European Stability Mechanism

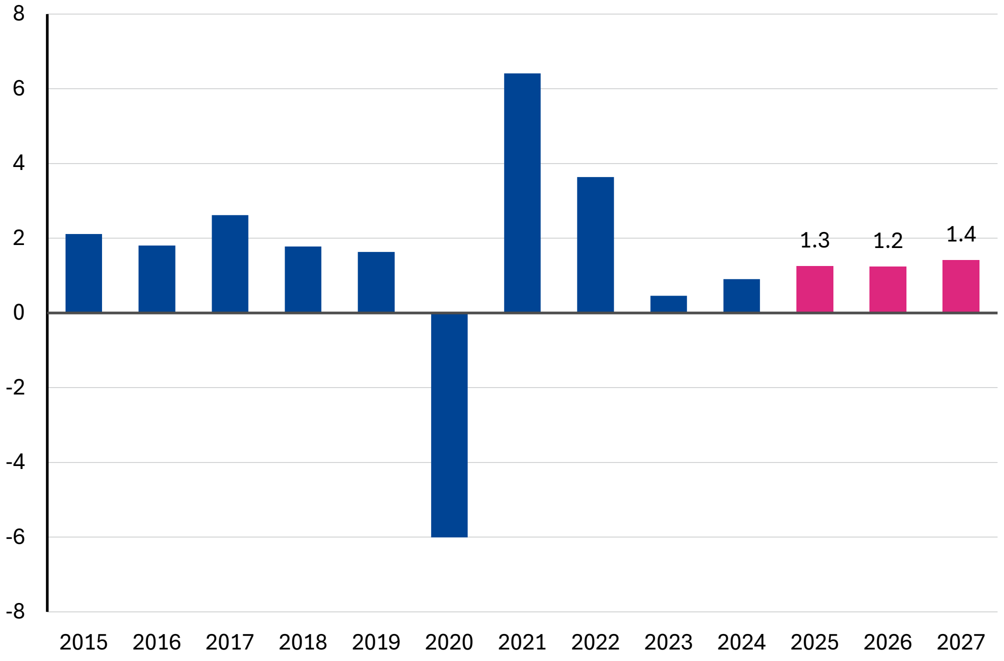
THE GLOBAL FINANCIAL SAFETY NET IN A FRAGMENTED WORLD

Matjaž Sušec, European Stability Mechanism (ESM)

University of Ljubljana, School of Economics and Business, 28 November 2025

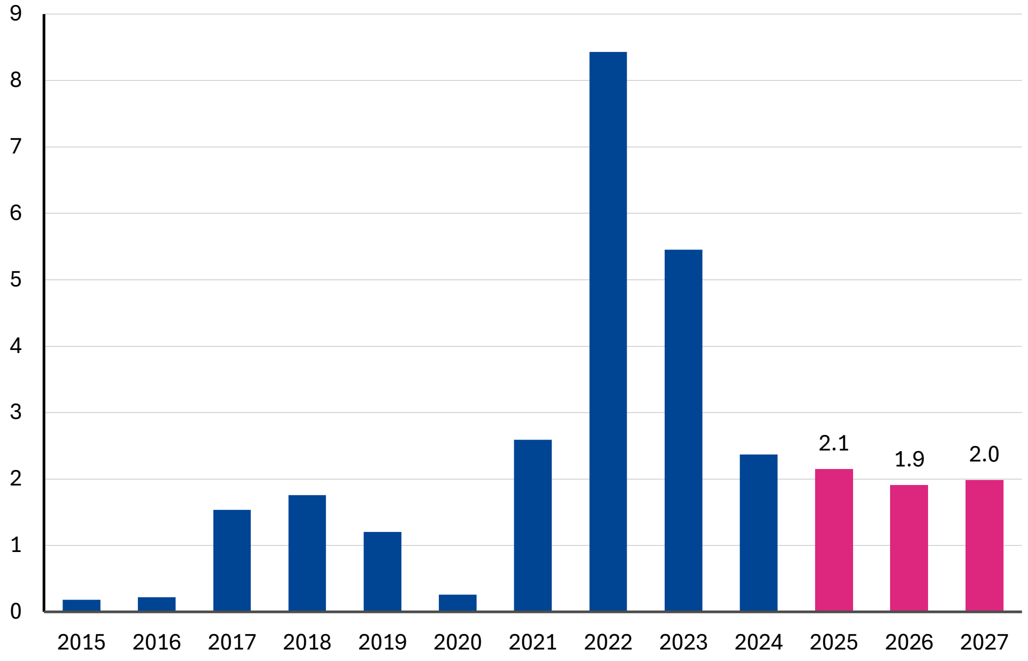
BASELINE SCENARIO 2025-27

Euro area annual GDP growth 2015-27
(% annual growth rates)



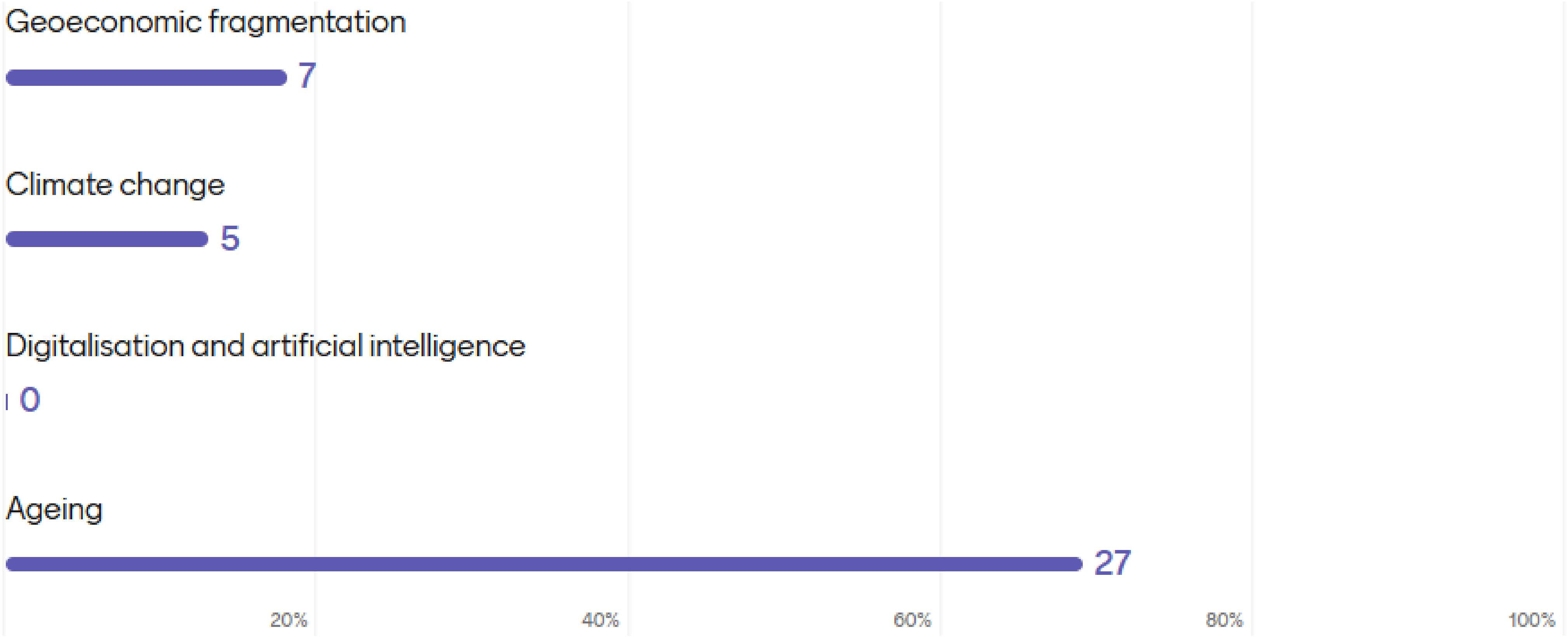
Source: EC and Eurostat
Note: 2025, 2026 and 2027 reflect the EC projections (November 25).

Euro area inflation 2015-27
(% annual growth rates)



Source: EC and Eurostat
Note: 2025, 2026 and 2027 reflect the EC projections (November 25).

WHAT ARE THE MAIN TRENDS THAT COULD PUT A COUNTRY’S FINANCIAL STABILITY AT RISK?



RISK OUTLOOK: NAVIGATING A SHIFTING GLOBAL LANDSCAPE

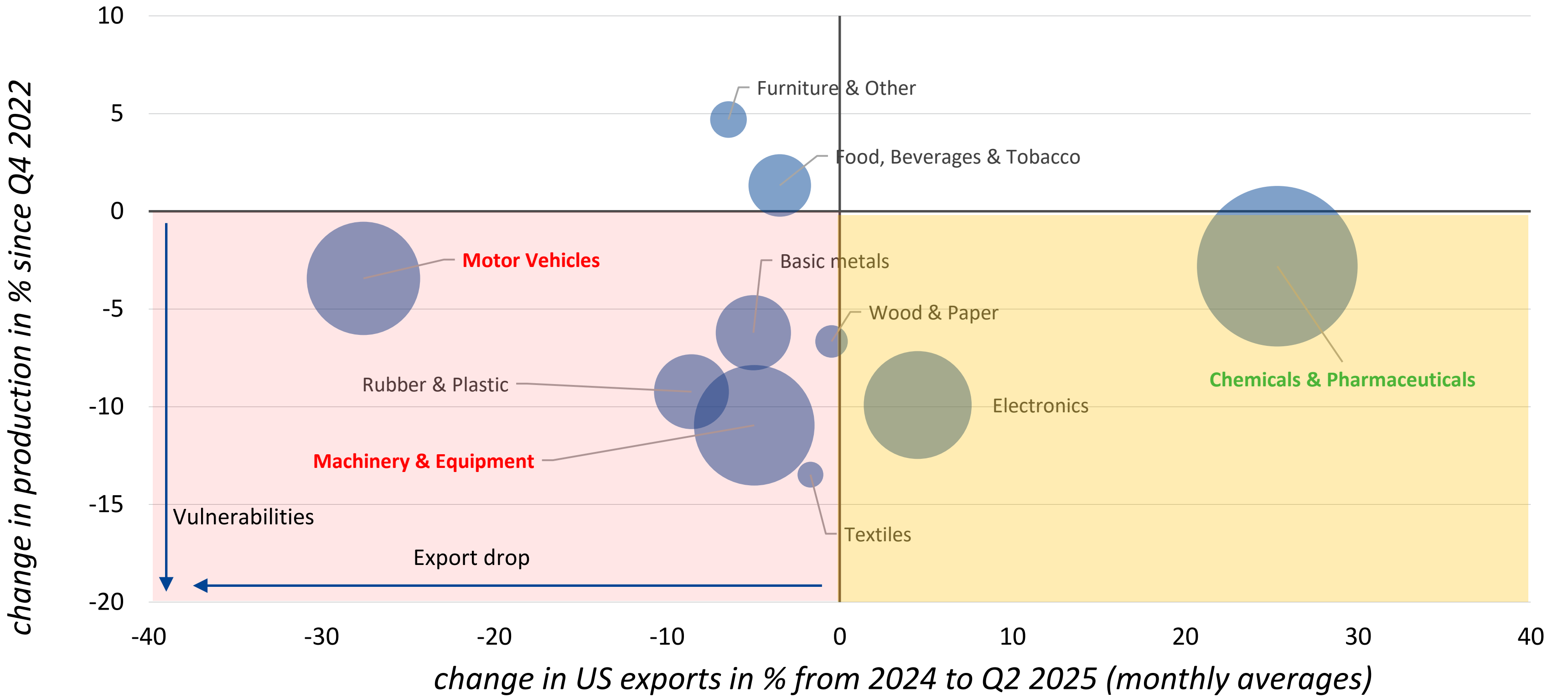
Geopolitical developments and domestic fiscal vulnerabilities are key risks to growth and financial stability.

Policy area/Risk	**Trade, tariffs & geopolitical risk**	**Ageing society**	**Fiscal policies**
Spillovers/ Short-term impact	Growth & inflation	Labour market pressures & productivity	Long-term interest rates & defence
EU long-term challenges	EU competitiveness	Pension systems & healthcare sustainability	Spending needs debt sustainability

ECONOMIC EFFECT FROM TARIFFS MANAGEABLE IN THE SHORT RUN THOUGH HARMING LONG-TERM COMPETITIVENESS

Euro area: vulnerable industries and exports to US

(y-axis: production, x-axis: US exports)



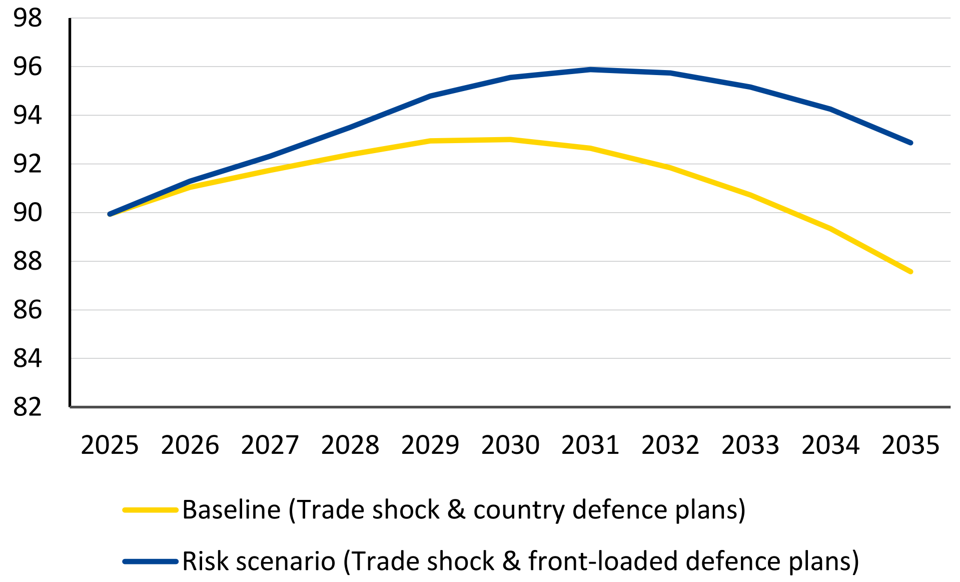
Sources: Eurostat and ESM calculations

Notes: The vertical axis reports the change of respective sectors' production from Q4 2022 to Q2 2025 in %. The horizontal axis shows monthly exports in Q2 2025 (averages) relative to monthly exports in 2024 (averages). Bubbles represent the US exports to gross value-added ratios.

TIGHT FISCAL SPACE FOR SOVEREIGNS WITH RISKS TO DEBT SUSTAINABILITY

Defence spending puts euro area debt on an upward path until 2030, under escape clause

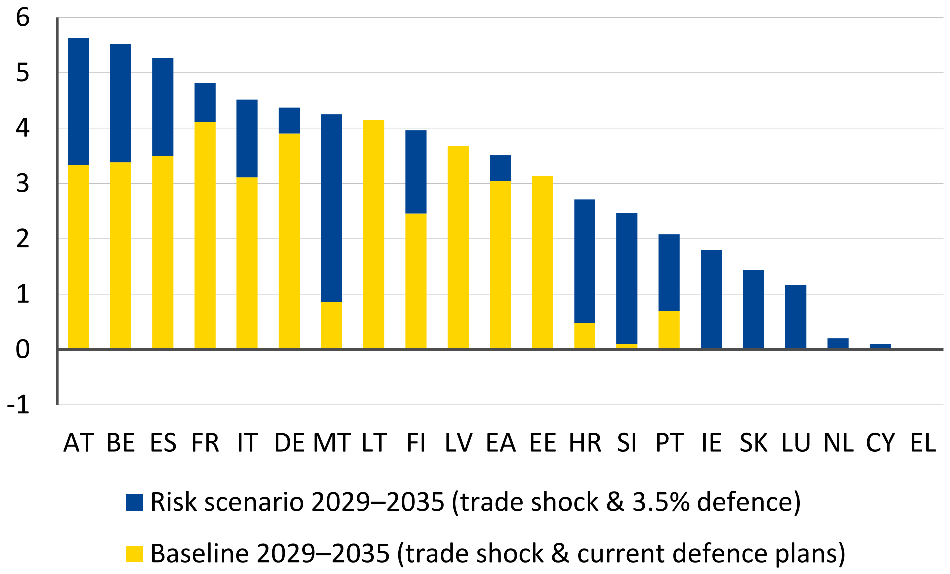
(public debt, % of GDP)



Source: ESM calculations

Stability and growth pact compliance after 2028 requires unprecedented adjustments

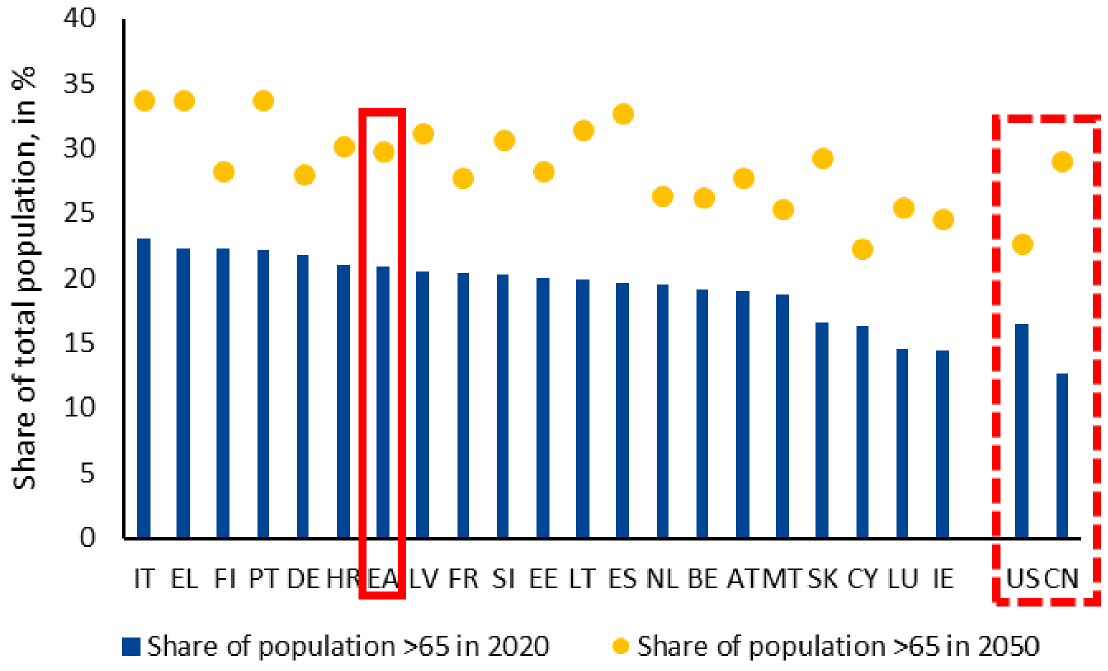
(cumulative adjustment needs as of 2029, % of GDP)



Source: ESM calculations based on a seven-year adjustment plan

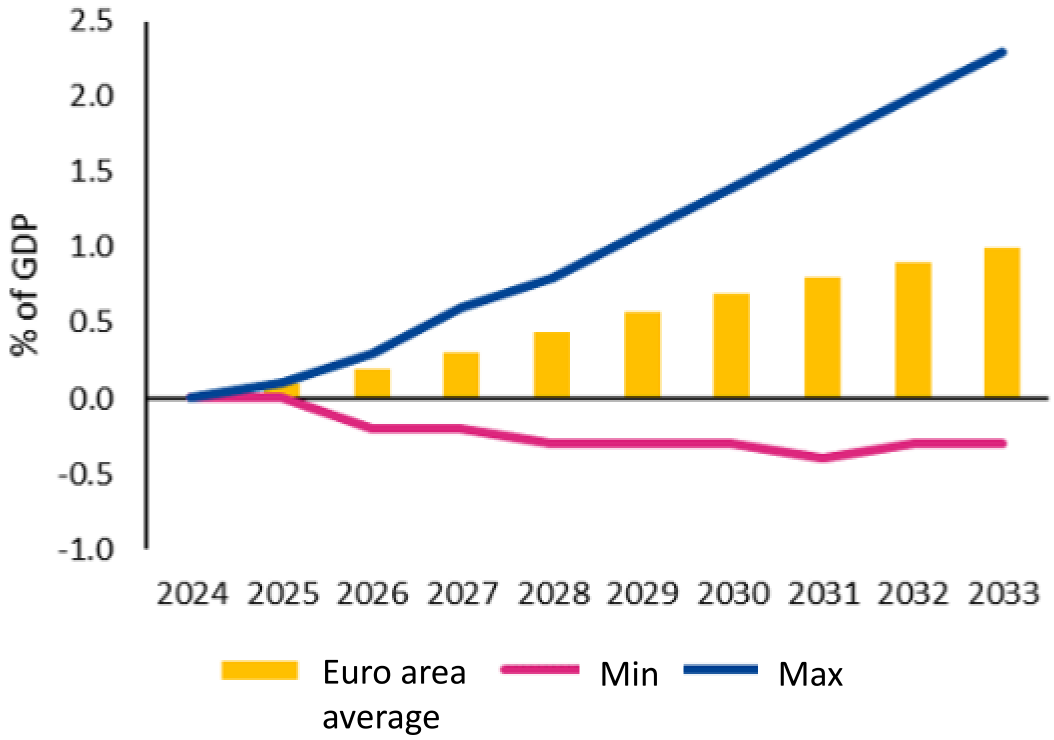
AGEING IS A DRAG ON GROWTH

The continent is ageing …



Source: Eurostat, U.S. Census Bureau

… which will increase ageing-related expenditures.

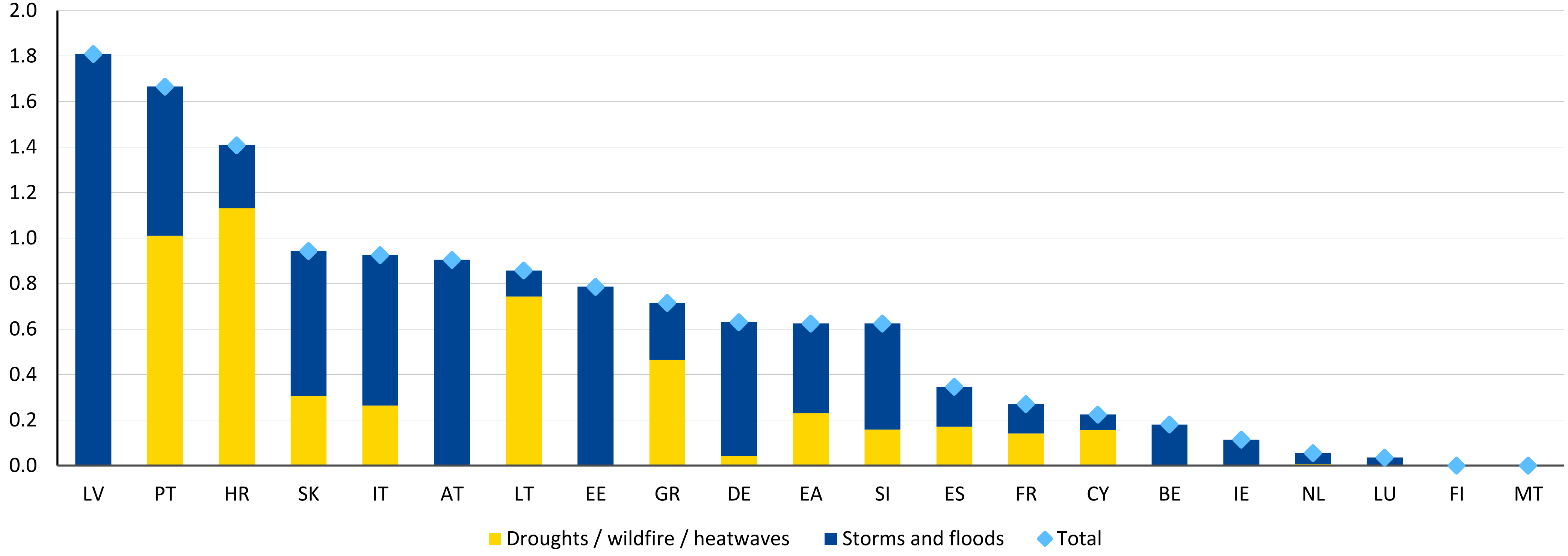


Source: EC Debt Sustainability Monitor, 2022

CLIMATE CHANGE CAN AFFECT FINANCIAL STABILITY

Short-Term expenditure pressures based on historical losses

(one-year shock, share of GDP (%))

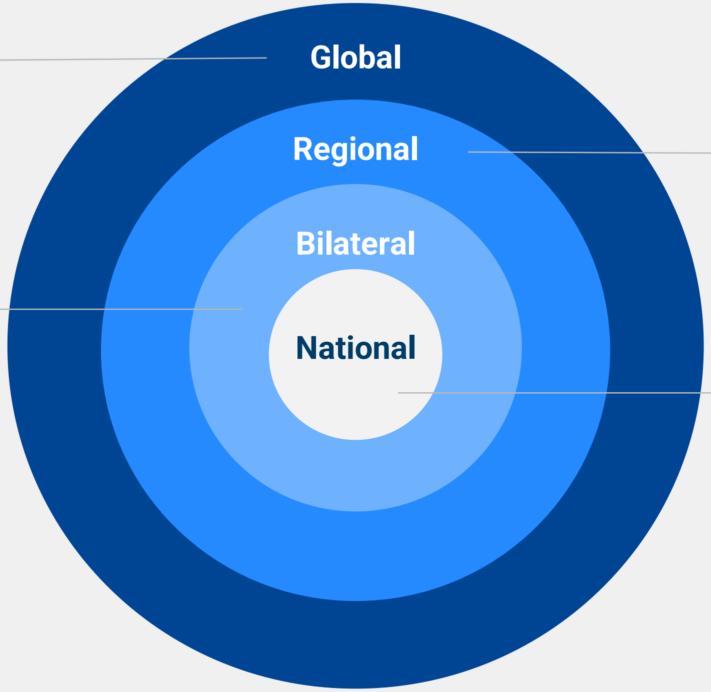


Source: ESM Calculations based on the worst annual damage (EM-DAT 2000–2022) multiplied by the average share of uninsured losses (CATDAT 1980–2021) as a percentage of GDP, illustrating the potential fiscal exposure from uninsured losses.

THE GLOBAL FINANCIAL SAFETY NET (GFSN)

The GFSN provides insurance and financing when shocks hit

Four layers of protection



Global

The IMF, with its near-universal membership, is the central player of the GFSN

Regional

The Regional Financial Arrangements (RFAs) pool resources at the regional level

Bilateral

Bilateral swap lines between central banks help ease funding market pressures

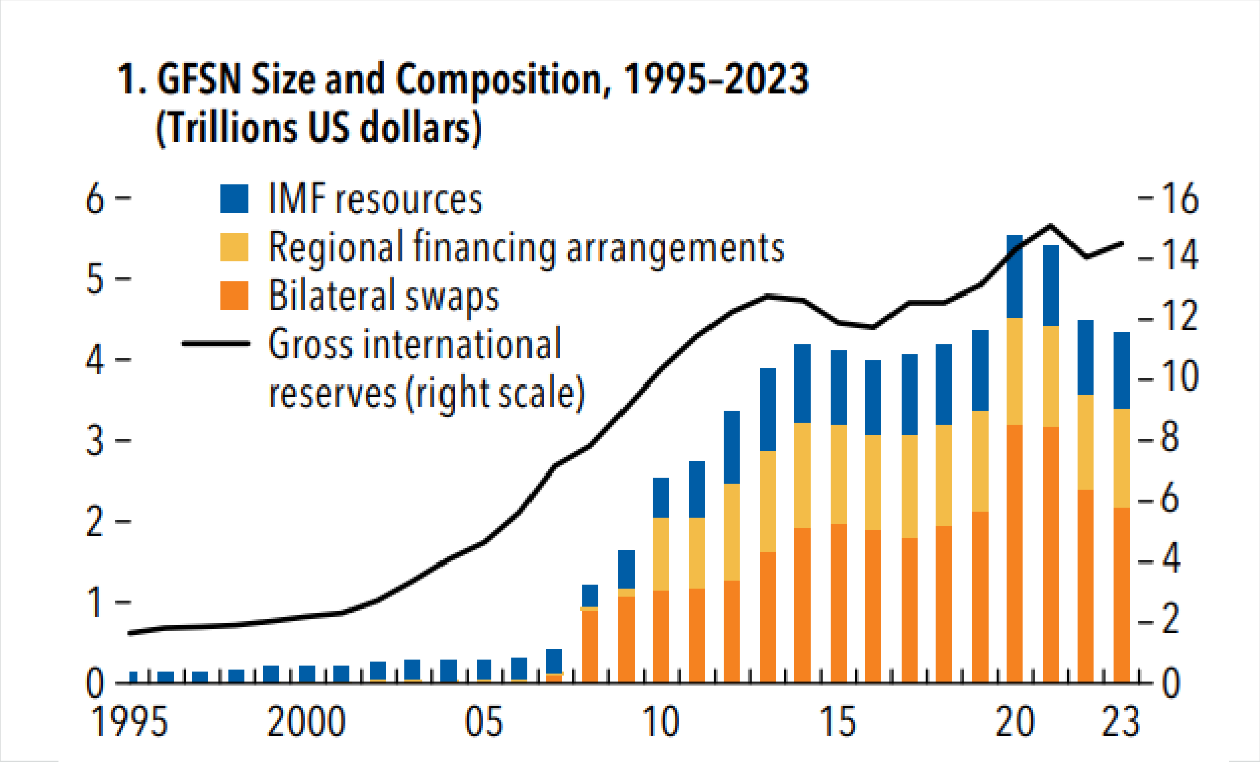
National

International reserves can be used as self-insurance against external shocks

SIZE AND EXPANSION OF GFSN RESOURCES

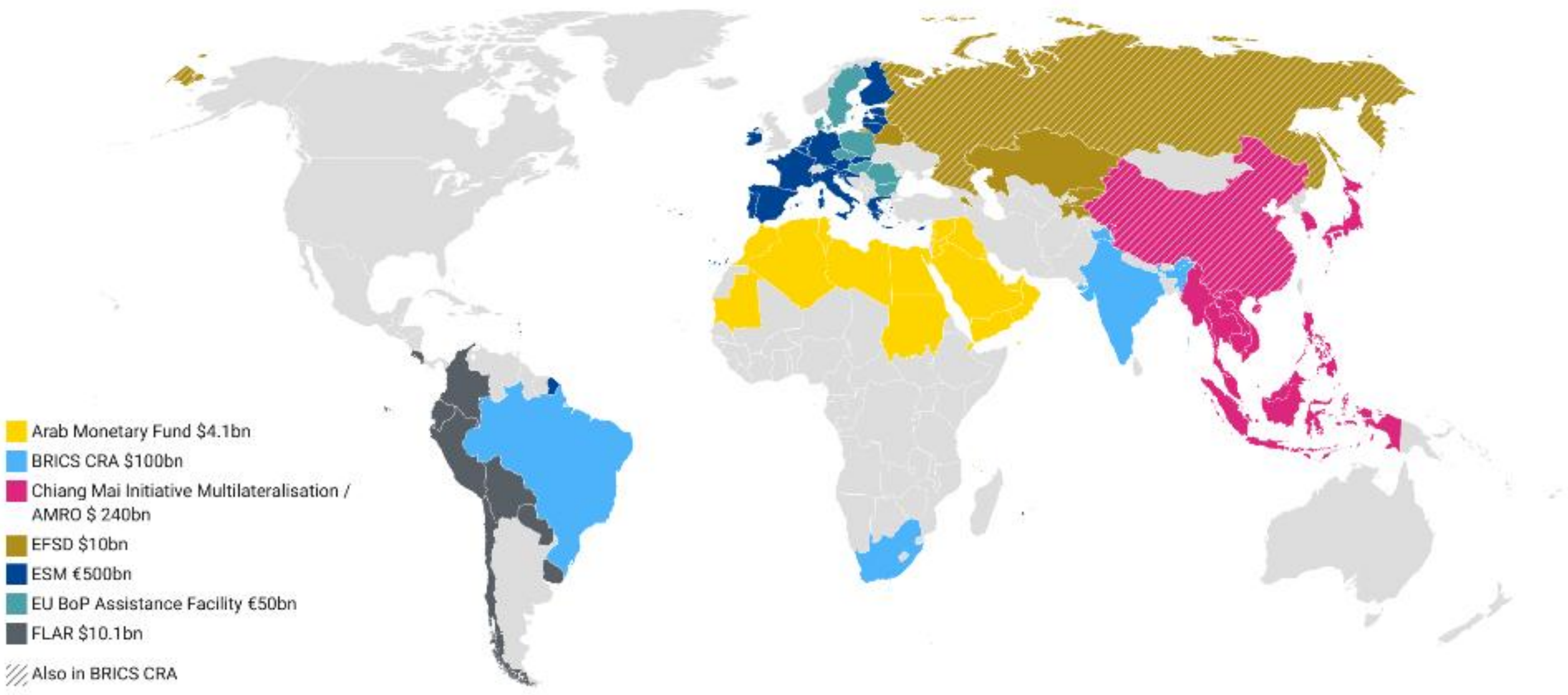
GFSN size and composition, 1995-2023

(Trillions USD)



Source: IMF (2025); see: [2025 External Sector Report: Global Imbalances in a Shifting World]

REGIONAL FINANCING ARRANGEMENTS: COUNTRY COVERAGE



Notes: Maximum lending capacities; the European Commission manages two RFAs namely the EU Balance of Payments Assistance Facility for EU countries outside the euro area and Macro-financial Assistance for partner countries. The latter is not included in the graphic.

IMF: GLOBAL LENDER OF LAST RESORT

- **Established in 1944** in the aftermath of the 2nd world war
- **191 member countries** give it near-global membership
- It provides:
  - Temporary liquidity support to countries under stress
  - Policy advice
  - Capacity development
- **Lending capacity** of about **USD 1 trillion**
  - Resources come from quotas and temporary borrowing agreements
- **USD 170 billion** in credit outstanding

THE ESM: THE RESCUE FUND FOR 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 Single Resolution Fund (SRF)

Strong capital structure:

€708.5 billion subscribed capital of which **€81** billion is paid-in capital

Max. lending capacity:

€500 billion of which **€428** billion available

*Ratification of the Amending Agreement to the ESM Treaty ongoing

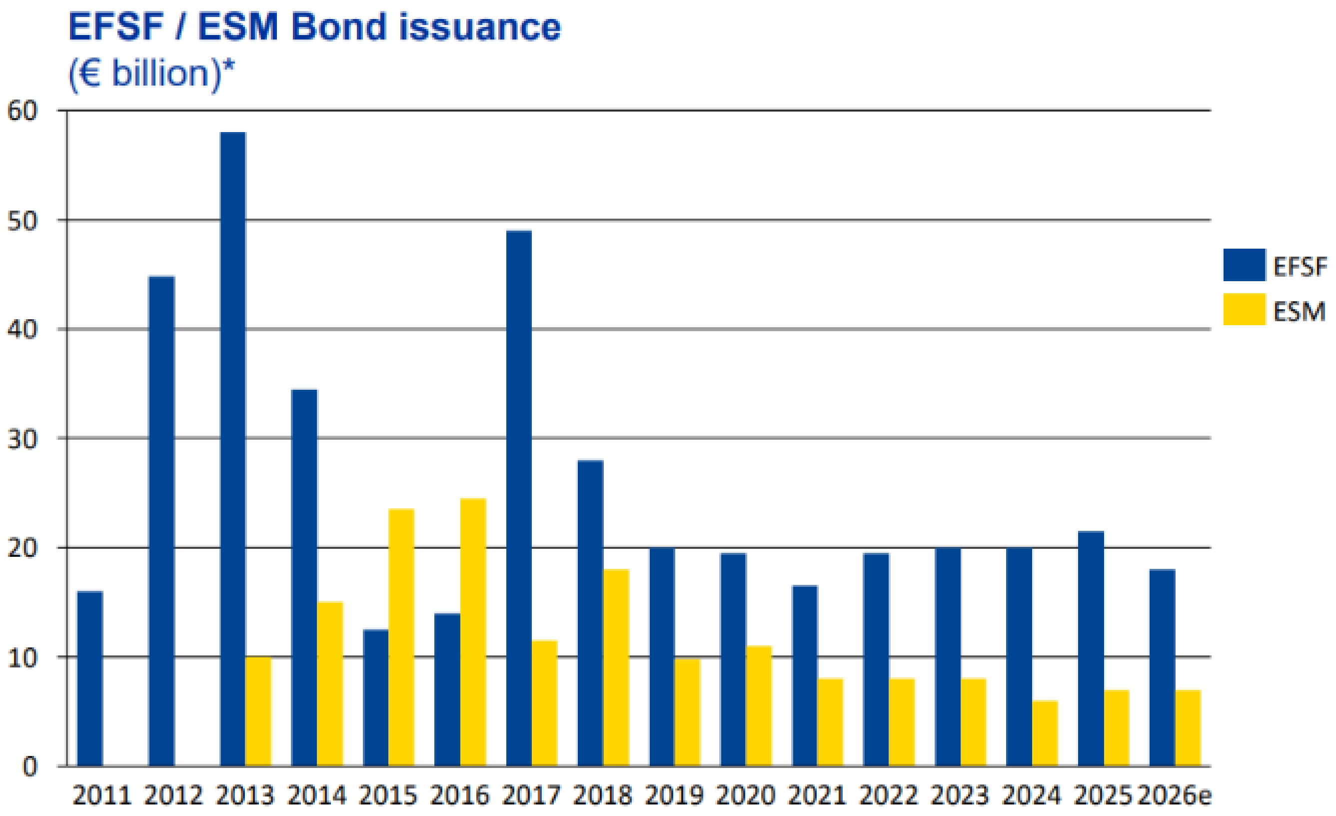
EFSF AND ESM PROGRAMMES

EFSF	ESM
Ireland (2010-2013) €17.7 billion	**Spain (2012-2013)** €41.3 billion
Portugal (2011-2014) €26 billion	**Cyprus (2013-2016)** €6.3 billion
Greece (2012-2015) €141.8 billion	**Greece (2015-2018)** €61.9 billion

Total amount disbursed by EFSF and ESM:
€295 billion

Total amount outstanding:
€245 billion

ESM FUNDING PLAN



The combined funding for EFSF & ESM for 2025 is **€28.5 billion**

- €21.5 billion for EFSF
- €7 billion for ESM

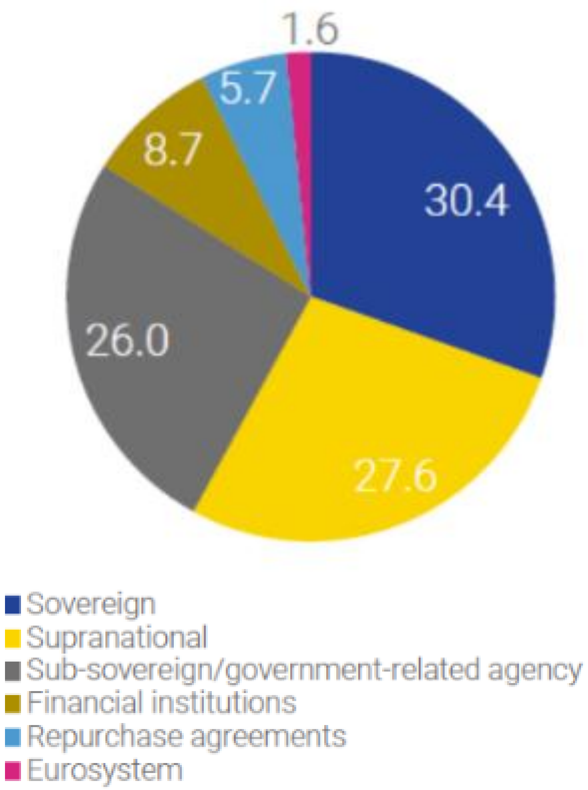
The estimated funding for EFSF & ESM for 2026 is **€25 billion**

- €18 billion for EFSF
- €7 billion for ESM

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

ESM AS AN INVESTOR

Asset class distribution of investments
(in %)



The ESM is a significant investor in the Sovereign, Supranational and Agency (SSA) space

With **€81 billion paid-in capital**, the ESM is one of the **most capitalised IFIs globally**

The ESM does **not use its paid-in capital to provide loans**

The ESM invests in secure liquid fixed-income assets rated **"A" and above**

THE GFSN'S IMPORTANCE IN A FRAGMENTED WORLD

- The more challenging geo-economic environment calls for a strong GFSN.
- The GFSN performed well during crises, supporting financial stability and preventing broader disruptions though coverage remains uneven, according to the IMF.
- The Regional Financing Arrangements have been evolving and finetuning their toolkits in response to emergencies.

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