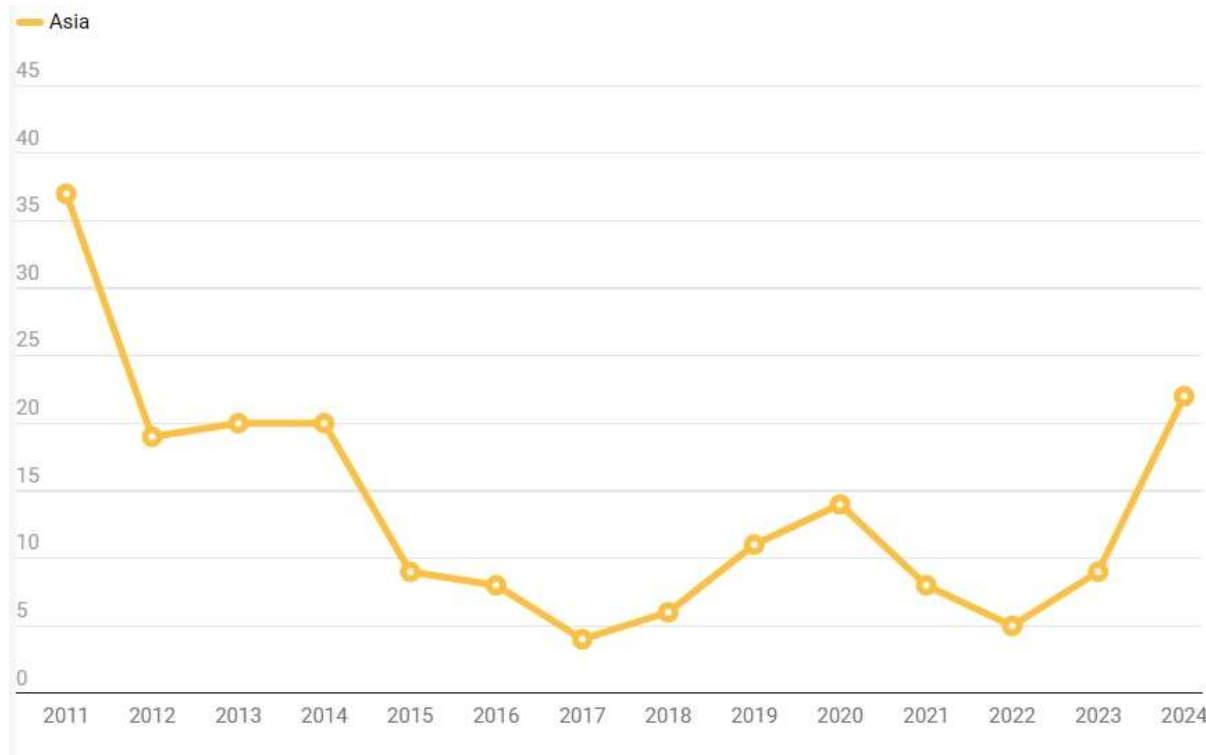
Source: Bloomberg

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



WE HAVE SEEN **INVESTMENTS FROM ASIA** INCREASE TO **PEAK** LEVELS – HIGHEST AMOUNT SINCE 2011

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



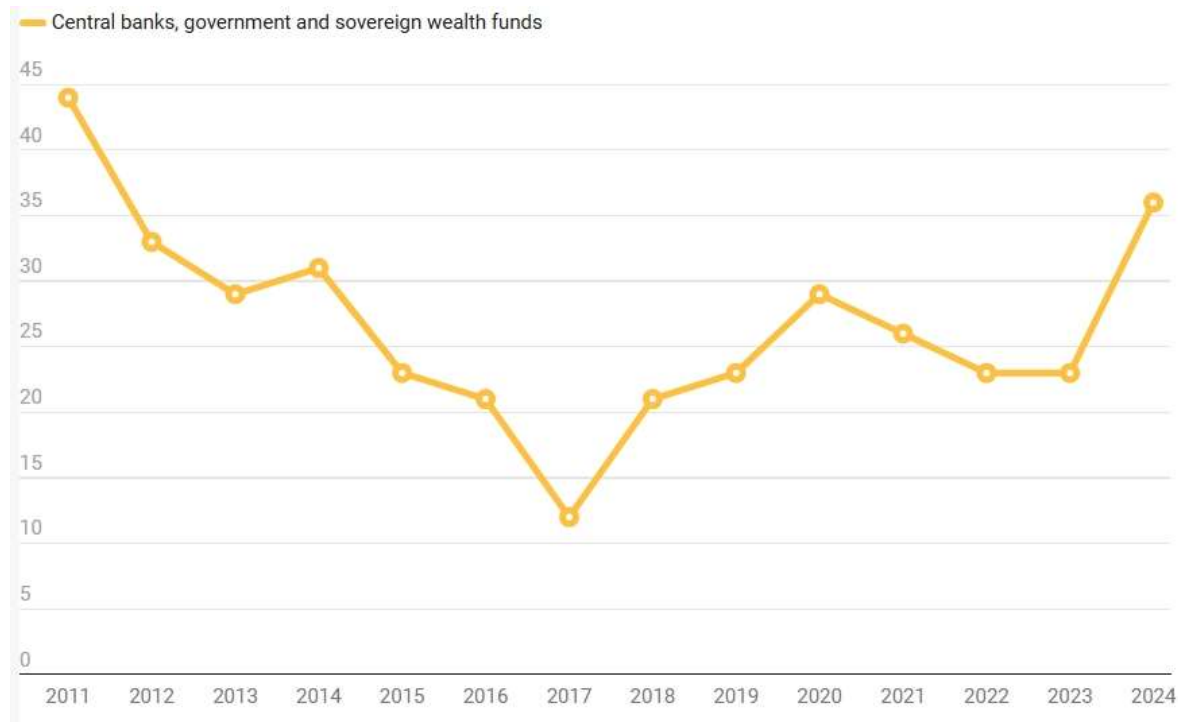
Asian investors took of **ESM/EFSF bonds** – highest since 2011, a fourfold increase compared to 2022. Rising interest in **euro-denominated assets**.

Source: ESM calculations

WE HAVE SEEN **CENTRAL BANKS** ARE INCREASING INVESTMENTS AS WELL – ALSO **PEAK** LEVELS SINCE 2011

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

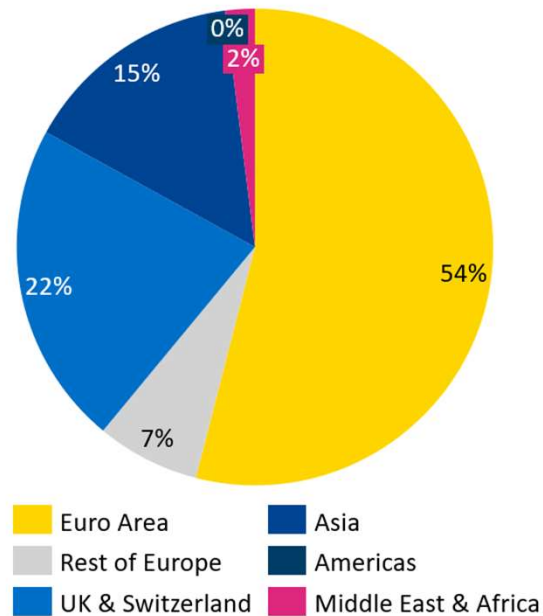
TRENDS CONTINUED IN 2025 AS WELL

- EFSF 10Yr 29 Jan 35 - €4bn
- EFSF 3Yr 27 Jul 28 - €3bn
- ESM 10Yr 26 Feb 35 - €2bn
- EFSF 5Yr 07 May 30 - €5bn

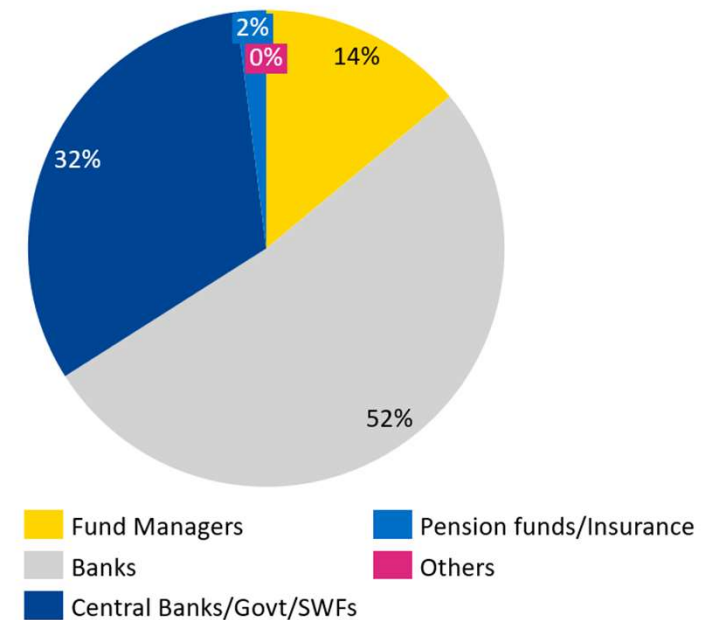
Total issued in 2025: **€14bn**

from **€28.5bn**

Geographical Breakdown



Breakdown by Investor Type



SOME OF THESE TRENDS CAN BE SEEN ACROSS GOVERNMENTS AND SUPRANATIONALS

Strong demand continues as evidenced by higher oversubscriptions ratios

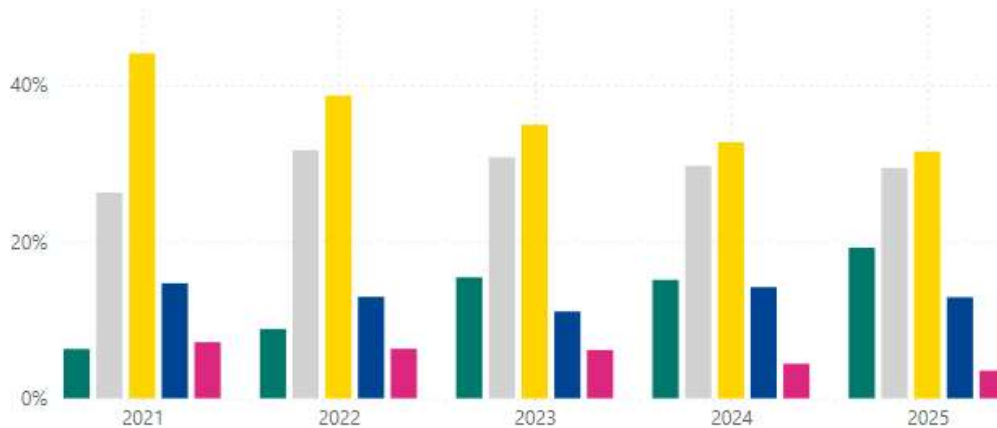
Risk of investors being sidelined due to tight pricing (low new issue premiums) and high volatility/uncertainty

Increased **central bank presence** in the European Government Bond, while **bank treasuries** expand their dominance in Supranational, Sovereigns and Agencies

SOME OF THESE TRENDS CAN BE SEEN ACROSS GOVERNMENTS AND SUPRANATIONALS

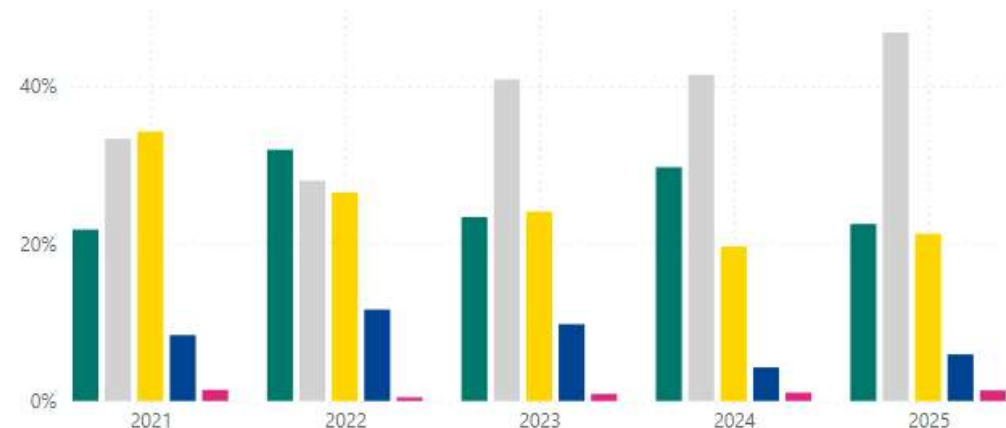
2021-2025 EGB Investor Type Allocations until 14 March

CB Bank FM PF/Ins HF



2021-2025 SSA Investor Type Allocations until 14 March

CB Bank FM PF/Ins HF

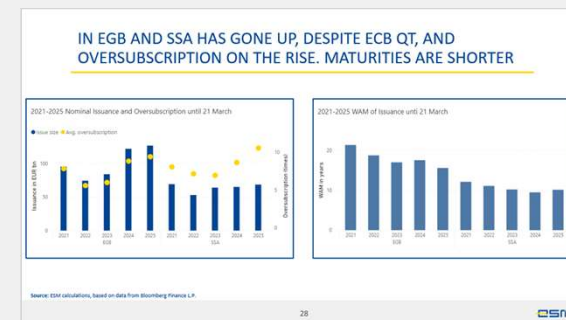


Source: ESM calculations, based on data from Bloomberg

IN EUROPEAN GOVERNMENT BOND (EGB) AND SUPRANATIONAL, SOVEREIGNS AND AGENCIES (SSA) HAS GONE UP DESPITE ECB QT

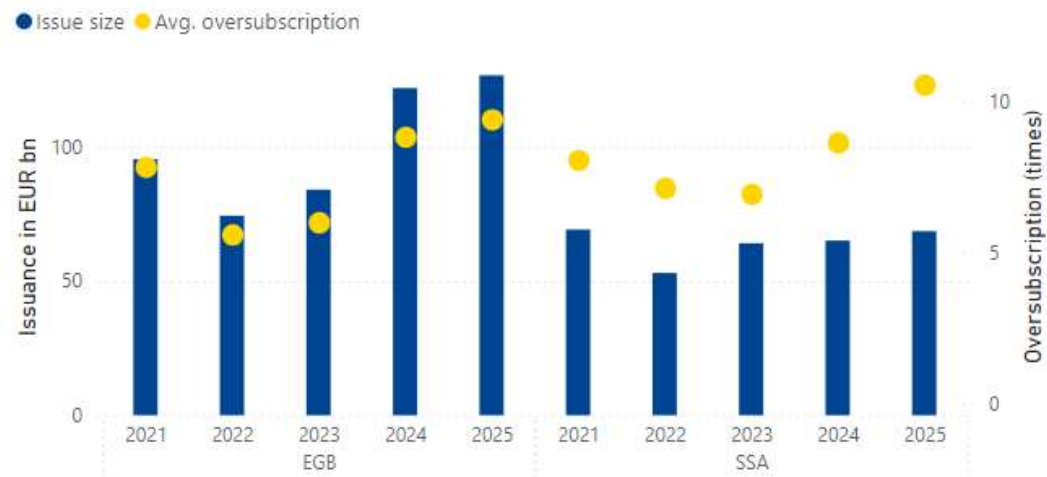
Higher issuance than in previous years, supported by oversubscription, with Supranational, Sovereigns and Agencies (SSA) favoured for their relative value. This is a strong sign of support to the euro and financial stability. This is especially remarkable in light of ECB QT.

Lower weighted average maturity for European Government Bond and slightly higher for SSAs, due to higher interest rates.

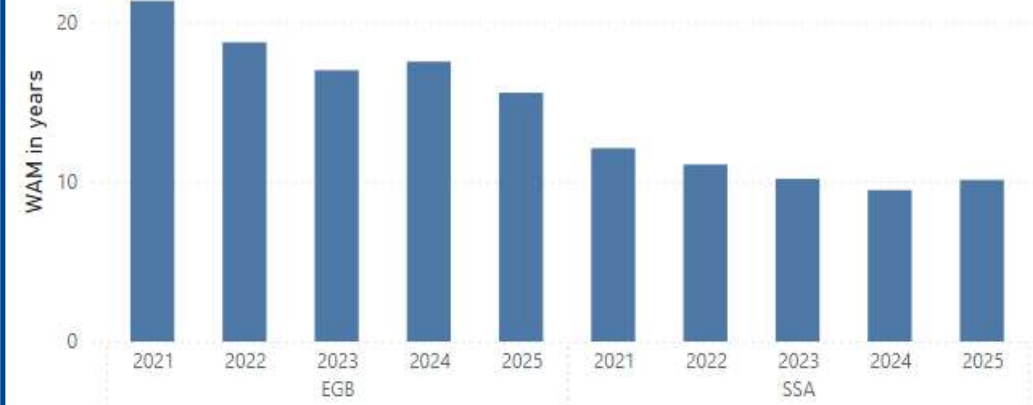


IN EGB AND SSA HAS GONE UP, DESPITE ECB QT, AND OVERSUBSCRIPTION ON THE RISE. MATURITIES ARE SHORTER

2021-2025 Nominal Issuance and Oversubscription until 21 March



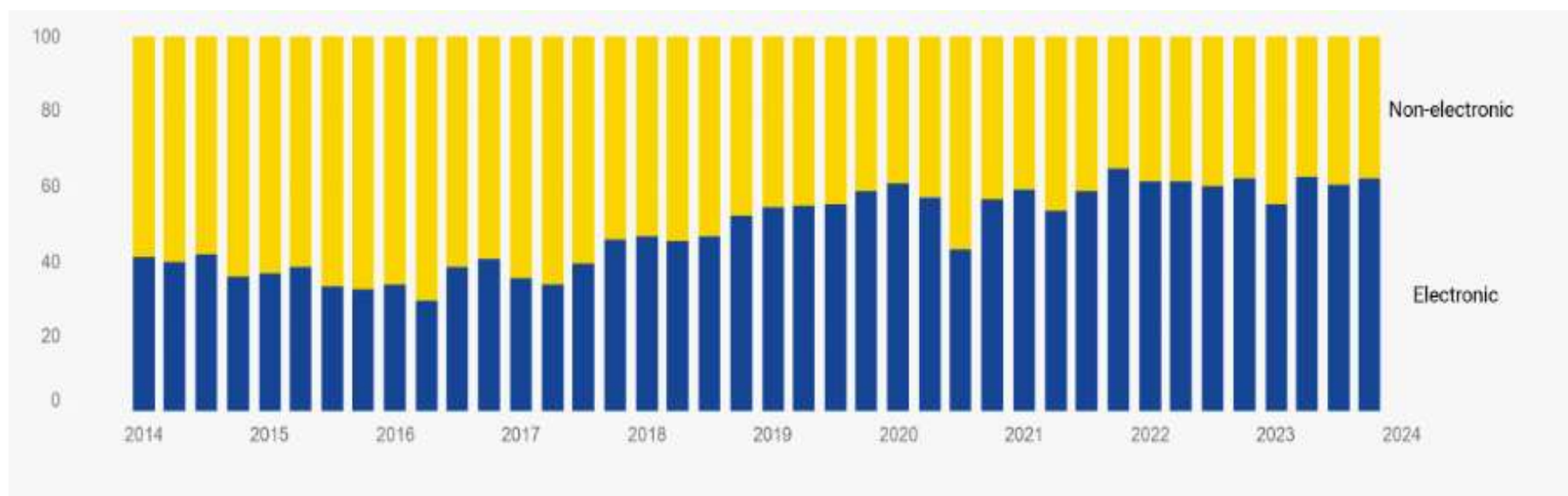
2021-2025 WAM of Issuance until 21 March



Source: ESM calculations, based on data from Bloomberg Finance L.P.

ELECTRONIC TRADING IS REALLY ON THE RISE – MORE THAN 60% OF IS TRADED ELECTRONICALLY

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



Note: volumes are in terms of bond face value.

Source: ESM

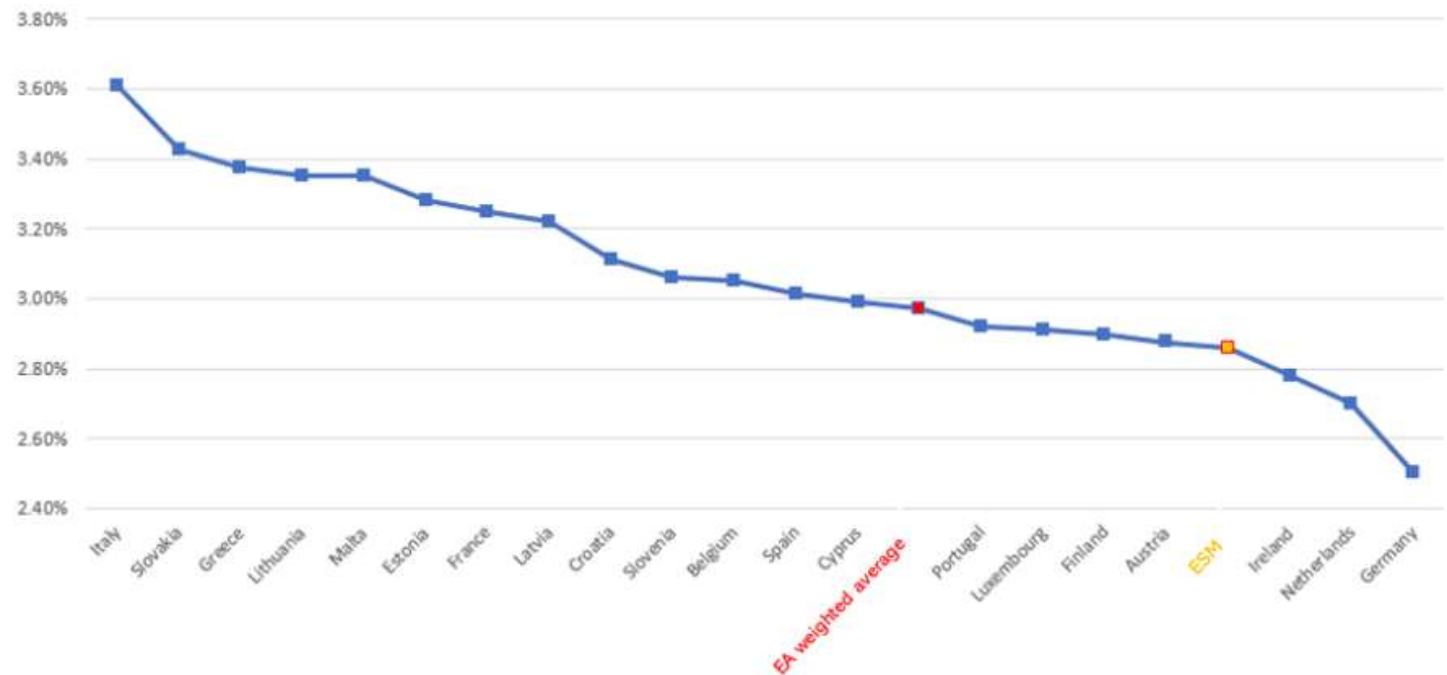
Further reading: [Electronic trading – a boost to ESM bond market resilience | European Stability Mechanism](#)

STRONG MARKET CONFIDENCE – ESM TRADES BETTER THAN 17 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



Source: Bloomberg 27 January 2025 EOD
EuroArea weighted average – EuroArea GDP weighted based on 2022 GDP

CONCLUDING REMARKS: EUROPE IS BACK AND STRONGER



“Europe will be **forged in crisis**, and will be the sum of the solutions adopted for those crises”

Jean Monnet

Europe **acted fast** in response to the new geopolitical situation, with Defence and Security, Savings and Investment Union and Clean Industrial Deal

Markets responded strong and positive (see stock prices)

Popularity of European project and **euro** is up. Four countries joined the euro, Bulgaria is up next

European Safe Assets are growing, strengthening Europe’s financial stability safety net

Global support – see investment – in Europe is at **record high**



Thank you

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