

EUROPEAN RENAISSANCE. IS THE INVESTORS' OPTIMISM JUSTIFIED?

European Stability Mechanism



31st UBS Reserve Management Seminar, Sovereign Institutions

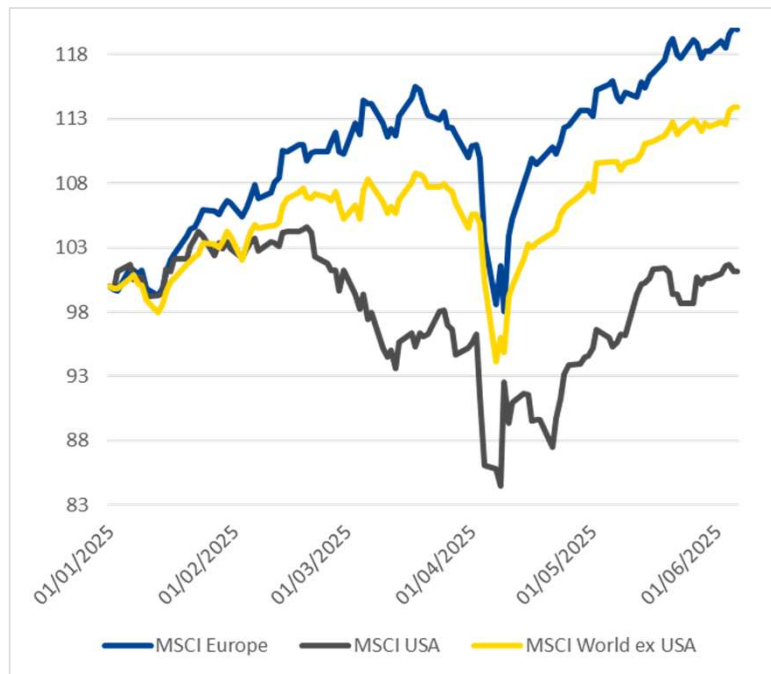
Kalin Anev Janse, ESM Chief Financial Officer and Management Board Member

UBS Conference Center Wolfsberg Switzerland, 24 June 2025



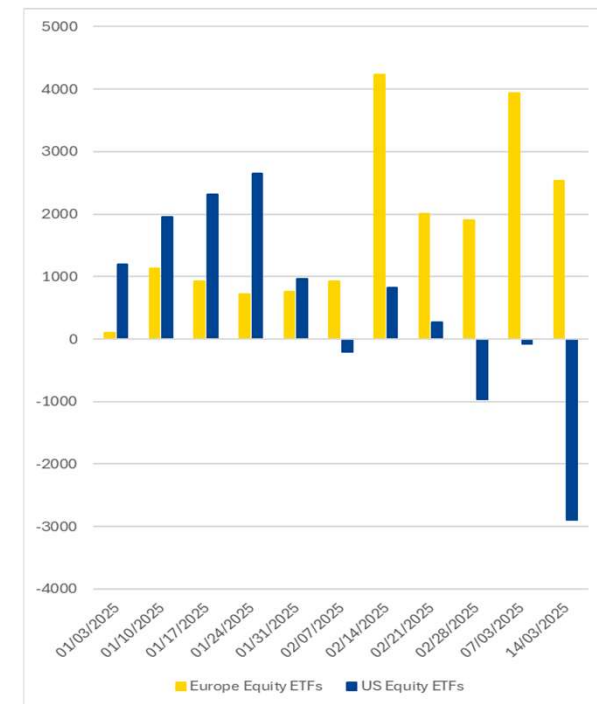
EUROPEAN MARKETS HAVE BEEN OUTPERFORMING THE WORLD AND UNITED STATES IN 2025

Indices rebased (\$) (year-to-date)



Source: Bloomberg

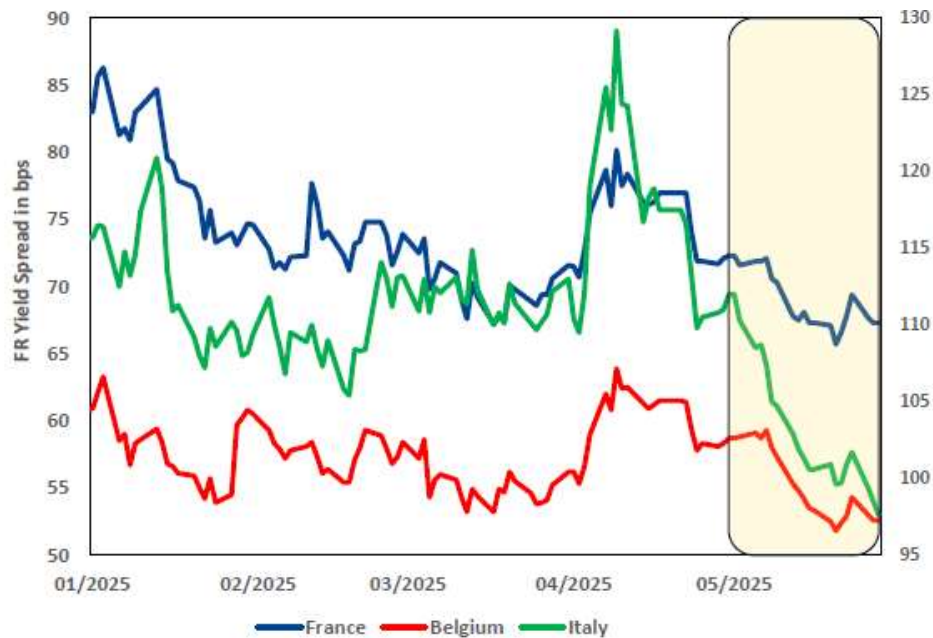
Weekly Estimated Flows in Europe Equity ETFs and US Equity ETFs (Universe of European investors)



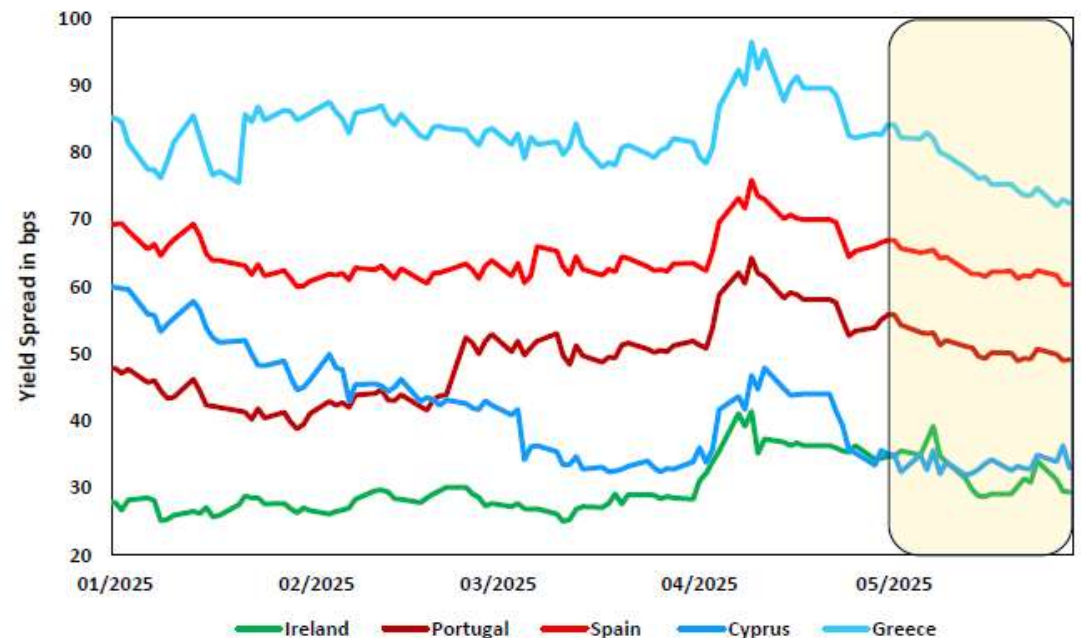
Source: Morningstar

EURO AREA **SPREADS TIGHTENING** - DESPITE ADDITIONAL DEFENCE SPENDING CAUSING A TEMPORARY SPIKE IN EARLY APRIL

10-year Yield Spreads of FR, BE (LHS) and IT (RHS) vs Germany

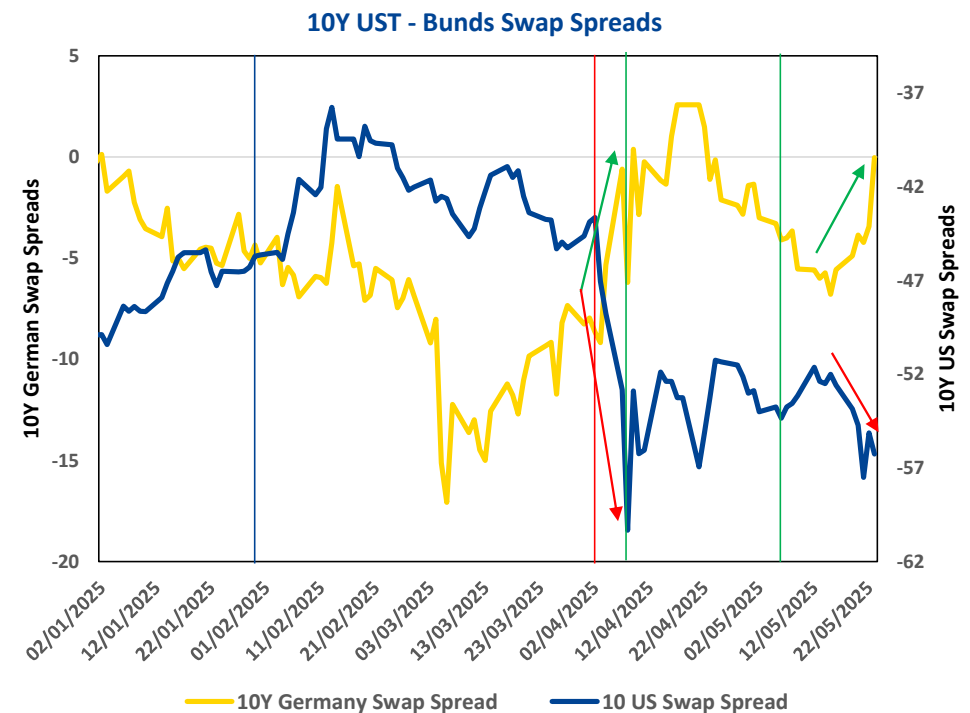
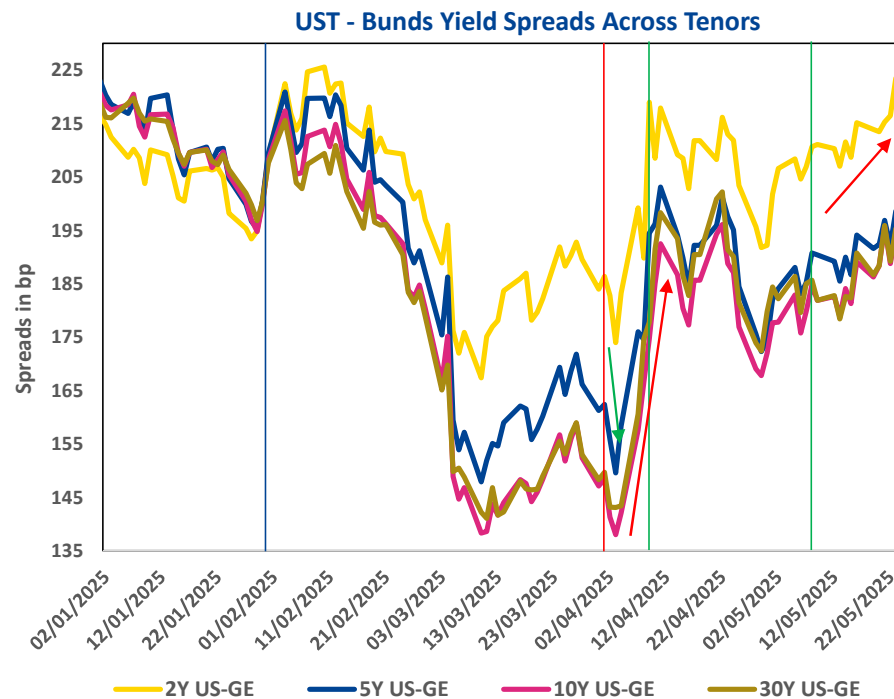


10-year Yield Spreads vs Germany



Source: Bloomberg

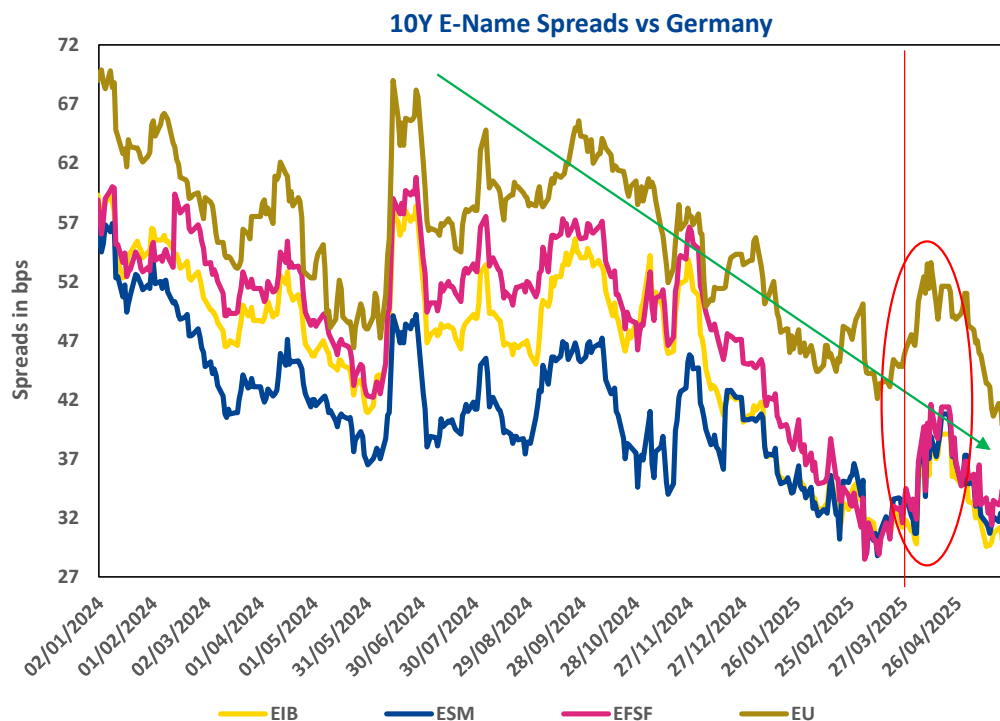
SPREAD MOVES FAVOURING GERMAN BUNDS OVER US TREASURIES (USTs)



USTs sold off just as Bunds were bought (UST yields rising due to expected spending and deficit increase)
Loss of confidence in USTs and a vote of confidence in Bunds was manifested via their opposite reaction vs swaps (USTs losing ground as Bunds gained)

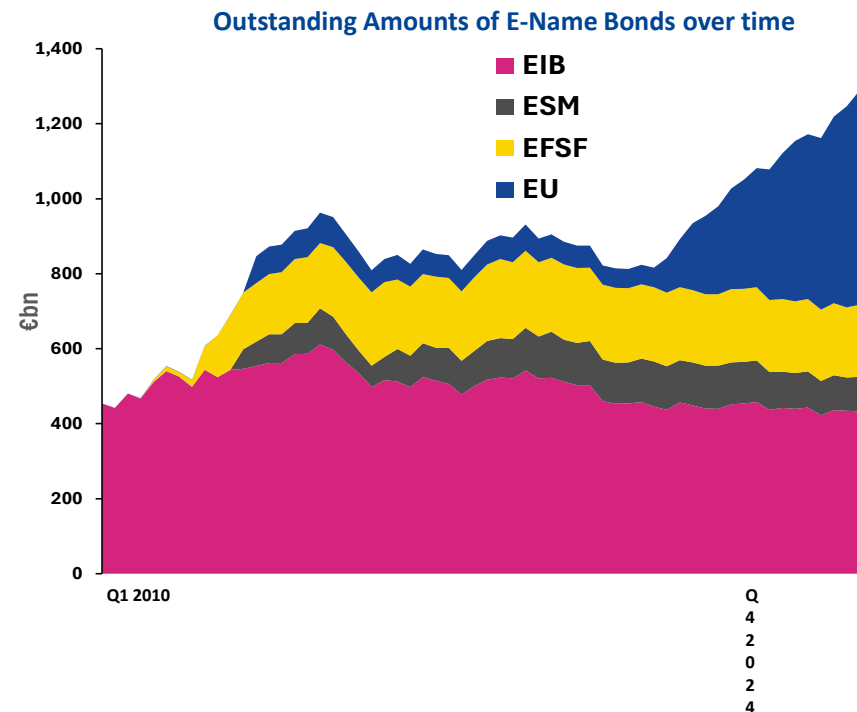
TOP RATED EUROPEAN SAFE ASSETS TIGHTENED VS GERMANY

Starting from multi-month lows in spreads vs Germany, E-names reached new lows after some contained widening



Source: Bloomberg

European safe assets reached almost €1.4tn in 2024 vs just €0.4tn in 2010



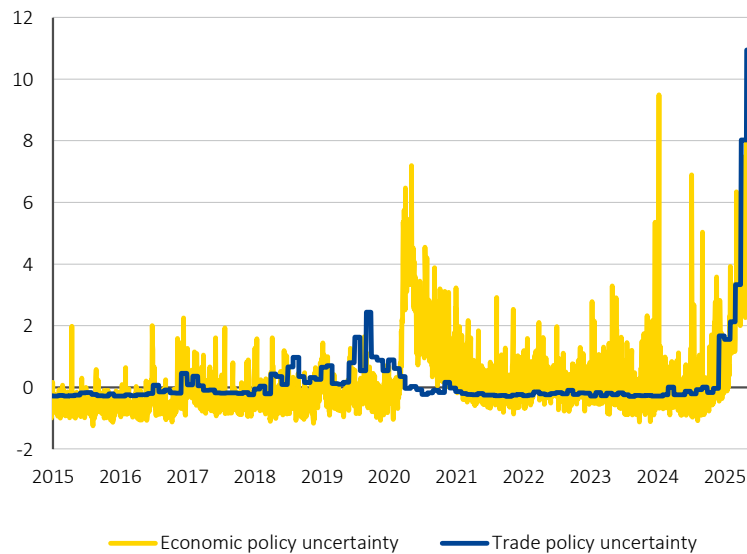
DRIVERS OF EUROPE'S SUCCESS



UNITED STATES: UNCERTAINTY HIGH AND Q1 GROWTH STALLED

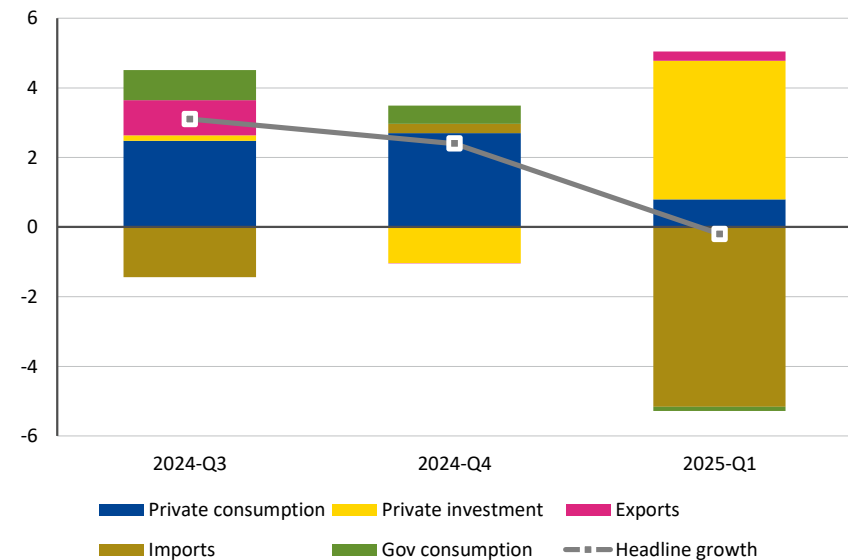
US **tariffs** cause economics and trade **uncertainty**

US economic and trade policy uncertainty
z-scores (deviations from mean)



Source: Baker et al. via Haver

Contributions to US real GDP growth
Percentage points



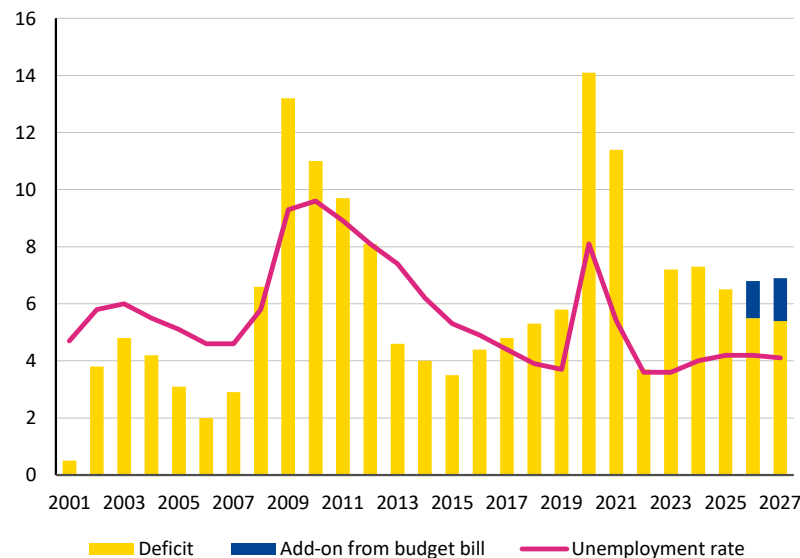
Source: BEA via Haver

US **Q1 GDP** stalled by frontloading of imports.

UNITED STATES: **WORSENING FISCAL OUTLOOK** HAS DRIVEN YIELD CURVE STEEPENING

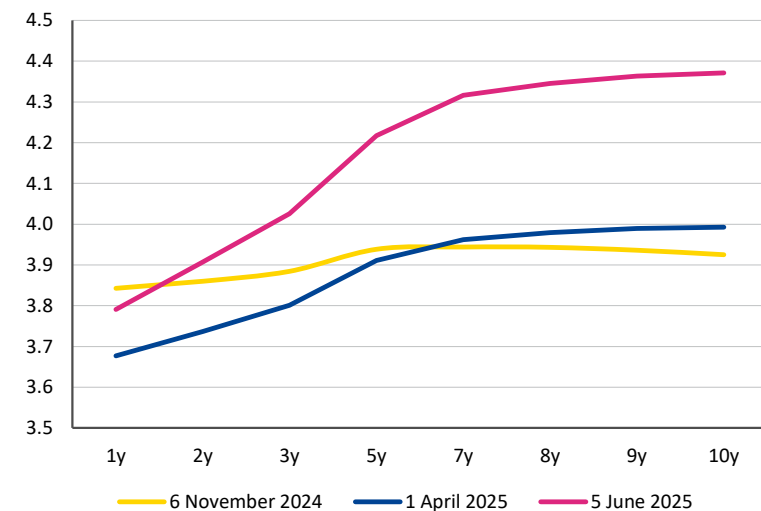
US Big Beautiful bill currently under review would **worsen the US fiscal outlook**

Budget deficit and unemployment
Percent of GDP / percent of labour force



Source: International Monetary Fund, CBO

10-year Treasury forward yield curve
At 1- to 10-year horizons, percent

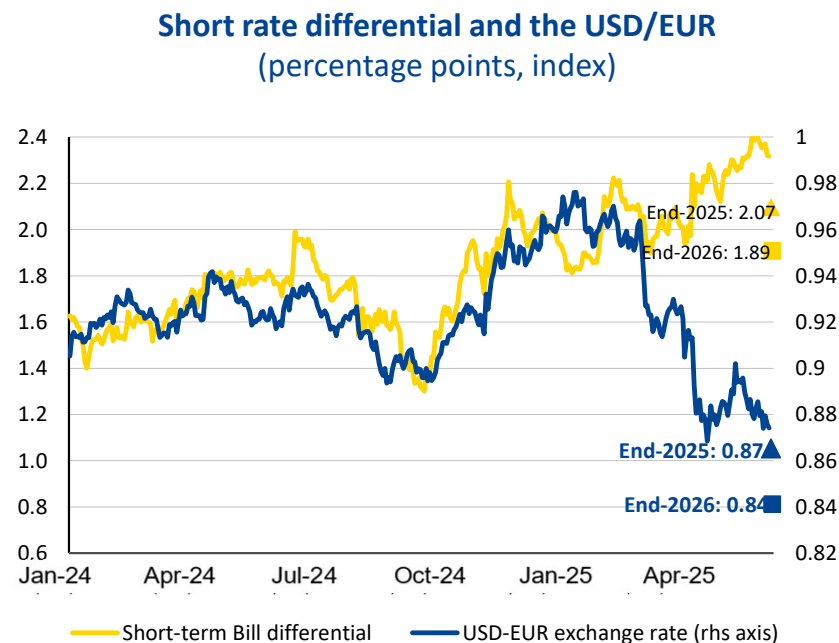


Source: Bloomberg

Policy uncertainty and fiscal worries have driven a substantial **yield curve steepening**

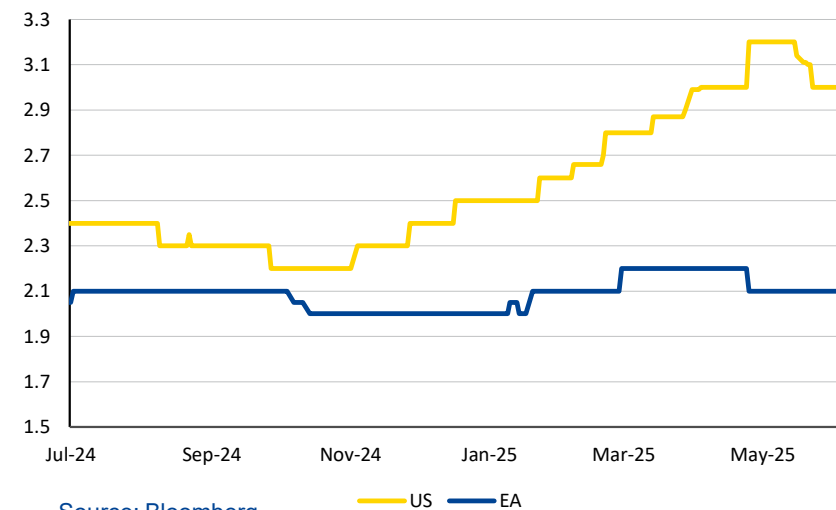
DOLLAR WEAKNESS PERSISTS WHILE INFLATION EXPECTATIONS THROUGH THE ROOF

US dollar remains **weak against the euro**, despite a rising interest rate differential



Source: Bloomberg, as of June 5, 2025.

Inflation expectations
Market consensus, 2025, year-on-year, %



Inflation expectations **diverging**, reflecting expected impact of tariffs and fiscal expansion expected to increase inflation

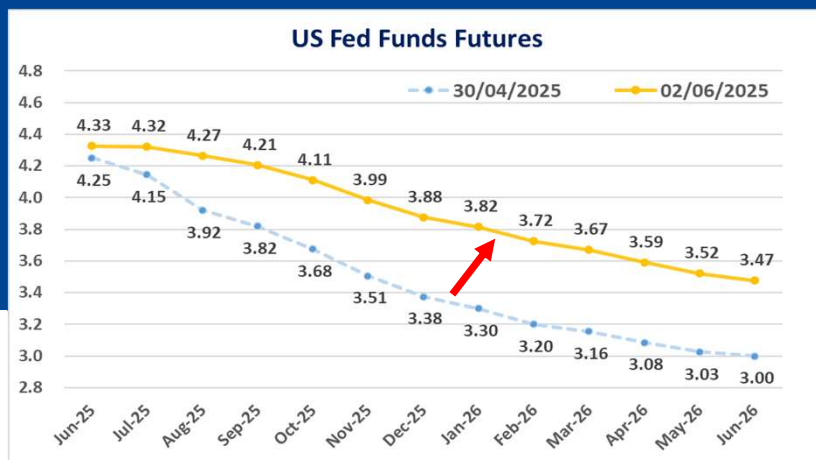
US TREASURY YIELDS SURGE

US bond yields surged during May due to rating downgrade and Trump's tax bill:

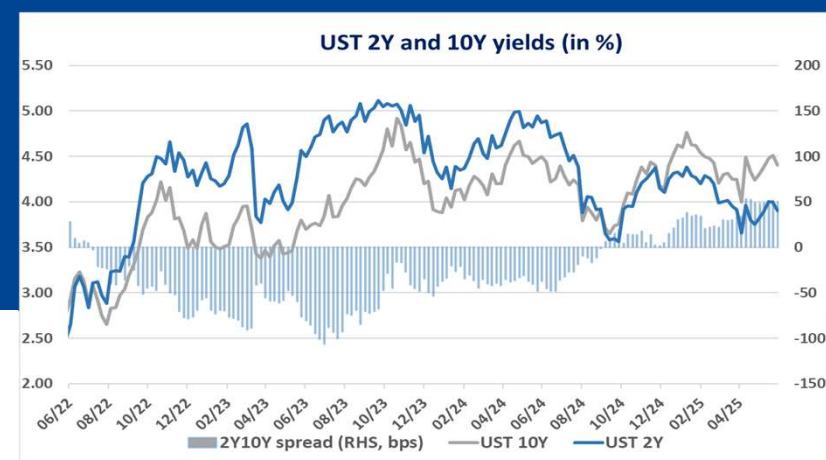
30-year Treasury yield 5.1% (highest since 2007) amid concerns over Trump's fiscal plans ("One Big Beautiful Bill) – bigger deficits and increase US bond supply

Moody's **downgraded** US from Aaa to Aa1, outlook stable, aligning with Fitch and S&P

The 10Y yields sold-off by 24bps closing the month of May at 4.40%.



Source: ESM calculations based on Bloomberg

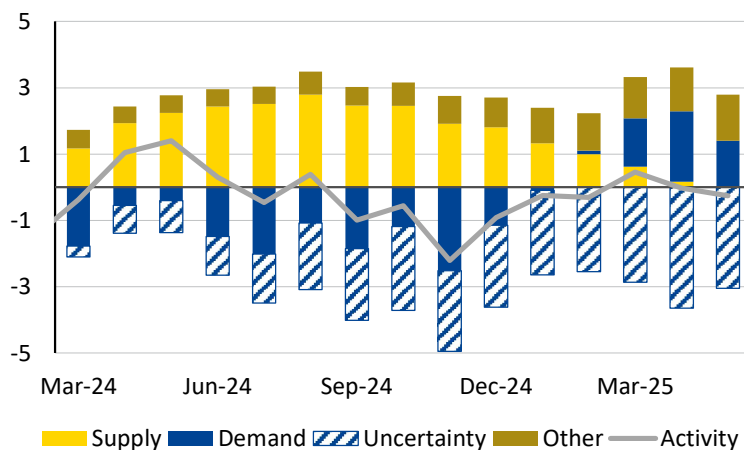


Source: ESM calculations based on Bloomberg

AT THE SAME TIME, EURO AREA MACRO IS SURPRISING ON THE UPSIDE

Strong quarterly growth of 0.6% in Q1:
front-loading pushed exports

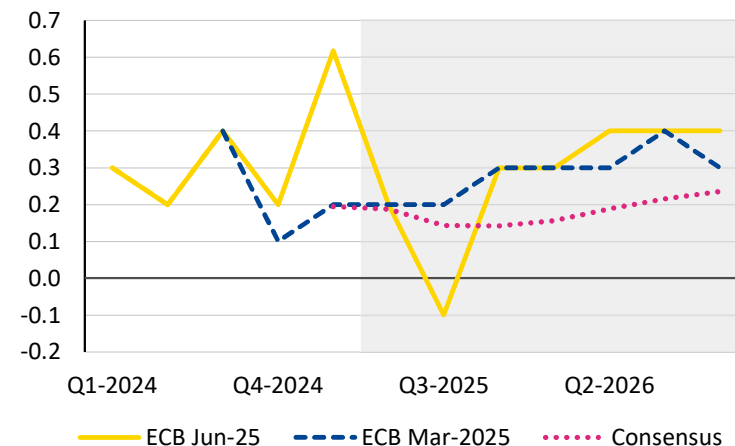
Structural drivers of Composite PMI
(deviation from model-implied mean, rel. to Dec. 2019)



Source: European Central bank

GDP growth is expected near 1% in 2025,
and slightly above in 2026 and 2027.

ECB GDP forecasts comparison
(quarterly q-o-q growth rates in %)



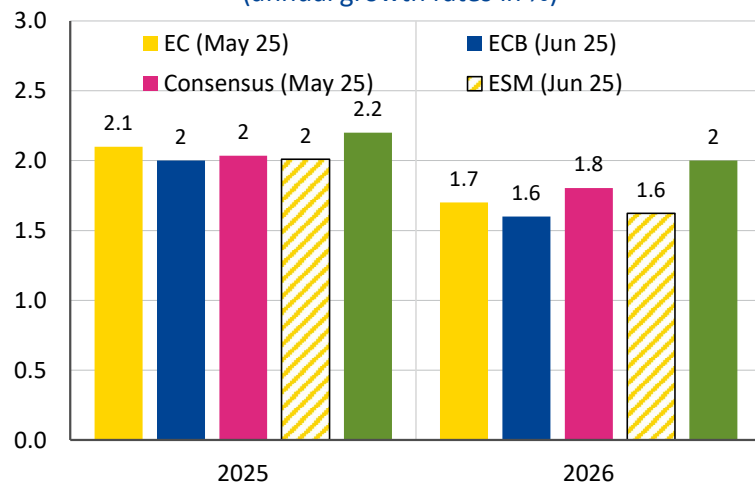
Source: European Central bank

EURO AREA INFLATION SEEMS UNDER CONTROL

Headline inflation dropped **below ECB's target** (1.9% YoY), as core inflation eased.

Inflation below 2% in 2026, thanks to falling energy prices and a stronger euro.

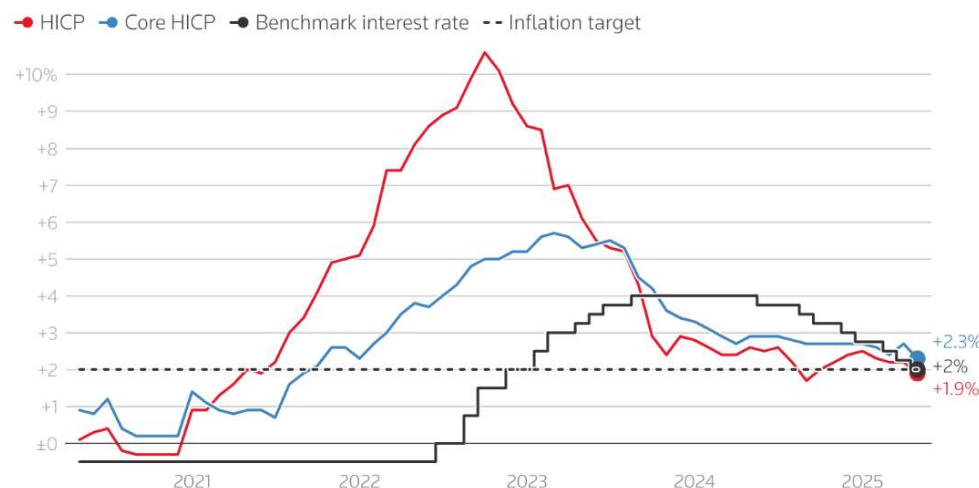
Inflation forecasts comparison
(annual growth rates in %)



Source: EC, ECB, Consensus, OECD and ESM estimates.

Euro zone inflation and ECB interest rates

Benchmark interest rate and year-on-year change in consumer price inflation



HICP stands for the harmonized index of consumer prices across members of the euro zone.

By Reuters • Sources: Eurostat, LSEG

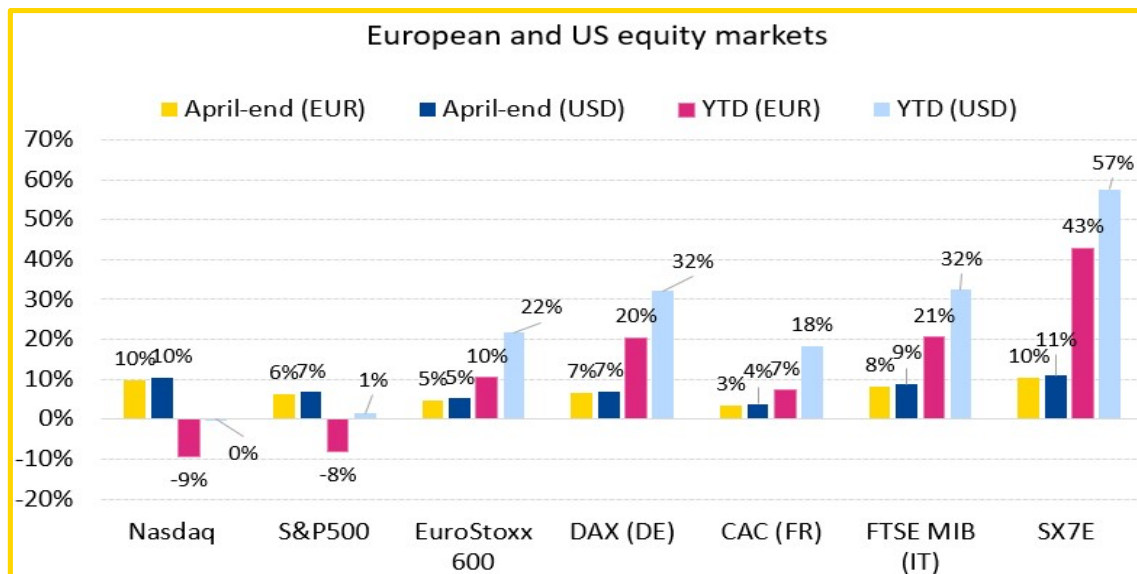
A line chart comparing inflation metrics over the past five years.

ECB cut the main policy rate by 25bps in June 2025
Signalling rate cutting cycle nearing its end

EUROPEAN EQUITIES **KEEP OUTPERFORMING** US EQUITIES

European equities continued to benefit from the **shift away from USD assets**, with EuroStoxx gaining another 5% since April-end and with a 10% yearly performance

European sectors **benefitting** most from US trade policy were **Banks**, followed by **Insurance** and **Utilities**



Source: ESM calculations based on Bloomberg

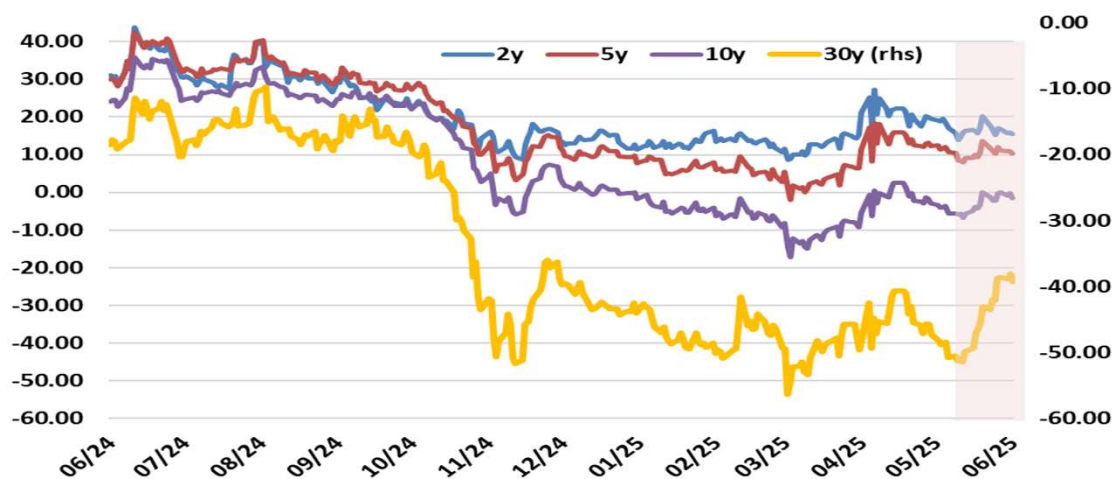
EuroStoxx Industries	Price Change	
	Jun-25	2025 YTD
STXE 600 HealthCare EUR	0.9%	-1.0%
STXE 600 InduGd&Ser EUR	8.7%	15.1%
STXE 600 Food&Bevrg EUR	1.4%	10.7%
STXE 600 Banks (EUR) Pr	9.9%	35.3%
STXE 600 Technology EUR	7.1%	2.8%
STXE 600 Per&HouGds EUR	1.2%	-1.3%
STXE 600 Insurance EUR	3.6%	23.4%
STXE 600 Oil&Gas EUR	8.3%	7.7%
STXE 600 Chemicals EUR	3.9%	9.4%
STXE 600 Utilities EUR	2.6%	19.7%
STXE 600 Retail (EUR) Pr	4.2%	5.9%
STXE 600 Telcomm EUR	3.2%	17.6%
STXE 600 Constr&Mtr EUR	4.3%	16.5%
STXE 600 FinanSercv EUR	2.9%	6.3%
STXE 600 RealEstate EUR	3.4%	9.1%
STXE 600 Auto&Parts EUR	5.1%	0.0%
STXE 600 BasicResou EUR	6.4%	-3.7%
STXE 600 Media (EUR) Pr	3.6%	1.4%
STXE 600 Trav&Leisr EUR	14.0%	-1.4%
STXE 600 (EUR) Pr	4.9%	10.6%

EUROPEAN GOVERNMENT BOND SPREADS FURTHER TIGHTENING LED AGAIN BY FRANCE

Core EGB spreads vs Germany resumed strong performance in May and at tightest yearly levels

French spreads vs Germany below 70bp level in 10y, close to year-to-date lows of mid-March

EUR swap spreads (as of 04/06/25, in bp.)



Source all charts: ESM calculations based on Bloomberg

5y EGB spreads vs. Germany (as of 04/06/25, in bp.)



5y EGB swap spreads (as of 04/06/25, in bp.)



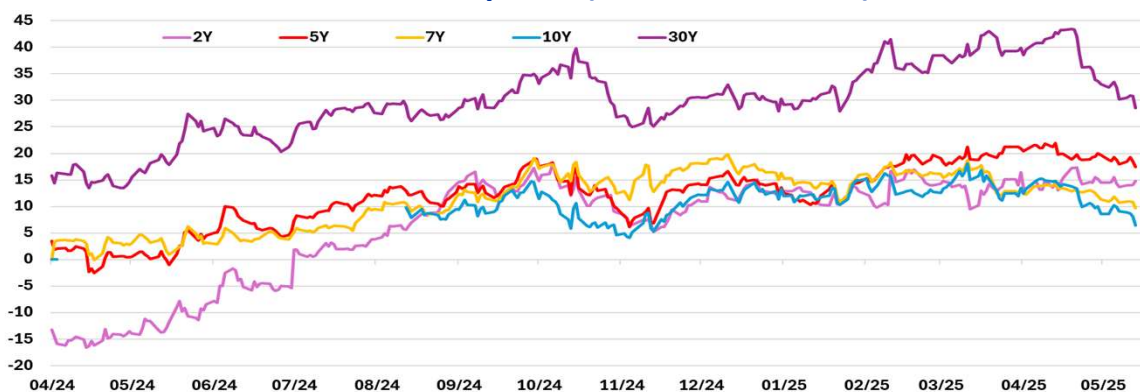
EURO SUPRANATIONAL BONDS POSTED ANOTHER POSITIVE PERFORMANCE

Euro SSA spreads vs Germany continued to recover from the mid-April widening.

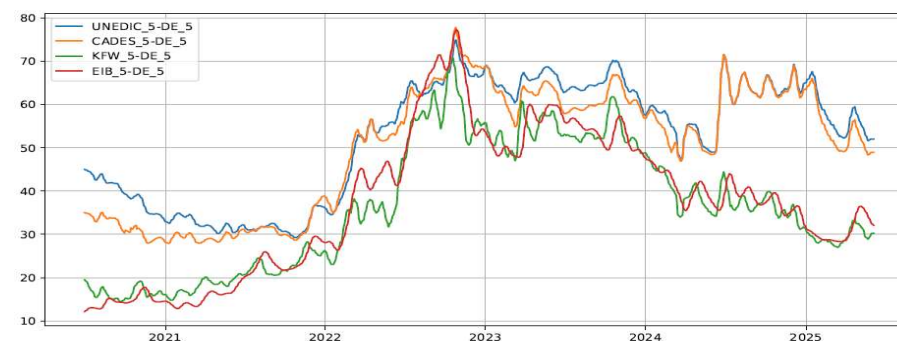
The Euro SSA sector's strong performance in 2025 continued **against swaps as well**

SSA spreads both vs Germany and swaps remain **sensitive** to US-EU tariffs and risk sentiment

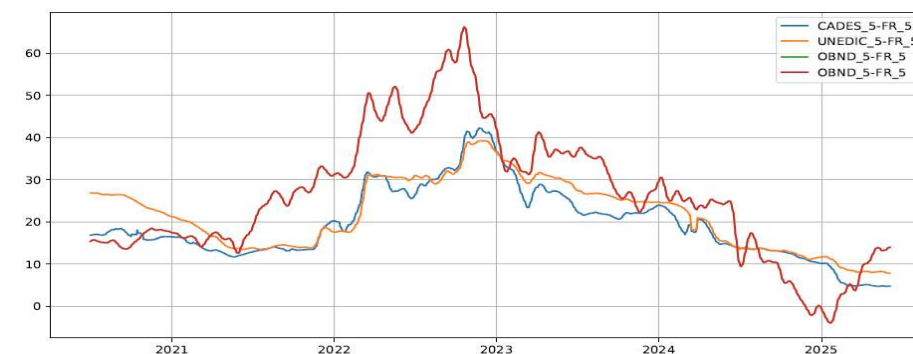
EU-EIB spread (as of 05/06/2025)



SSA 5Y Spreads vs Germany (as of 04/06/25, in bp.)



Semi-core Agencies Spreads vs France (04/06/25, in bp.)



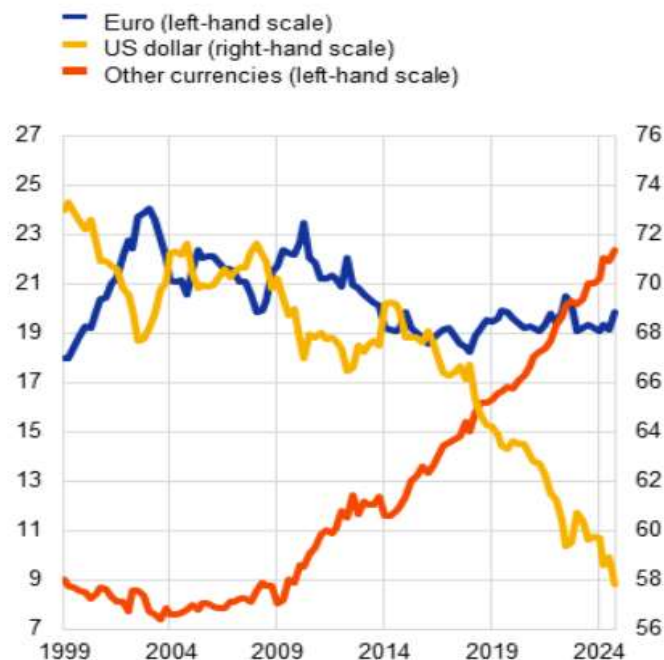
A MORE DIVERSIFIED RESERVE MANAGEMENT – WITH POSITIVE UPSIDE FOR THE EURO



RESERVE MANAGEMENT: DECLINING US DOLLAR SHARE, STABLE EURO SHARE IN GLOBAL RESERVES AND GROWTH OTHER RESERVE CURRENCIES

a) Share of the euro and US dollar in global foreign exchange reserves

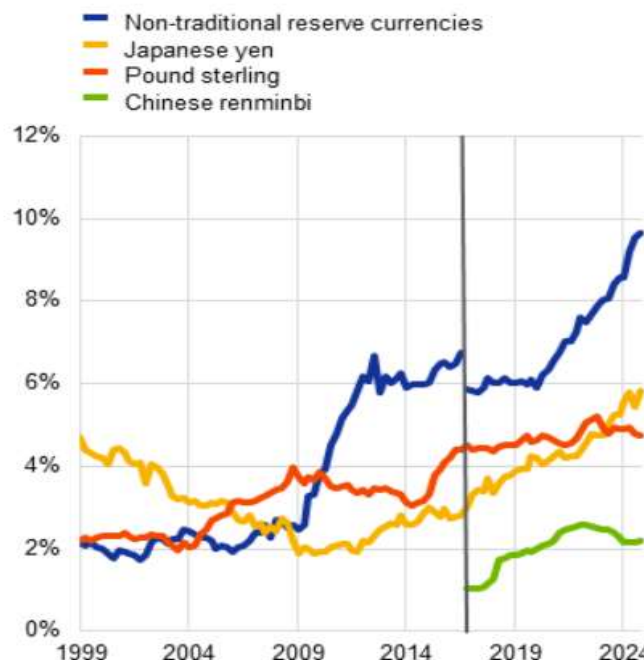
(percentages; at constant Q4 2024 exchange rates)



Sources: IMF and ECB staff calculations

b) Share of other currencies in global foreign exchange reserves

(percentages; at constant Q4 2024 exchange rates)



International Role Euro 2025 report
Published 11 June 2025



Non-traditional currencies include, among others, the Canadian dollar, the Australian dollar, the Korean won, the Singapore dollar, the Swedish krona, the Norwegian krone, the Danish krone and the Swiss franc in decreasing order of estimated importance.

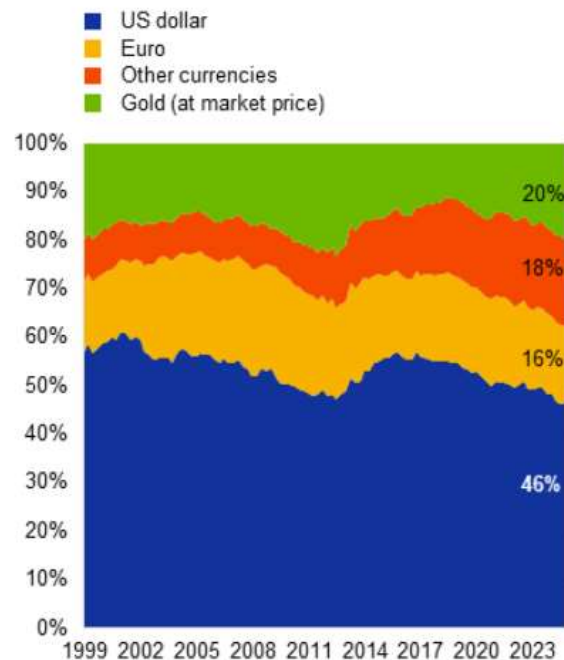
Source: ECB International Role Euro Report 2025



HIGHER SHARE OF GOLD IN GLOBAL FOREIGN RESERVES DRIVEN BY BOTH RECORD-HIGH PURCHASES AND RISING PRICES

a) Composition of global official reserves

(percentages, at current market prices)



b) Central bank gold purchases and price of gold

(tonnes; US dollars per troy ounce)

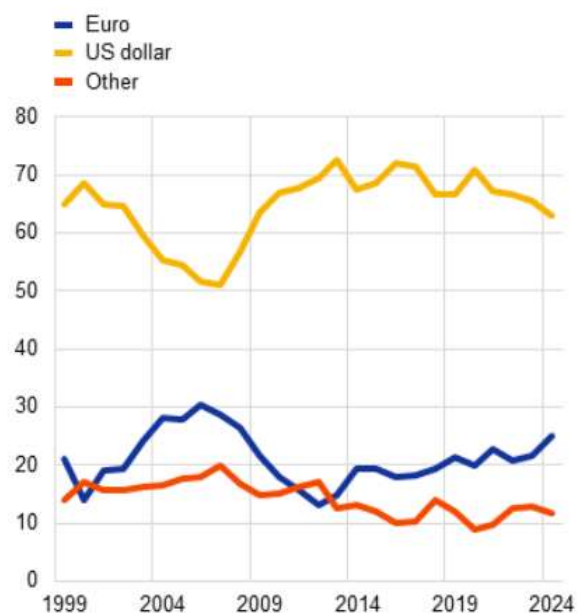


Sources: ECB International Role Euro Report 2025; IMF, Dealogic and ECB staff calculations.

SHARE OF THE EURO IN ISSUANCE OF FOREIGN CURRENCY-DENOMINATED BONDS AND LOANS INCREASED IN 2024

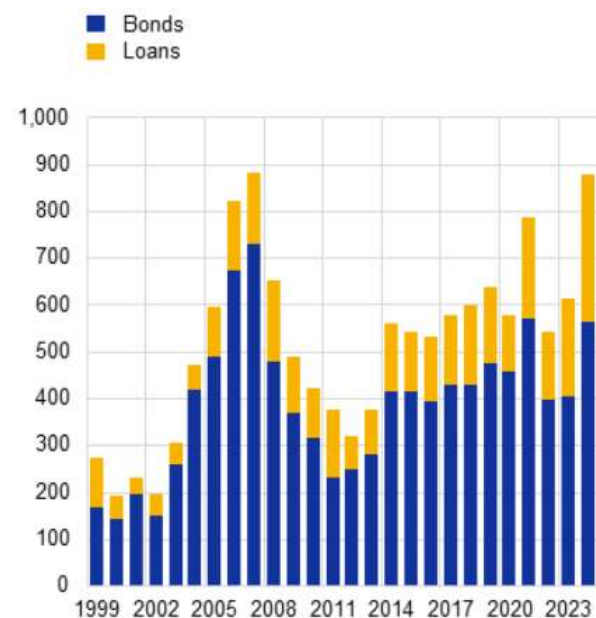
a) Currency composition of foreign currency-denominated bond and loan issuance (share)

(percentages)



b) Total issuance volume of international bonds and loans denominated in euro

(USD billions)

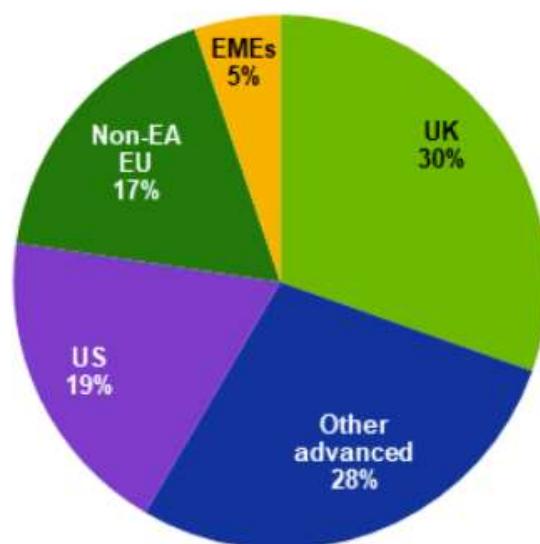


Sources: ECB International Role Euro Report 2025; IMF, Dealogic and ECB staff calculations.

INTERNATIONAL EURO-DENOMINATED LOANS WERE MOSTLY ISSUED GEOGRAPHICALLY CLOSE TO THE EURO AREA, BOND ISSUERS WAS MORE GLOBAL

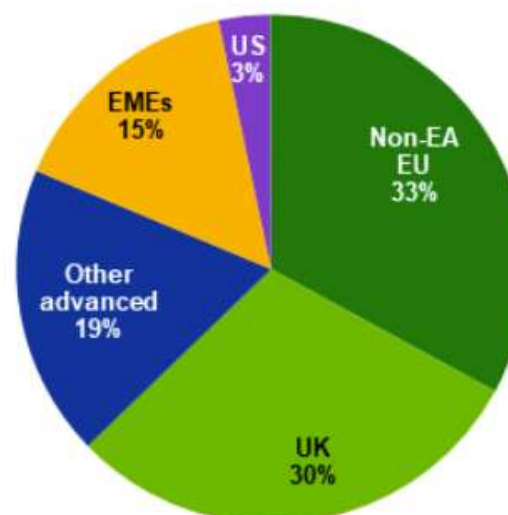
a) Geographical breakdown of issuers of euro-denominated international bonds

(percentages)



b) Geographical breakdown of issuers of euro-denominated international loans

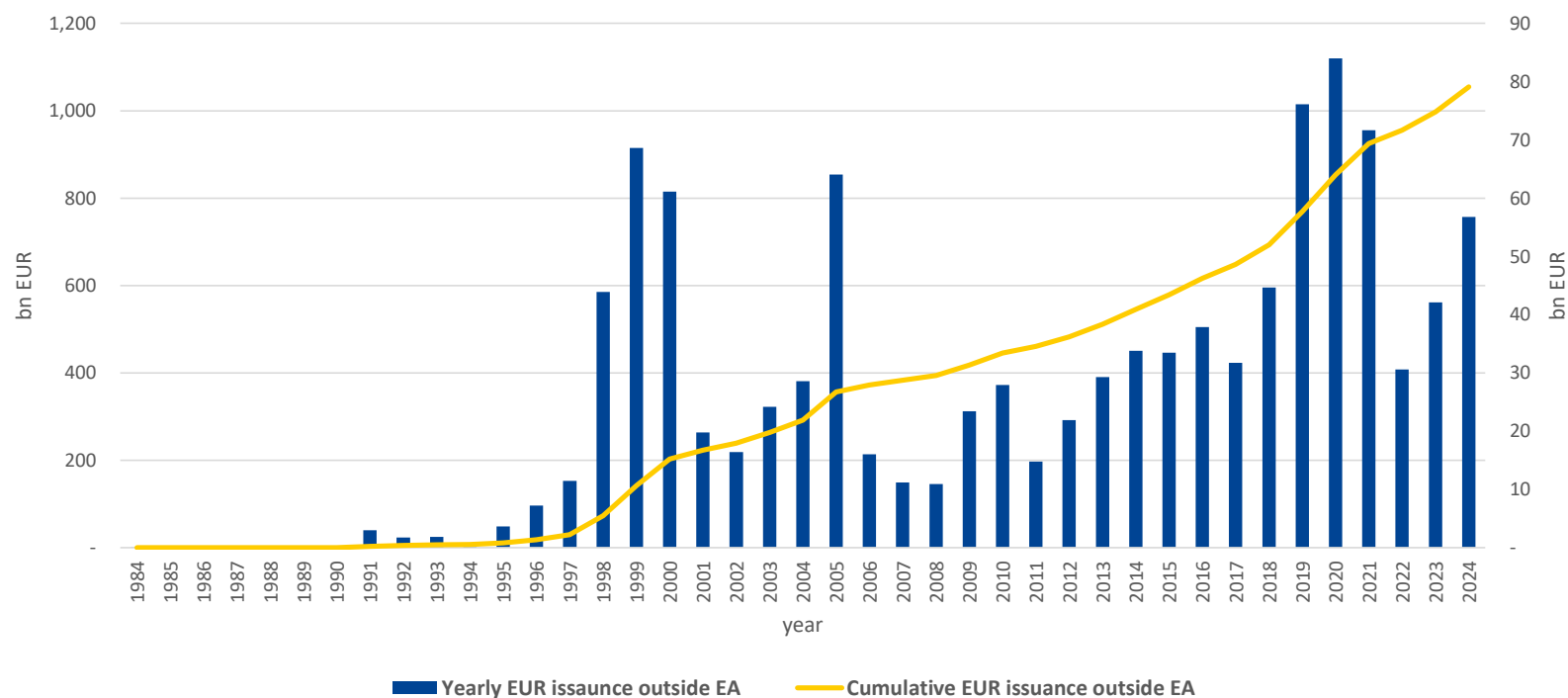
(percentages)



Sources: ECB International Role Euro Report 2025; IMF, Dealogic and ECB staff calculations.

EURO GAINING POPULARITY

Cumulative euro issuance outside the euro area exceeded €1 trillion in 2024

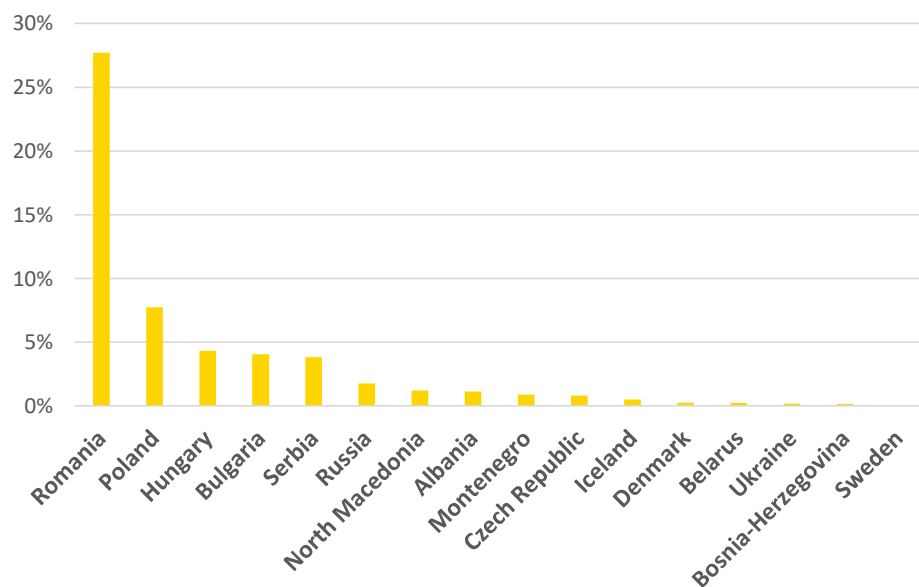


Source: ESM calculations based on Bloomberg Finance L.P.

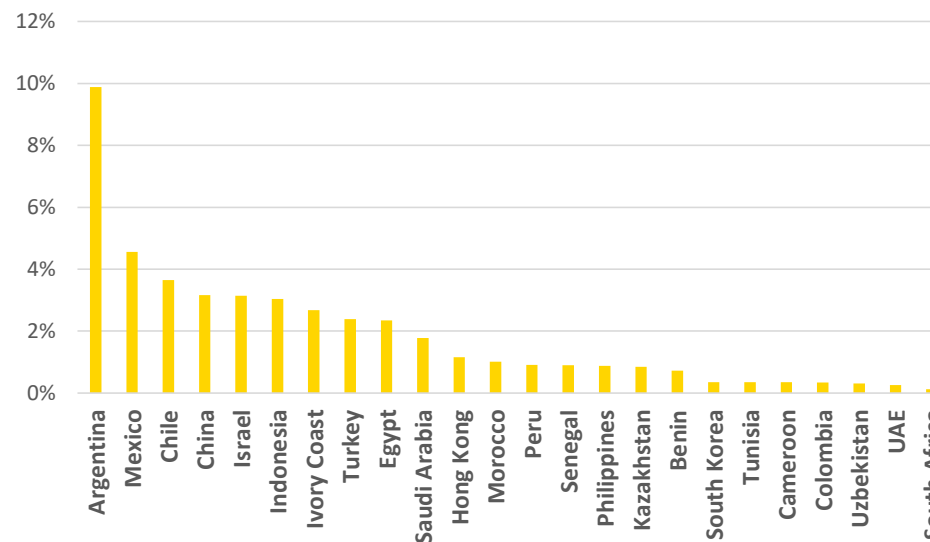
ESM Blog: [How non-euro countries have embraced the issuance of euro-denominated bonds](#) | [European Stability Mechanism](#)

NON-EURO COUNTRIES HAVE EMBRACED THE ISSUANCE OF EURO-DENOMINATED BONDS

56% of the outstanding euro-denominated debt outside euro area (€400bn) is with non-euro European countries



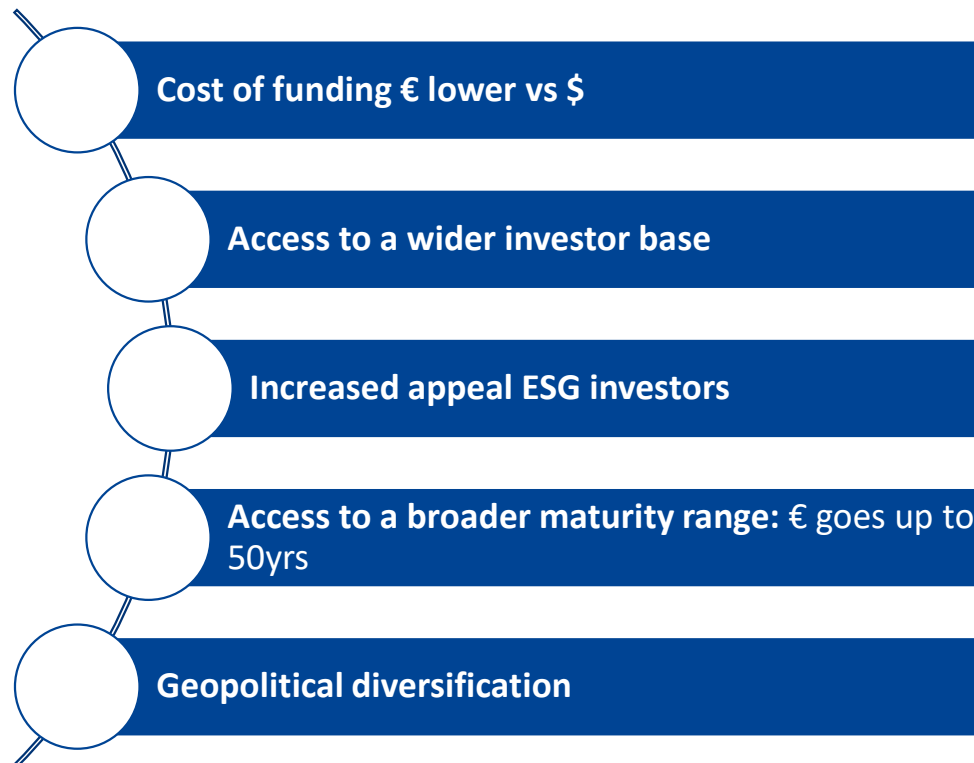
44% of the euro-denominated outstanding debt outside the euro area (€400bn) is issued by non-European countries



Source: ESM calculations based on Bloomberg Finance L.P.

WHY IS THE EURO GAINING POPULARITY IN ISSUANCE?

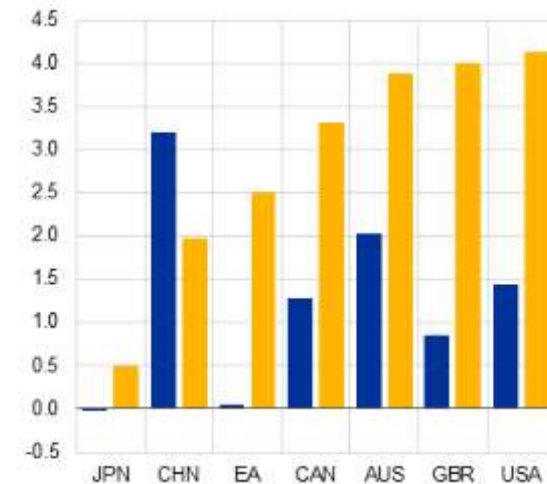
Five benefits of issuance in euro



a) Five-year government bond yields in major economies in 2012-21 and in 2024

(percentages)

■ Average 2012-2021
■ 2024



Source: ECB International Role Euro Report 2025

CASING POINT: BULGARIA READY TO BECOME 21ST EURO COUNTRY



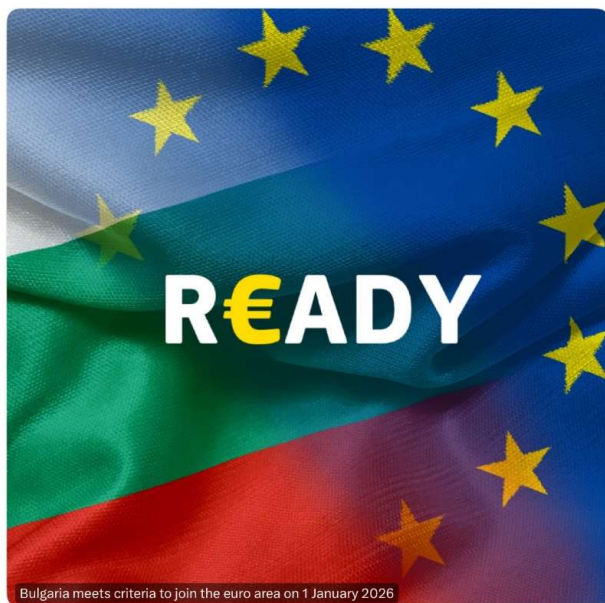
Ursula von der Leyen @vonderleyen · 04/06/2025

Today, Bulgaria is one step closer to adopting the euro.

This will mean more investment and trade with euro area partners, and more stability and prosperity for the Bulgarian people.

Bulgaria will also take its rightful place in shaping euro area decisions.

Congratulations!



From europa.eu

1,1K

979

5,4K

271K



Bulgarian Central Bank Governor Radev speech

Euro adoption will:

1. Anchor Bulgaria's monetary policy within the ECB framework
2. Provide credibility, stability, and predictability
3. Reduce currency risk and protect the economy from speculative pressures
4. Enhance investor confidence and deepen financial integration
5. Offer access to euro area mechanisms, such as the **European Stability Mechanism**

In a world where policy volatility is structural, euro area membership will strengthen Bulgaria's strategic resilience—through institutional alignment and enhanced crisis response tools.

[Source: OMFIF Governor-Radev-speech.pdf](#)

CASE STUDY BULGARIA: WHAT DOES EURO ADOPTION MEAN FOR RESERVE MANAGEMENT?

Bulgaria's Reserve Strategy

Composition of Bulgaria's foreign exchange reserves is shaped by the currency board (pegged to Euro)

Approximately 90% of reserves are held in euros, with the remaining 10% in gold

Credit and currency risks are tightly constrained: eligible assets must carry a minimum AA– rating

Looking ahead, **euro area accession** will mark a **new phase in reserve management**

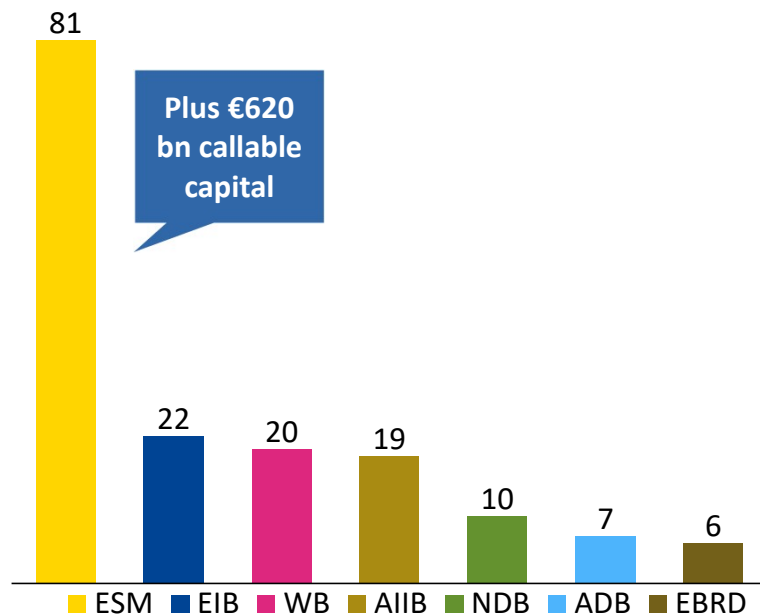
- Introduces greater flexibility.
- With the euro becoming our domestic currency, begin to diversify our FX reserves into other currencies
- Developing new infrastructure, expanding counterparties, and building deeper market expertise
- Adjust risk framework: Relaxing the credit threshold from AA– to A– Extending the investment horizon from short-term to strategic, long-term.
- Reforms will broaden our investment universe—potentially including instruments such as ETFs.
- Naturally, any such instruments will be subject to rigorous assessment to ensure alignment with our core objectives: capital preservation and liquidity assurance.

A FEW WORDS ON THE ESM



ESM AS THE MOST CAPITALISED IFI IN THE WORLD

Paid-in capital of major international financial institutions (€ bn) - end 2024



Ensures **AAA rating** & a large global investor base:

- 130 highly rated institutions: Government related issuers, Supranationals and Financial institutions
- 10 currencies from developed markets to diversify
- Derivatives instruments to hedge financial risks
- ~ 70% Europe and 30% outside (Japan, Canada, Australia, etc)

Close to €7Bn, invested in **ESG labelled bonds**, from energy transition to biodiversity.

The investment team trades close to **€320bn per year** to adjust portfolio to market conditions.



EFSF AND ESM IN THE MARKET

€300bn in loans to the 5 countries, Spain set to finalise repayments in 2027, Greece in 2070

Financed by bonds: 1800 investors in 89 countries: EU, China, Japan, Korea, Switzerland, UAE, UK, US, Americas, Africa, etc.

Over 30 roadshows and events

1 Capital Markets Seminar

Highest ratings from the main ratings agencies:

STANDARD
& POOR'S

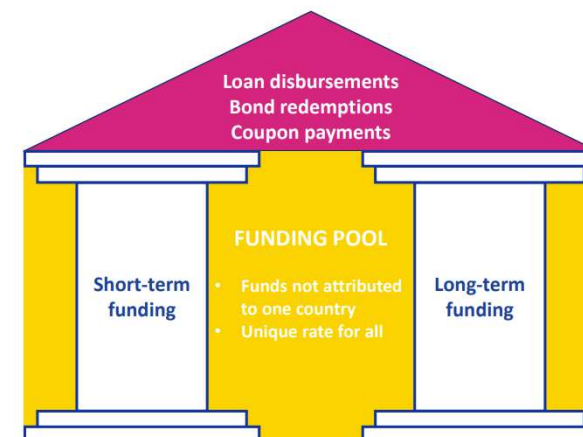
FitchRatings

MOODY'S

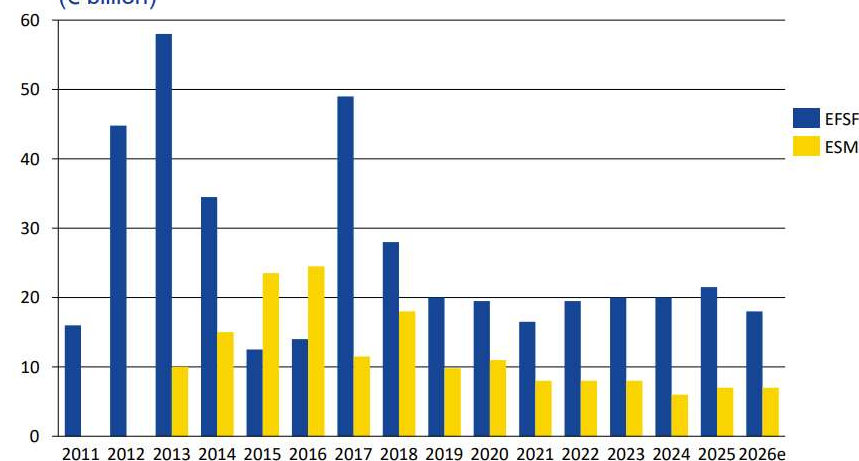
SCOPE

MORNINGSTAR

DBRS



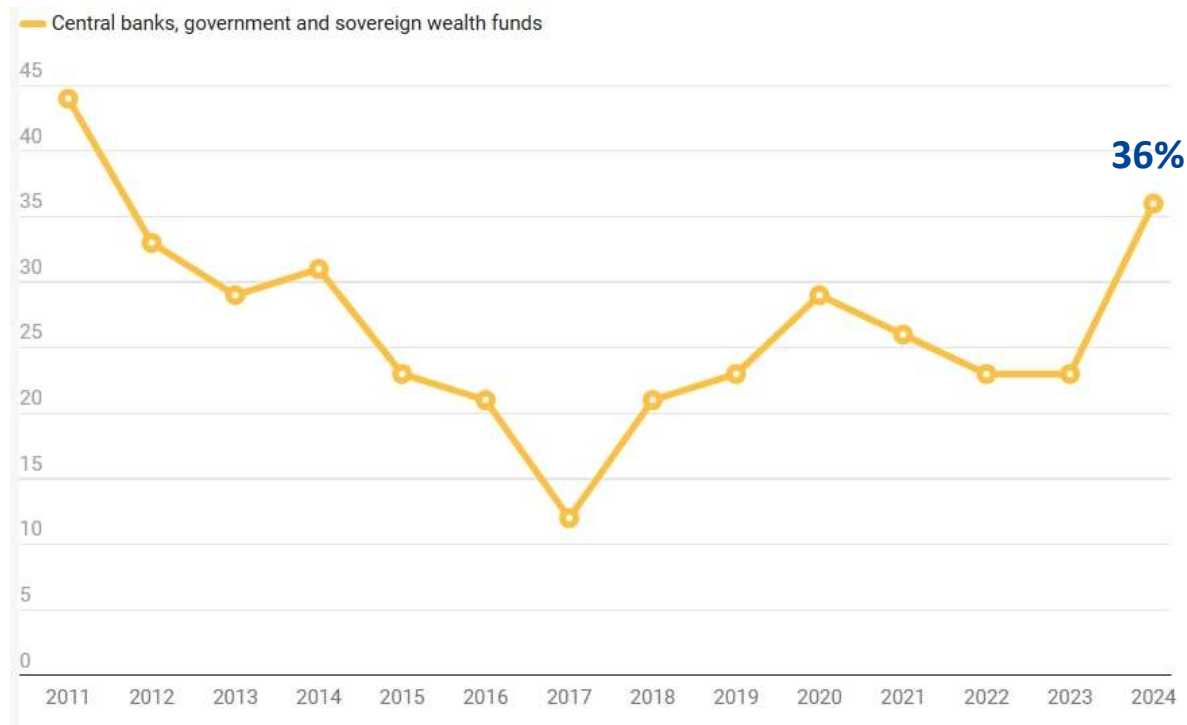
EFSF / ESM Bond issuance
(€ billion)*



Source: ESM calculations

SOVEREIGN WEALTH FUNDS, GOVERNMENTS AND CENTRAL BANKS REACHED PEAK LEVELS SINCE 2011

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



Indicates trust in:

- Euro area economy
- Euro as a currency
- AAA-rated European safe assets

Asia leads this trend: 22%
of ESM/EFSF issued bonds
allocated to Asian investors
in 2024

Source: ESM calculations

WHAT TO WATCH NEXT



WHAT TO WATCH IN 2025?

Euro area is set to grow – Bulgaria ready to join 1 Jan 2026 as 21st member

EU and euro at record support level from Eurobarometer*

Defence finance and tariffs top of the market agenda

Europe's response has convinced the market – for now

- Draghi and Letta reports
- Implementation via Defence White paper, Savings and Investments Union and Clean Industrial Deal
- €800bn package, of which €650bn national and €150 new SAFE instrument

NATO Summit end June to give direction on defence finance

[*Standard Eurobarometer 103 - Spring 2025 - May 2025 - - Eurobarometer survey](#)

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