

European Stability Mechanism

Rating report

The AAA/Stable rating of the European Stability Mechanism (ESM) reflects: i) its 'Strong' institutional profile and 'Excellent' financial profile, which drive our 'aaa' assessment of the ESM's intrinsic credit profile and ii) 'Excellent' shareholder support. In detail:

- **Institutional profile:** The ESM has a record of excellent governance and a very strong mandate for its shareholders, with Croatia being the newest member as of March 2023. The ESM occupies a key position within the euro area institutional framework as a financial backstop to safeguard financial stability.
- **Financial profile:** The ESM benefits from prudent risk management and is highly capitalised with EUR 80.6bn of paid-in capital, the highest of any supranational. Its liquid assets ratio of 367% stands out as one of the highest among rated peers, shielding it from refinancing risk. Funding needs are expected to remain stable at EUR 7bn per year in 2025 and 2026.

The ESM's mandate to provide support to member states undergoing severe funding crises results in a highly concentrated borrower base and weak profitability. It benefits from strong risk mitigants, however, including its preferred creditor status. The ESM's three borrowers, Greece (BBB/Stable), Spain (A/Stable) and Cyprus (A-/Stable), have so far repaid all loans in full and on time, with Spain expected to make its final repayment in 2027.

- **Shareholder support:** The ESM benefits from a highly rated shareholder base and a very strong capital call mechanism. More than half of its capital is held by sovereigns rated AA- or higher.
- **Outlook and triggers:** The Stable Outlook reflects our view that risks are balanced over the next 12 to 18 months. The ratings/Outlooks could be downgraded if, individually or collectively: i) liquidity buffers significantly reduced; ii) capitalisation ratios deteriorated significantly; and/or iii) the asset quality of the loan portfolio deteriorated significantly.

Foreign currency

Long-term issuer rating/Outlook

AAA/Stable

Senior unsecured debt

AAA/Stable

Short-term issuer rating/Outlook

S-1+/Stable

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Figure 1: Scope's assessment of the ESM's rating drivers



Credit strengths and challenges

Credit strengths	Credit challenges
<ul style="list-style-type: none"> Substantial capital position Very high liquidity buffers Excellent access to capital markets Highly rated shareholders 	<ul style="list-style-type: none"> Crisis-country exposure and concentrated loan portfolio Concentrated shareholder base

Outlook and rating triggers

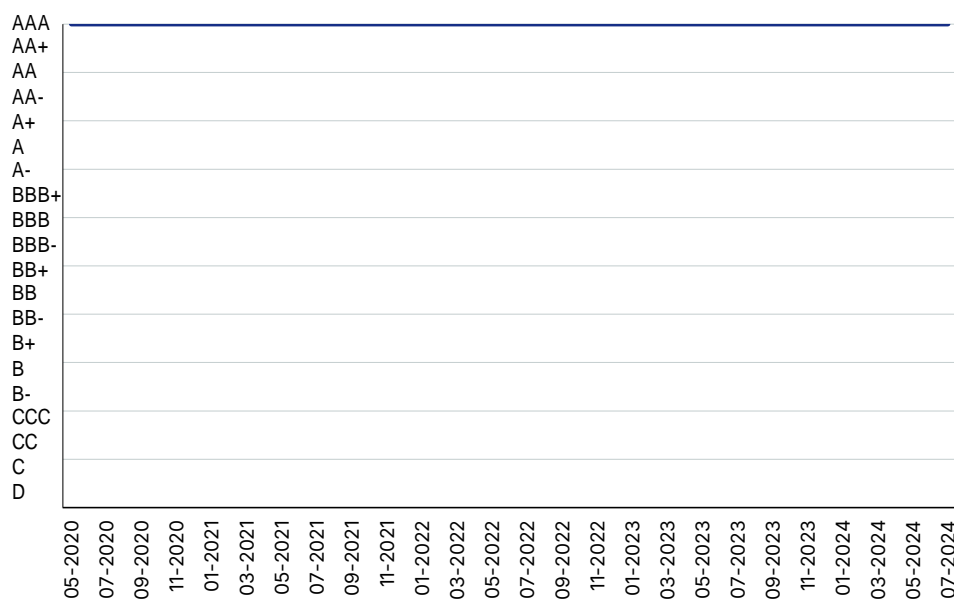
The Stable Outlook reflects Scope’s view that risks to the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> Not applicable 	<ul style="list-style-type: none"> Lower liquidity buffers Weaker capital base Weaker asset quality

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Figure 2: Rating history



Note. Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings

Indicative rating: 'aaa'

We first map the assessments for the institutional and financial profiles to determine the supranational's intrinsic credit profile. In a second step, we complement this assessment with our assessment of the strength of shareholder support to determine the indicative rating.

Intrinsic credit profile for the ESM

Intrinsic Credit Profile		Institutional Profile				
		Excellent	Strong	Adequate	Moderate	Weak
Financial Profile	Excellent	aaa	aaa	aaa	aa+	aa
	Very Strong (+)	aaa	aaa	aa+	aa	aa-
	Very Strong	aaa	aa+	aa	aa-	a+
	Very Strong (-)	aa+	aa	aa-	a+	a
	Strong (+)	aa	aa-	a+	a	a-
	Strong	aa-	a+	a	a-	bbb+
	Strong (-)	a+	a	a-	bbb+	bbb
	Adequate (+)	a	a-	bbb+	bbb	bbb-
	Adequate	a-	bbb+	bbb	bbb-	bb+
	Adequate (-)	bbb+	bbb	bbb-	bb+	bb
	Moderate (+)	bbb	bbb-	bb+	bb	bb-
	Moderate	bbb-	bb+	bb	bb-	b+
	Moderate (-)	bb+	bb	bb-	b+	b
	Weak (+)	bb	bb-	b+	b	b-
	Weak	bb-	b+	b	b-	ccc
	Weak (-)	b+	b	b-	ccc	ccc
	Very Weak (+)	b	b-	ccc	ccc	ccc
Very Weak	b-	ccc	ccc	ccc	ccc	
Very Weak (-)	ccc	ccc	ccc	ccc	ccc	

Source: Scope Ratings

Mapping of intrinsic credit profile and shareholder support for the ESM

Indicative Rating		Shareholder Support			
		Excellent	Very High	High	Moderate
Intrinsic Credit Profile	aaa	aaa	aaa	aaa	aaa
	aa+	aaa	aaa	aaa	aaa / aa
	aa	aaa	aaa	aaa / aa	aa+ / aa-
	aa-	aaa	aaa / aa	aa+ / aa-	aa / a+
	a+	aaa / aa	aa+ / aa-	aa / a+	aa- / a
	a	aa+ / aa-	aa / a+	aa- / a	a+ / a-
	a-	aa / a+	aa- / a	a+ / a-	a / bbb+
	bbb+	aa- / a	a+ / a-	a / bbb+	a- / bbb
	bbb	a+ / a-	a / bbb+	a- / bbb	bbb+ / bbb-
	bbb-	a / bbb+	a- / bbb	bbb+ / bbb-	bbb / bb+
	bb+	a- / bbb	bbb+ / bbb-	bbb / bb+	bbb- / bb
	bb	bbb+ / bbb-	bbb / bb+	bbb- / bb	bb+ / bb-
	bb-	bbb / bb+	bbb- / bb	bb+ / bb-	bb / b+
	b+	bbb- / bb	bb+ / bb-	bb / b+	bb- / b
	b	bb+ / bb-	bb / b+	bb- / b	b+ / b-
	b-	bb / b+	bb- / b	b+ / b-	b / ccc
ccc	bb- / b	b+ / b-	b / ccc	b- / ccc	

Source: Scope Ratings

Additional considerations: Neutral

We acknowledge the heterogeneity of supranationals and include in our assessment idiosyncratic factors that may affect the creditworthiness of the supranational.

In the case of the ESM, we have not made an adjustment to our indicative rating.

Annex I: Shareholders – European Stability Mechanism

EUR 000s

ESM Shareholders	Paid-in capital	Callable capital	Subscribed capital	Key (%)	Rating	Callable capital ≥ AA-
Germany	21,651,750	167,801,050	189,452,800	26.7	AAA/Stable	167,801,050
France	16,259,660	126,012,340	142,272,000	20.1	AA-/Stable	126,012,340
Italy	14,287,850	110,730,850	125,018,700	17.6	BBB+/Stable	
Spain	9,494,290	73,580,710	83,075,000	11.7	A/Stable	
Total key shareholders*	61,693,550	478,124,950	539,818,500	76.2		293,813,390
Netherlands	4,559,860	35,338,940	39,898,800	5.6	AAA/Stable	35,338,940
Belgium	2,773,280	21,492,920	24,266,200	3.4	AA-/Negative	21,492,920
Greece	2,246,550	17,410,750	19,657,300	2.8	BBB/Stable	
Austria	2,220,020	17,205,180	19,425,200	2.7	AA+/Stable	17,205,180
Portugal	2,001,300	15,510,100	17,511,400	2.5	A/Stable	
Finland	1,433,630	11,110,670	12,544,300	1.8	AA+/Stable	11,110,670
Ireland	1,269,910	9,841,790	11,111,700	1.6	AA/Stable	9,841,790
Slovakia	792,790	6,144,110	6,936,900	1.0	A/Stable	
Croatia**	442,290	3,610,542	3,695,000	0.5	A-/Stable	
Slovenia	375,930	2,913,470	3,289,400	0.5	A/Stable	
Lithuania	327,200	2,536,200	2,863,400	0.4	A/Positive	
Latvia	221,200	1,714,100	1,935,300	0.3	A-/Stable	
Estonia	204,650	1,586,050	1,790,700	0.3	A+/Stable	
Luxembourg	199,740	1,547,960	1,747,700	0.2	AAA/Stable	1,547,960
Cyprus	156,530	1,213,070	1,369,600	0.2	A-/Stable	
Malta	72,260	560,040	632,300	0.1	A+/Stable	
Total	80,990,690	627,860,842	708,493,700	100.0		390,350,850

*We include shareholders whose cumulative capital share, starting from the largest shareholder, comprises at least 75% of the supranational's capital. We add all marginal shareholders with identical capital subscription to calculate the key shareholder rating.

**Croatia became an ESM member on 22 March 2023. Following the end of a 12-year correction period, Croatia's total capital subscription will amount to EUR 5.7339 bn. The table reflects the paid-in capital subscribed by Croatia upon accession to the ESM. The payment of the corresponding contribution of EUR 422.29 m is to be paid in five equal annual instalments of EUR 84.46 m. The first instalment was paid on 30 March 2023.

Figures may not add up due to rounding. Rating of ESM members as of 13 January 2025. Source: ESM, Scope Ratings

Annex II: Scope's supranational scorecard – European Stability Mechanism

Analytical Pillar	Variables	Unit	ESM								Value	Assessment	ESM		
			+4	+3	+2	+1	0	-1	-2	Notches			Notches		
Institutional Profile (10%)	Mandate & ESG	Importance of mandate	Qualitative	--	--	--	Very High	High	Declining	--	--	Very High			
		Mandate (50%)	Social factors	Qualitative	--	--	--	Strong	Medium/ N/A	Weak	--	--	Strong	1	Strong
		Environmental factors	Qualitative	--	--	--	Strong	Medium/ N/A	Weak	--	--	Medium/ N/A			
		Shareholder concentration	HHI	--	--	--	--	≤ 1500	> 1500	--	--	1600	Moderate/Weak		
		Governance (50%)	Shareholder control	%	--	--	--	--	≤ 25	> 25	--	27	Moderate/Weak	0	Medium
	Strategy and internal controls	Qualitative	--	--	--	Strong	Medium	Weak	--	--	Strong				
	Institutional Profile (10%)											Strong			
	Capitalisation (30%)	Capital/ Potential assets	%	≥ 30	< 30; ≥ 20	< 20; ≥ 15	< 15; ≥ 10	< 10; ≥ 7.5	< 7.5; ≥ 5	< 5	24	Very High	3		
		(Capital/ Actual assets) - (Capital/ Potential assets)	pps	--	--	--	≥ 7.5	< 7.5	--	--	119	Excellent	1	Very Strong	
		Profitability (Adjusted return on equity)	%	--	--	--	≥ 3	< 3; ≥ 0	< 0	--	0	Moderate	0		
Trend (-1; +1)											0				
Asset quality (30%)		Portfolio quality	Incl. risk mitigants	Qualitative	--	Excellent	Very Strong	Strong	Adequate	Moderate	Weak	Very Strong	Very Strong	2	
		Asset performance	NPLs	% total loans	--	≤ 1	> 1; ≤ 3	> 3; ≤ 5	> 5; ≤ 7	> 7; ≤ 10	> 10	0.0	Excellent	3	Excellent
	Trend (-1; +1)											0			
Liquidity & funding (40%)	Liquid assets ratio	%	> 100	≤ 100; > 75	≤ 75; > 50	≤ 50; > 25	≤ 25; > 15	≤ 15; > 10	≤ 10	340	Excellent	4			
	Funding access, flexibility and profile	Qualitative	Excellent	Very Strong	Strong	Adequate	Moderate	Weak	Very Weak	Very Strong	Very Strong	3	Excellent		
	Trend (-1; +1)											0			
Financial Profile (90%)											Excellent				
Intrinsic Credit Profile (90%*)											aaa				
Shareholder Support (10%)	Shareholder Strength	Weighted average rating of key shareholders**	Avg. rating	--	≥ AA-	≥ BBB-	< BBB-	--	--	--	--	AA-			
		Share of portfolio related to key shareholders	%	--	--	--	--	≤ 50	> 50	--	20	Low / No adjustment	3	Excellent	
		Adjusted key shareholder rating	Avg. rating	--	--	--	--	--	--	--	--	AA-			
	Willingness to support	Willingness to support	Qualitative	--	--	High	Medium	Low	--	--	High	High			
Shareholder Support (10%)											Excellent				
Indicative Rating											aaa				
Additional considerations (-1; +1)											Neutral				
Final Rating											AAA				

Source: Scope Ratings. Figures in the financial profile refer to three-year weighted averages for 2021-23.

* Weights are approximated and for illustrative purposes. ** Notches shown correspond to Shareholder Support uplift given 'Willingness to support' is assessed as 'High'.

Annex III: Climate risks

Methodology input / assumptions		Source: ESM	Output / calculations						
Initial portfolio quality		% of lending portfolio		Weighted average borrower quality					
Sovereign		100%		bbb+					
Public sector		0%		n/a					
Financial institutions		0%		n/a					
Non-financial corporates		0%		n/a					
Total		100%		BBB+					
1. Transition risks: NFC									
Sectors with high transition risks		% of NFC		o/w aligned with Paris Agreement		% of NFC with high transition risk			
Oil & gas		0.0%		0.0%		0.0%			
Power generation (oil, coal)		0.0%		0.0%		0.0%			
Metals & mining (coal & steel)		0.0%		0.0%		0.0%			
Petrochemicals, cement & concrete manufacture		0.0%		0.0%		0.0%			
Total		0.0%		0.0%		0.0%			
2. Physical risks: NFC									
<u>Countries: ND-GAIN percentile</u>									
		Physical risk assessment		% portfolio in countries		Assumed share of NFC with high physical risk		% of NFC with high physical risk	
0.00		Very High		0.0%		100%		0.0%	
0.10		High		0.0%		75%		0.0%	
0.25		Medium		0.0%		50%		0.0%	
0.50		Moderate		0.0%		25%		0.0%	
0.75		Low		0.0%		5%		0.0%	
0.90		Very Low		0.0%		0%		0.0%	
*This share is assumed and fixed.		Portfolio coverage		0%				0.0%	
3. 'High' climate risks (NFC portfolio)									
		% of NFC							
Transition risks		0.0%							
Physical risks		0.0%							
		0.0%							
4. Adjustment for maturity									
Avg. maturity of portfolio		Adjustment							
< 1Y		100%							
> 1Y; < 7Y		50%							
> 7Y		0%							
Average maturity of NFC loan portfolio*		N/A							
*If unavailable, proxied with total loan portfolio.									
Adj. high climate risk exposure, % of NFC		N/A							
5. Notches adjustment to avg. NFC borrower quality									
Notches								% of NFC with high climate risks	
0								≤ 25%	
-1								> 25%; ≤ 50%	
-2								> 50%	
Adjustment (notches)		0							
6. Final portfolio quality (climate risk adjusted)									
		% of total exposure		Before climate credit risk		Adjusted for climate credit risk			
Sovereign		100%		bbb+		bbb+			
Public sector		0%		n/a		n/a			
Financial institutions		0%		n/a		n/a			
Non-financial corporates		0%		n/a		n/a			
Total		100%		BBB+		BBB+			

Source: Scope Ratings

Annex IV: Asset quality assessment

Portfolio quality (initial assessment)			Excellent	Very Strong	Strong	Adequate	Moderate	Weak		
Indicative borrower quality			aaa	aa	a	bbb	bb	b		

Adjustments		Indicator	Assessment/ Thresholds									
Points			+5	+4	+3	+2	+1	0	-1	-2	-3	
Credit Protection	Sovereign PCS	% of gross loans	100	≥ 80	≥ 60	≥ 40	≥ 20	< 20				
	Private sector secured											
Diversification	Geography	HHI					≤ 1000	≤ 2000	> 2000			
	Sector	HHI							≤ 2000	> 2000		
	Top 10 exposures	% of gross loans					≤ 25	≤ 75	> 75			
Equity Exposure		% of equity							≤ 25	> 25	> 50	> 75
		Total points						+5				
		Adjustments						+2 categories				

Portfolio quality (final assessment)			Excellent	Very Strong	Strong	Adequate	Moderate	Weak	
Notches			3	2	1	0	-1	-2	

Note: Three points usually correspond to one assessment category. In the case of the ESM, this implies up to two higher categories from the initial portfolio quality assessment based on the estimated average borrower quality. Source: Scope Ratings.

Annex V. Statistical table

	2017	2018	2019	2020	2021	2022	2023
Capitalisation (EUR m)							
Mandated potential assets	500,000.0	500,000.0	500,000.0	500,000.0	500,000.0	500,000.0	500,000.0
Mandated assets (disbursed)	76,194.7	89,894.7	89,894.7	89,894.7	89,867.5	86,210.4	82,552.9
Capitalisation ratio, potential (%)	23.6	23.7	23.8	23.9	24.0	24.0	24.2
Capitalisation ratio, actual (%)	154.6	131.6	132.2	132.8	133.4	138.9	146.4
Profitability (EUR m)							
Net income, adjusted	68.6	284.7	289.7	392.9	311.0	- 60.2	320.5
Return on equity, adjusted (%)	0.1	0.2	0.2	0.3	0.3	- 0.0	0.3
Asset quality (EUR m)							
Total gross loans	76,194.7	89,894.7	89,894.7	89,894.7	89,867.5	86,210.4	82,552.9
Non-performing loans / gross loans (%)	-	-	-	-	-	-	-
Liquidity (EUR m)							
Liquid assets and undrawn credit facilities	90,844.2	86,813.6	99,498.5	107,209.0	105,789.9	98,677.9	90,318.9
Cash and cash equivalents	74,288.1	65,245.7	64,973.1	58,217.2	60,401.8	55,568.4	17,108.3
Loans and advances to credit institutions	369.2	1,291.7	6,412.9	11,084.0	7,098.4	1,959.7	4,090.0
Debt securities rated \geq AA-	16,187.0	20,276.2	28,122.4	37,907.8	38,289.7	41,149.7	69,120.6
Liabilities maturing within 12 months and disbursements	34,017.8	43,667.6	31,792.5	34,771.7	37,974.6	31,558.6	24,578.6
Liabilities \leq 12 months	25,517.8	21,967.6	31,792.5	34,771.7	37,974.6	31,558.6	24,578.6
Disbursements over the next 12 months	8,500.0	21,700.0	-	-	-	-	-
Liquid assets ratio (%)	267.0	198.8	313.0	308.3	278.6	312.7	367.5
Funding (EUR m)							
Volume	11,500.0	18,000.0	9,800.0	11,000.0	8,000.0	8,000.0	8,000.0
<i>Share of total outstanding (%)</i>							
EUR	97.2	94.7	93.6	94.5	92.5	93.6	92.1
USD	2.8	5.3	6.4	5.5	7.5	6.4	7.9
Others	-	-	-	-	-	-	-
Equity (EUR m)							
Paid-in capital	80,373.3	80,483.0	80,548.4	80,548.4	80,548.4	80,548.4	80,970.7
Retained earnings and reserves	2,064.1	2,348.8	2,638.5	3,031.5	3,342.4	3,282.2	3,602.7
Total equity	82,437.3	82,831.8	83,186.9	83,579.8	83,890.8	83,830.6	84,573.4
10% of callable capital rated \geq AA-	38,165.7	38,165.7	38,148.9	38,257.5	39,177.7	39,177.7	39,193.7
25% of callable capital authorised and appropriated	-	-	-	-	-	-	-
Callable capital cap (set at 30% of total capital)	35,330.3	35,499.3	35,651.5	35,819.9	35,953.2	35,927.4	36,245.8
Total equity, reserves, and high-quality callable capital	117,767.6	118,331.1	118,838.4	119,399.7	119,844.0	119,758.0	120,819.2
Key shareholders							
Average capital-key weighted rating	AA-	AA-	AA-	AA-	AA-	AA-	AA-
Shareholders rated at least AA- (%)	61.1	61.1	61.1	61.3	62.8	62.8	62.5

Source: ESM, Scope Ratings

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Applied methodology

[Supranational Rating Methodology](#), 21 June 2024

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