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CREDIT OPINION
13 December 2022

Update

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RATINGS

European Stability Mechanism (ESM)

	Rating	Outlook
Long-term Issuer	Aaa	Stable
Short-term Issuer	P-1	--

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European Stability Mechanism – Aaa stable

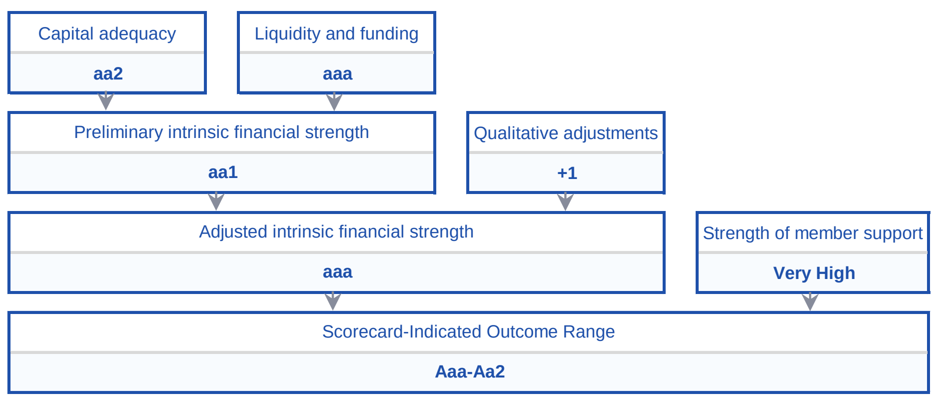
Regular update

Summary

The European Stability Mechanism's (ESM) credit profile incorporates a large capital buffer and low leverage ratio. The weak weighted average borrower rating is counterbalanced by the preferred creditor status and zero loan delinquencies to date. Prudent capital and liquidity management, a strong liquidity position and very strong member support are credit strengths. The concentrated loan book and shareholder-borrower overlap pose challenges. However, increased robustness of the European crisis-fighting architecture lowers the dependence on a single shareholder's rating, including France (Aa2 stable), and ESM Treaty reform will reduce concentration risks to some degree.

Exhibit 1

ESM's credit profile is determined by three factors



Source: Moody's Investors Service

Credit strengths

» Comfortable capital position, low leverage and preferred creditor status

» Prudent capital and liquidity management and a strong liquidity position

» Very high strength of member support

Credit challenges

» High concentration of the loan book

» Comparatively weak asset quality

Rating outlook

The stable outlook reflects our view that downside risks are effectively mitigated by the ESM's very strong credit profile. The outlook is further supported by very strong shareholder support and ESM's strategic role as a key crisis-fighting European institution.

Factors that could lead to a downgrade

Indication of waning shareholder support towards the ESM would be credit negative. While the ESM’s credit profile is resilient to weakening creditworthiness of individual member states, the ratings would face downward pressure in a systemic crisis that would weigh on shareholders’ ability to provide support. In particular, the ESM’s rating would be sensitive to simultaneous rating downgrades of large and highly-rated shareholders.

Key indicators

Exhibit 2

ESM	2016	2017	2018	2019	2020	2021
Total Assets (USD million)	177,696.0	207,463.6	209,306.8	219,874.1	250,760.9	229,679.1
Development-related Assets (DRA) / Usable Equity [1]	88.2	92.8	109.9	115.2	119.5	115.6
Non-Performing Assets / DRA	0.0	0.0	0.0	0.0	0.0	0.0
Return on Average Assets	0.4	0.0	0.2	0.2	0.2	0.2
Liquid Assets / ST Debt + CMLTD	526.6	382.2	432.2	320.2	308.0	286.8
Liquid Assets / Total Assets	56.6	55.2	49.7	50.3	50.1	51.7
Callable Capital / Gross Debt	728.8	699.6	632.7	563.7	526.8	529.4

[1] Usable equity is total shareholder's equity and excludes callable capital

Source: Moody's Investors Service

Profile

The ESM is the permanent crisis-resolution mechanism for the euro area, with euro area member states as shareholders. It was inaugurated in October 2012 and is governed by an intergovernmental treaty that euro area member states signed in February 2012. Authorised capital is provided based on the euro area member states' respective share of the European Union's (Aaa stable) total population and GDP.[1] It issues debt instruments to finance loans and provides other forms of financial assistance to euro area member states either facing or at risk of facing severe financial difficulties,[2] performing the same functions as the European Financial Stability Facility (EFSF, Aaa stable), its predecessor entity, which no longer engages in new financial support programmes. Important differences between the two include the ESM's permanent status, its availability of capital and its preferred creditor status.

The ESM has provided financial support in the form of loans to Spain (Baa1 stable), Cyprus (Ba1 positive) and Greece (Ba3 stable). Spain's programme ended in December 2013 and Cyprus' in March 2016. In both cases, the ESM ultimately disbursed significantly less than committed. The Spanish authorities drew €41.3 billion (€100 billion committed), made nine voluntary early repayments between July 2014 and October 2018 (totalling €17.3 billion), and repaid unused funds amounting to €0.3 billion. The Cypriot authorities drew €6.3 billion of a total ESM funding envelope of €9 billion. Greece exited its third ESM support programme in August 2018. The ESM has disbursed €61.9 billion since Greece's third adjustment programme began in August 2015, lower than the total commitment of €86 billion. Greece has repaid €2 billion in February 2017.

Detailed credit considerations

Our determination of a supranational's rating is based on three rating factors: capital adequacy, liquidity and funding and strength of member support. For Multilateral Development Banks, the first two factors combine to form the assessment of intrinsic financial strength, as shown on the cover page graphic. Additional factors can affect the intrinsic financial strength, such as risks stemming from the operating environment or the quality of management. The strength of member support is then incorporated to yield a rating range. For more information please see our Supranational Rating Methodology.

FACTOR 1: Capital adequacy score: aa2

The ESM's capital adequacy score of "aa2" is based on (1) an "aa2" sub-factor score for capital position, reflecting its substantial paid-in capital buffer and one of the lowest leverage ratios among the MDBs we rate; (2) a "baa" sub-factor score for development asset credit quality; and (3) a sub-factor score of "aaa" for asset performance.

Substantial capital buffers and low leverage ratio underpin comfortable capital position

At the end of 2021, paid-in capital of €80.5 billion (11.4% of the total subscribed capital of €704.8 billion) covered more than 90% of outstanding loans. The remaining €624.3 billion (88.6% of total subscribed capital) is callable if needed. Paid-in capital will increase to €80.8 billion in 2027, when all payments from existing members have been received. Croatia (Baa2 stable) will become an ESM member upon joining the euro area on 1 January 2023, albeit capital contributions will be phased over time.

Profits generated since ESM's creation have been retained, increasing the reserve fund and strengthening the capital position. The board of governors reviews ESM's maximum lending capacity and the adequacy of the authorized capital stock at least every five years.

The minimum ratio between paid-in capital and the ESM's maximum lending capacity is 15%. Capital is invested in high-quality and liquid securities, is available to pay bondholders in case of need and cannot be lent. However, the investment portfolio can be posted as collateral in the context of repurchase and reverse repurchase agreements.

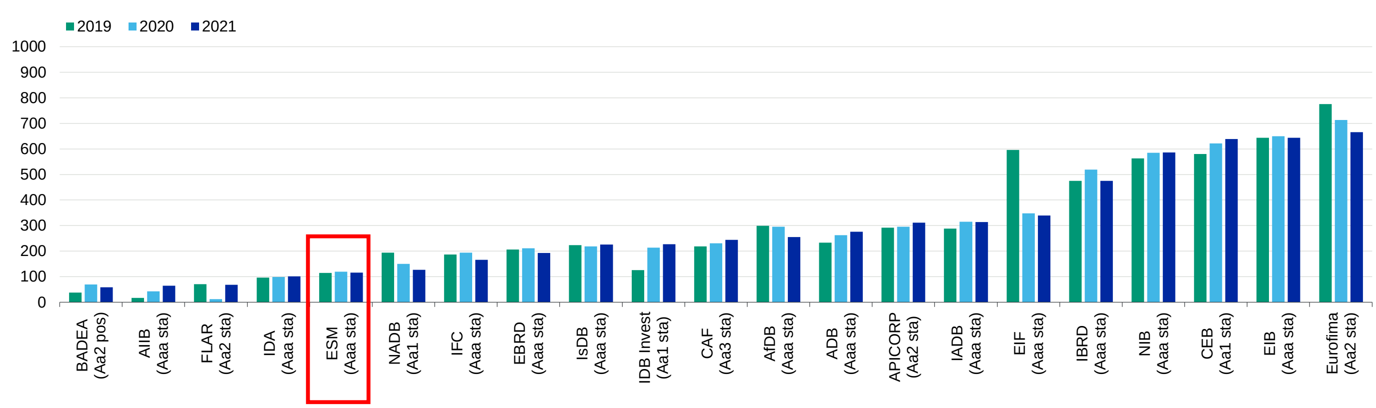
Taking the full capital cushion, including callable capital, into account, the ESM has a very solid capital base and low leverage, even if it uses its maximum lending capacity of €500 billion. The gearing ratio of 71% – defined as the ratio of maximum lending to subscribed capital – compares favourably with most other MDBs. The consent of all ESM shareholders would be required to raise its lending capacity, which in turn would require an increase in subscribed capital to preserve its moderate leverage.

The ESM has a significant amount of usable equity, amounting to €83.8 billion at end-2021, available to cover potential risks from its development related assets, which stood at €97 billion. This resulted in a leverage ratio of 115.6% at end-2021 and a three-year average for the period 2019-21 of 116.8%. This leverage ratio compares favourably with those of its Aaa- and Aa-rated peers (Exhibit 3).

Exhibit 3

ESM has a comparatively low and stable leverage ratio

Development-related assets/usable equity, %



Source: Respective MDBs' financial statements and Moody's Investors Service

With no active programme after the termination of Greece's programme on 20 August 2018, the leverage ratio will decrease based on the current repayment profile of the three programme countries. Following Spain's scheduled repayments on 12 December 2022 and next on 11 December 2023, the leverage ratio will fall to about 105%. After the full repayments of Spain in 2027 and Cyprus in 2031, and barring any new exposure, the ESM's only exposure will be Greece.

Development asset quality is weak, but asset performance remains very strong

The ESM's strong capitalization mitigates the risks associated with a moderate development asset credit quality score of “baa”. This includes a +1 notch uplift for preferred creditor status from which the ESM benefits in our view, given that it currently lends exclusively to sovereigns and its statutes explicitly state that obligations to the ESM are junior only to those to the International Monetary Fund (IMF).[3]

In 2020, the weighted average borrower rating (WABR) improved further to Ba2 from Ba3 in 2019, following the rating upgrade of Greece, and has remained stable in 2021. The WABR has improved from a low of Caa1 in 2016, as credit fundamentals of ESM's borrowers – Greece, Cyprus and Spain – have strengthened and drawdown of funds was lower than initially made available in the assistance programs. The ESM disbursed 70% of the funds it made available to Cyprus and 72% of those made available to Greece, containing the share of lower-rated borrowers in its portfolio.

At the same time, the ESM's loan portfolio is highly concentrated and given its mandate as emergency liquidity provider to euro area sovereigns in a liquidity stress situation will remain so in the future. However, the ESM will become the lender of last resort for the Single Resolution Fund (SRF)[4] following ESM Treaty ratification by all shareholders, with a maximum lending capacity of €68 billion, in the form of a revolving credit line.

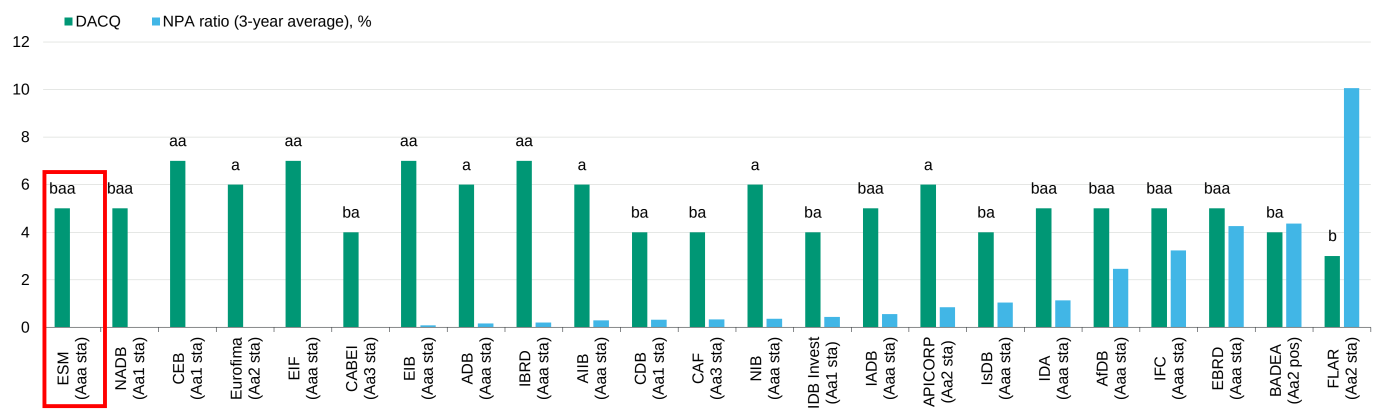
This will prospectively reduce somewhat the high concentration and the overlap between shareholders and borrowers. Once the backstop takes effect, the ESM's direct bank recapitalisation instrument will be discontinued.

The “aaa” assessment for asset performance reflects the absence of any loan delinquencies to date, which makes ESM one of the few MDBs we rate Aaa or Aa that has a non-performing asset (NPA) ratio of 0% (Exhibit 4). Together with the fact that Greece's repayments are not due to start until 2034, the current ratings we have on ESM's borrowers suggest that asset performance will likely remain solid in the coming years.

Exhibit 4

ESM is one of the few highly-rated MDBs with zero non-performing assets

Development asset credit quality (DACQ) score and NPA ratio



Source: Respective MDBs' financial statements and Moody's Investors Service

FACTOR 2: Liquidity and funding score: aaa

We assess the ESM's liquidity and funding score as "aaa" based on ample availability of liquid resources and very strong quality and structure of funding. The ESM runs a prudent liquidity and capital management policy intended to ensure that there is no shortfall of liquid assets to service its obligations, even should a borrower default. We score the availability of liquid resources as "aaa". Paid-in capital must be invested in high-quality liquid securities.

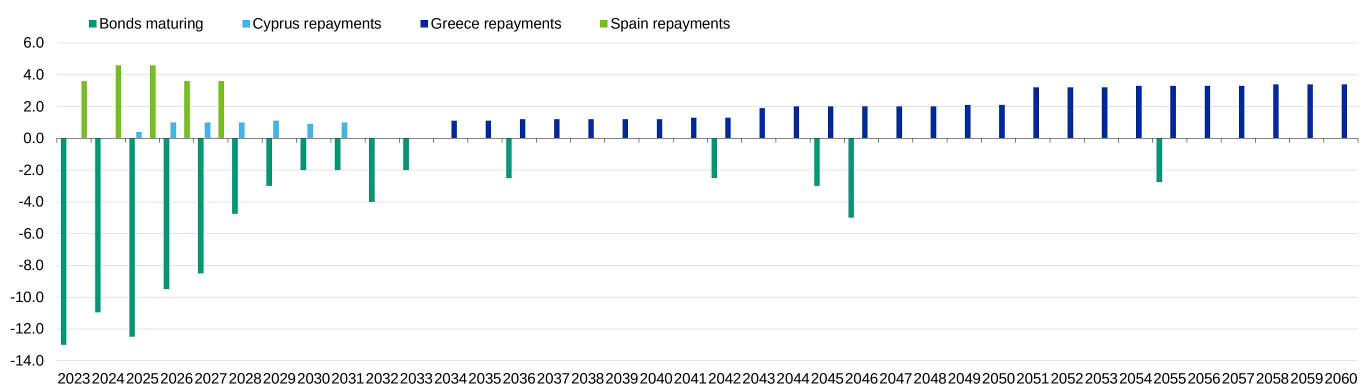
Strong liquidity ensured through prudent investment of paid-in capital

We assess the ESM's liquid resources as "aaa" based on our own liquid resources ratio (liquid assets/net cash outflows in the 18 months following the most recently reported period), which at 313% is one of the highest among the MDBs we rate. To calculate it, we consider only highly liquid assets such as cash and short-term bank deposits as well as securities rated A2 or higher, because we believe only those would be available in a stress scenario at short notice and with minimal loss.

Very strong liquid resources mitigate the ESM's exposure to refinancing risks stemming from a maturity mismatch between its lending and borrowing operations (Exhibit 5). Its volume of debt to roll over is likely to peak in 2023 with €13.0 billion of bonds maturing, followed by about €11 billion of bond maturities per year in 2024 and €12.5 billion in 2025. Scheduled repayments on the ESM's loans started in December 2022 for Spain, and will begin in 2025 for Cyprus and 2034 for Greece, but the ESM's own borrowing is at much shorter maturities. The weighted average maturity of total loans is 19.8 years, compared with the average maturity of 6.5 years for bills and bonds, as of 13 December 2022.

Exhibit 5

ESM borrowing is at much shorter maturities than programme repayments
€ billion



Source: ESM and Moody's Investors Service

According to its investment policy, the ESM's liquidity pool is divided into two separate portfolios. The short-term tranche has been sized to match the payments due from the borrowers over at least the coming six months, with a minimum overall size of €5 billion. The medium- to long-term tranche is managed to enhance the returns of the investment portfolio, although it also mainly consists of highly rated and liquid assets. In addition, there is a hold-to-maturity tranche, which may be monetised in case of a liquidity shortfall.

All payments due over the next 12 months must be covered by the "available funds", which comprise 100% of the short-term tranche and 50% of the medium- to long-term tranche. This buffer can be used to repay ESM's creditors but would also be available to make early disbursements in case a new lending program with a euro area member state was agreed.

At least 30% of paid-in capital needs to be invested either in supranational institutions or outside the euro area. At the same time, exposure to an ESM member state is limited to its contribution key. These policies have gradually evolved to enhance investment capacity.

Maturing institution with strong market access

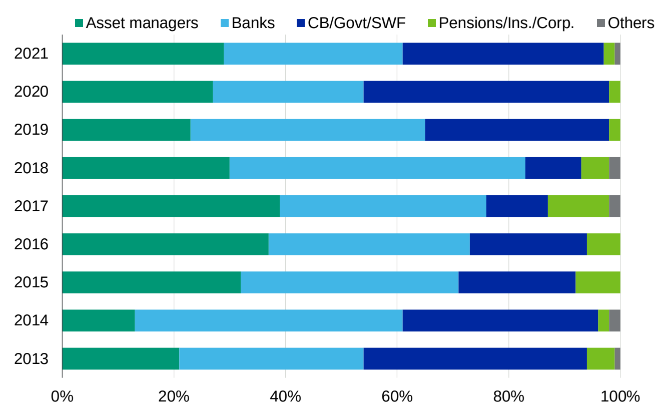
The ESM has established a strong market presence since its inception. Importantly given its mandate, it has proved its ability to issue bonds in size within a relatively short period of time to provide financial support to member states in distress. Cashless transactions are another lending tool for the ESM in the context of a bank recapitalisation program which provide significant funding flexibility and allows the ESM to disburse large sums over a short period.[5] This funding route is not available to other MDBs. Ease of market access is further helped by the treatment of ESM's securities as Level 1 high quality liquid assets (HQLA) for the calculation of the liquidity coverage ratio under the Basel framework.

Since its first bond issuance in October 2013, the ESM has issued about €139 billion in medium- and long-term bonds for the pool, with maturities of up to 40 years. The diversity of the ESM's investor base both by region or investor type is supported by its access to an increasing variety of markets. While the ESM issues predominantly in euros, it has accessed USD capital markets on four occasions following its inaugural USD bond in October 2017. The ESM plans to have a strategic minimum market presence of 1-2 benchmark transactions per year. The ESM issues in a variety of formats, including so-called N-Bonds ("Namensschuldverschreibungen" which are registered Bonds under German law issued in private placements), further broadening its investor base.

Central banks, governments and sovereign wealth funds accounted for 35% of ESM's total investor base in 2021, followed by banks (33%), asset managers (29%), and pension funds, insurance companies and corporations (2%). Compared to 2020, the major shift was a nine percentage points (pp) decrease in the share of central banks, governments and sovereign wealth funds, almost fully reversing an 11 pp increase in that share from the year before. Meanwhile, the share of banks increased by six pp after a decrease of 15 pp in 2020 (Exhibit 6).

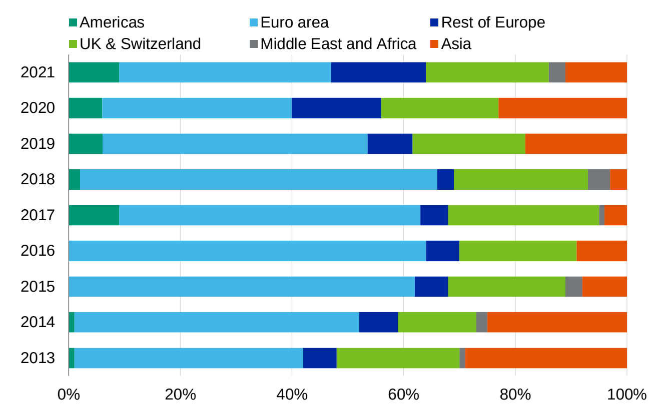
Euro area investors accounted for 38% of the total, up by four pp from 2020. Investors from the United Kingdom (UK, Aa3 negative) and Switzerland (Aaa stable) made up 22% of the total, followed by the rest of Europe with 17% – both almost unchanged from 2020. Asian investors' share dropped to 11% from 23% in 2020, while the share of investors from the Americas rose to 9% from 6%, and the portion of MIddle East and Africa based investors was 3% (Exhibit 7).

Exhibit 6
The ESM has a diversified investor base, with an increased share of public sector since 2019
% of total



Source: ESM and Moody's Investors Service

Exhibit 7
The largest group of investors is from continental Europe plus the UK
% of total



Source: ESM and Moody's Investors Service

Bonds issued by the ESM and EFSF are included in the ECB's Quantitative Easing programme. The ECB held around 47% (c. €111.6 billion) of the ESM and EFSF's combined outstanding stock of eligible debt as of 1 July 2022, according to the ESM's estimates. ECB asset purchases did not result in a decline in turnover of the ESM's bonds in the secondary market, which is mainly driven by the ESM's new issuance volume.

Qualitative adjustments to intrinsic financial strength

Operating environment

We do not apply an adjustment to the ESM's operating environment. The deep recession in the euro area during the coronavirus pandemic in 2020 has neither had a negative impact on the ESM's asset quality and performance, nor on its shareholders' ability and willingness to support. We expect this strong performance will be maintained even in a scenario of weakened economic performance in the euro area.

Quality of management

We apply a +1 adjustment to the ESM's "aa1" intrinsic financial strength (IFS). The adjusted score of "aaa" reflects our assessment of the ESM management's capabilities of proactively managing key risks, namely the risk of non-payment of one of its three borrowers.

The key credit-positive feature is the ESM's Early Warning System (EWS), which differentiates the ESM from all other MDBs. The system's objective is to determine the ability of ESM borrowers to repay their obligations with a significant lead time. The ESM tracks payments due on a monthly basis, as they do for EFSF-financed programs and regularly receive detailed cash flow overviews from the borrowers. The ESM also participates in missions to program countries and closely cooperates with the European Commission, the ECB and the IMF. The EWS evaluates countries' repayment capacity over the medium term. This provides ample time to correct the borrower's liquidity pressures, or, if this fails, prepare for a missed payment and call for additional capital if needed.

FACTOR 3: Strength of member support score: Very High

We assess the overall score for strength of member support as "Very High", driven by the combined ability and willingness of shareholders to support the ESM. Our score for shareholders' ability to provide support is "a2" based on the weighted average shareholder rating. Willingness to provide support is a function of shareholders' contractual obligations and their non-contractual willingness to support the institution, which we see as "Very High" in ESM's case.

Credit strength of highest-rated shareholders is a key element for ability to support

We continue to believe that the credit strength of the strongest shareholders is critical to that of the ESM given its current and potentially future highly concentrated exposure to weaker euro area member states. By design, there is a strong overlap between shareholders and (potential) borrowers. However, we think that the improved robustness of the European crisis-fighting architecture reduces the risk of a systemic crisis with a high default correlation among EU member countries.

As a consequence, in the highly unlikely event of France as the second largest supporter to ESM defaulting, we think it is less likely than previously assumed that most lower rated euro area member states would be in default, too. While the ratings of the largest and highest-rated shareholders – in particular Germany (Aaa stable), France and the Netherlands (Aaa stable) – remain of high importance for the ESM's ratings, the reliance on any single member state rating, including on France's rating, has in our view declined.

Strong capital call mechanism and political support from euro area member states are key strengths

Willingness to support is a function of shareholders' contractual willingness to support the institution and their willingness to support it above and beyond their contractual obligations. Contractual support mainly reflects the availability of callable capital – an explicit, irrevocable and unconditional obligation of each shareholder – and our expectation that any call on that capital would be met promptly.

Our assessment of contractual support is based on the ratio of callable capital to total gross debt, which amounted to 529.4% at the end of 2021, one of the highest values among the MDBs we rate and the second-highest of all MDBs rated Aaa to Aa3 (Exhibit 8), after the African Development Bank (AfDB, Aaa stable). Moreover, the quality of callable capital is high given that the callable capital of Aaa and Aa-rated shareholders and total paid-in capital amounting to €430.9 billion would cover 479% of current outstanding loans and 86% of the ESM's liabilities at its maximum lending exposure of €500 billion.

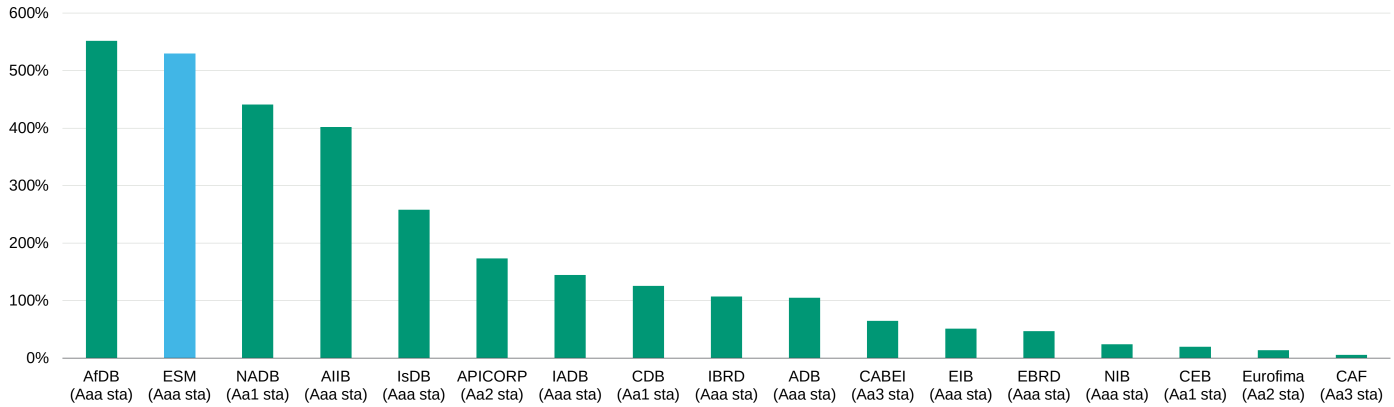
The ESM treaty and accompanying guidelines specify mechanisms for calling additional capital in case of need. We consider the emergency capital call as providing strong protection to ESM bondholders and see it as stronger than for most other MDBs: (1) the managing director can issue a capital call without the need to obtain prior approval from the ESM's governing bodies; and (2) shareholders have to meet the call within seven days of receiving it. If a shareholder fails to meet the capital call, the ESM's managing director would make further capital calls to all shareholders by increasing the contribution rate of the remaining members pro rata, up to each member's maximum callable capital commitment. Most other supranational entities that we rate require at least a decision from their board of directors and do not set such a tight deadline for delivering the capital.

In our view, the likelihood of shareholders being willing to provide support, aside from callable capital is "Very High" because of the central role played by the ESM in the euro area's institutional framework as one of the key crisis-fighting financial tool. The ESM's shareholders have initiated reforms to the ESM's legal structure, which will further strengthen the entity's role as a key euro area financial institution.

Exhibit 8

ESM's callable capital ratio is the second highest among Aaa-Aa rated MDBs

Callable capital/gross debt



Source: Moody's Investors Service

ESG considerations

European Stability Mechanism (ESM)'s ESG Credit Impact Score is Positive CIS-1

Exhibit 9
ESG Credit Impact Score

CIS-1
Positive

For an issuer scored CIS-1 (Positive), its ESG attributes are overall considered as having a positive impact on the rating. The overall positive influence from its ESG attributes on the rating is material.

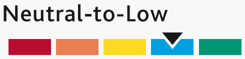
Source: Moody's Investors Service

The ESM's credit impact score is positive (**CIS-1**), driven mainly by its very strong governance framework coupled with neutral-to-low exposure to environmental and social risks. Furthermore, given its role as the euro area's permanent crisis-resolution mechanism the ESM benefits from very strong support by its euro area sovereign shareholders.

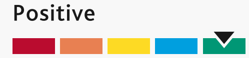
Exhibit 10
ESG Issuer Profile Scores

ENVIRONMENTAL
E-2
Neutral-to-Low

SOCIAL
S-2
Neutral-to-Low



GOVERNANCE
G-1
Positive



Source: Moody's Investors Service

Environmental

The ESM's environmental issuer profile score is neutral-to-low (**E-2**) because its issuer profile shows limited exposure to environmental risks. The ESM's environmental risk exposure stems from its three sovereign borrowers (Greece, Spain, Cyprus), which have either neutral-to-low or moderately negative exposure to environmental risks. The ESM's comprehensive risk management framework helps to mitigate and manage any risks that could potentially arise from borrowing countries facing exposure to physical climate or other environmental risks.

Social

The ESM's social issuer profile score is neutral-to-low (**S-2**). Given its role as the euro area's permanent crisis-resolution mechanism, social considerations such as customer relations, responsible production or demographic and societal trends are not relevant to the ESM's credit profile.

Governance

The ESM's governance issuer profile score is positive (**G-1**). The governance profile shows particular strengths in risk management and overall quality of management. A key feature is the ESM's Early Warning System which enables the ESM to rapidly call on additional capital from shareholders should there be a rising risk of non-payment from one of its borrowers. The ESM participates in missions to programme countries and closely cooperates with the European Commission, ECB and IMF.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

All of these considerations are further discussed in the “Detailed credit considerations” section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing ESG Risks. Additional information about our rating approach is provided in our Supranational Rating Methodology.

Recent developments

Pierre Gramegna appointed as new Managing Director

On 25 November 2022, the ESM's Board of Governors (BoG) agreed to appoint Pierre Gramegna, a former finance minister of Luxembourg (Aaa stable), to the position of ESM Managing Director, effective from 1 December.[6] The second and last term of the ESM's first Managing Director Klaus Regling ended on 7 October 2022 and he was succeeded by interim Managing Director Christophe Frankel.[7] Originally, the Board of Governors was expected to announce a successor at its annual meeting on 16 June 2022. However, no result was achieved and at the Eurogroup meeting of 11 July 2022, the decision was postponed further to September, as one of the three candidates, Mario Buti from Italy (Baa3 negative), withdrew his candidacy and none of the two remaining candidates – Pierre Gramegna and João Leão from Portugal – reached the required 80% of the votes.

ESM Board approved Croatia's membership application, which will lead to a small increase in paid-in capital

On 5 December 2022, the ESM BoG approved Croatia's application to become an ESM member which will become effective in early 2023 once the ESM Treaty and Amending Agreement are ratified by the Croatian parliament.[8] Croatia will benefit from a temporary correction of its ESM capital contributions since its GDP is less than 75% of the EU average. In practice, this implies that Croatia will contribute a smaller amount of paid-in capital for a period of 12 years (€422.3 million) but the remaining amount will become due in 2035 when the temporary correction ends.[9] ESM subscribed capital will rise to €708.5 billion in 2023 from €704.8 billion currently.

German Constitutional Court ruling paves way for ESM Treaty reform ratification in Italy

The reform of the ESM Treaty was announced on 27 January 2021,[10] and the original expectation was that it would come into force at the beginning of 2022. However, only 17 of the 19 member countries have fully ratified the change: In Germany, the law was ratified in Bundestag and Bundesrat in June 2021, but not signed by President Frank-Walter Steinmeier because of a pending verdict from the German Constitutional Court. In Italy, parliament has not even ratified the law yet and on 30 November 2022, the lower house of the Italian parliament approved a majority motion committing the government not to ratify the ESM reform until it is ratified by all other member states.

On 9 December 2022, the German Constitutional Court dismissed the constitutional complaint, “as the complainants have not sufficiently demonstrated and substantiated” their case.[11] This marks an important step forward, because it will allow President Steinmeier to sign the law, and should also pave the way for Italy's ratification.

This will in turn enable the delayed the introduction of the common backstop to the SRF (see discussion on page 4 above for more details), a key part of the ESM reform. Other elements of the reform are a more transparent and predictable eligibility process for the ESM's precautionary credit lines; strengthening the role of ESM in devising financial support programmes; and the introduction of single-limb collective action clauses (CACs) into euro area sovereign bond documentation, which aim to address the problem of holdout investors in case of a restructuring.[12]

We view the reform as reflecting ESM's shareholders' very high willingness to provide support and also positive for the ESM's credit profile because it will prospectively reduce the overlap between shareholders and borrowers, as well as the concentration of the ESM's loan book. In addition, the ESM will become involved in the design of policy conditionality in future country programmes together with the European Commission (EC) and see enhanced cooperation with the EC in terms of macroeconomic-related programmes.

2022 funding programme successfully concluded in mid-October

The ESM's 2022 funding programme amounted to €8 billion, unchanged from 2021. It was successfully concluded on 17 October 2022, when the ESM closed its long-term funding for 2022 by raising a final €2 billion tapping into its 2027 bond. In addition to bonds, the ESM issues short-term money market paper (bills). For 2023, the funding plan amounts to €8 billion as well.

Rating methodology and scorecard factors

Rating factor grid - European Stability Mechanism	Initial score	Adjusted score	Assigned score
Factor 1: Capital adequacy (50%)		aa2	aa2
Capital position (20%)		aa2	
Leverage ratio	aa2		
Trend	0		
Impact of profit and loss on leverage	0		
Development asset credit quality (10%)		baa	
DACQ assessment	baa		
Trend	0		
Asset performance (20%)		aaa	
Non-performing assets	aaa		
Trend	0		
Excessive development asset growth	0		
Factor 2: Liquidity and funding (50%)		aaa	aaa
Liquid resources (10%)		aaa	
Availability of liquid resources	aaa		
Trend in coverage outflow	0		
Access to extraordinary liquidity	0		
Quality of funding (40%)		aaa	
Preliminary intrinsic financial strength			aa1
Other adjustments			1
Operating environment	0		
Quality of management	+1		
Adjusted intrinsic financial strength			aaa
Factor 3: Strength of member support (+3,+2,+1,0)		Very High	Very High
Ability to support - weighted average shareholder rating (50%)		a2	
Willingness to support (50%)			
Contractual support (25%)	aaa	aaa	
Strong enforcement mechanism	+1		
Payment enhancements	0		
Non-contractual support (25%)		Very High	
Scorecard-Indicated Outcome Range			Aaa-Aa2
Rating Assigned			Aaa

Note: Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of an issuer's performance as well as for peer comparisons. Additional considerations that may not be captured when historical metrics are used in the scorecard may be reflected in differences between the adjusted and assigned factor scores. Furthermore, in our ratings we often incorporate directional views of risks and mitigants in a qualitative way. For more information please see our Multilateral Development Banks and Other Supranational Entities rating methodology.

Source: Moody's Investors Service

Moody's related publications

» **Sector In-Depth**: Reforms to capital adequacy frameworks could support large MDBs' lending capacity, 3 November 2022

» **Outlook:** Multilateral Development Banks – Global: 2022 outlook is stable given resilience to challenging economic and financial conditions in emerging markets, 31 January 2022

» **Sector In-Depth**: Multilateral Development Banks – Global: ESG credit impact is neutral for most, positive for many MDBs, 18 January 2022

» **Rating Methodology**: Multilateral Development Banks and Other Supranational Entities, 28 October 2020

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Related websites and information sources

» Moody's Supranational web page

» Moody's Sovereign and supranational rating list

» ESM webpage

Endnotes

1 GDP per capita at market prices in euros in the year immediately preceding their accession. In line with Article 42 of the ESM Treaty, ESM members with a per-capita GDP of less than 75% of the EU average benefit from a temporary amendment of the capital contribution key for 12 years following the date that they adopted the euro. During this temporary correction period, the initial capital subscription is lower, resulting in a temporarily lower paid-in capital contribution. Once this period ends, the ESM member must deposit the remaining amount.

2 The ESM's lending tool kit has six elements, two of which it has used to date, namely loans within a macroeconomic adjustment programme for Greece and Cyprus and loans for indirect bank recapitalisation for Spain. The other elements are: primary market purchases; secondary market purchases; a precautionary credit line (PCL); a direct bank recapitalisation instrument, which will, however, be replaced by the common backstop for the Single resolution Fund.

3 The ESM waived its preferred creditor status for the lending program to Spain, in order to ensure continued market access for the Spanish government at the time of the euro area sovereign debt crisis (see ESM 2016 Annual Report, p. 109).

4 The SRF is the instrument of the Single Resolution Mechanism which finances the resolution of failing credit institutions. In case a bank fails within the European Union's banking union and the private sector does not agree on a recovery plan, the Single Resolution Mechanism can decide to support the failing institution through the SRF. The SRF is operated by the Single Resolution Board and financed by the banking sector (1% of the covered deposits of the credit institutions in participating member states by 2024).

5 The ESM used such transactions to fund Spain's bank recapitalisation programme and around a third of the funding provided to Cyprus. In 2015, it disbursed an additional €5.4 billion in cashless transactions to recapitalise Greek banks.

6 See ESM Board of Governors appoints Pierre Gramegna as new ESM Managing Director, 25 November 2022

7 See ESM Board of Governors appoints Christophe Frankel as interim Managing Director, 6 October 2022

8 See ESM approves Croatia's application for membership, 5 December 2022

9 Similar mechanisms were put in place when Slovenia, Slovakia, Malta, Estonia, Latvia, and Lithuania joined the ESM.

10 See ESM Members sign revised Treaty, entrusting the institution with new tasks, 27 January 2021

11 See Constitutional complaint challenging the acts of approval of amendments to the European Stability Mechanism and to the Intergovernmental Agreement unsuccessful, 9 December 2022

12 Originally, the introduction was meant to take place effective 1 January 2022. Given the delay in the ratification process, member states agreed to introduce single-limb CACs on the first day of the second month following entry into force of the revised ESM Treaty.

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