



# Global & Regional Economic and Markets Outlook

**Session 1: Global and Regional Economic and Markets Outlook**

Speaker: Mr. Adam Cotter, DZ BANK AG

**2025 ASIAN REGIONAL FORUM**  
ON INVESTMENT MANAGEMENT  
OF FOREIGN EXCHANGE RESERVES

# Second-largest German banking group



- Over **150 years** of experience with **long-term focus**
- **Central institution** to Germany's Cooperative Financial Network
- **Mutual ownership** promoting **corporate responsibility** and **sustainability**
- **700 cooperative banks** in network focusing on domestic retail and SMEs
- **25% German market share** with **30 million customers**; **18 million members**
- **Market leading** position supporting German economy
- **AA-** Best rated and “safest” German commercial bank
- **1.6 €tn** in consolidated total assets
- **International activities** provided by DZ BANK and our **specialised subsidiaries**

## DZ BANK Group financial highlights at a glance (H1 2025)

### Excellent financial performance

**2.13 €bn**

Profit before taxes

**49.5 %**

Cost/income ratio

### Solid capital ratios

**17.9 %**

Common equity Tier 1 capital ratio

**6.7 %**

Leverage ratio

### Improved balance sheet and manpower

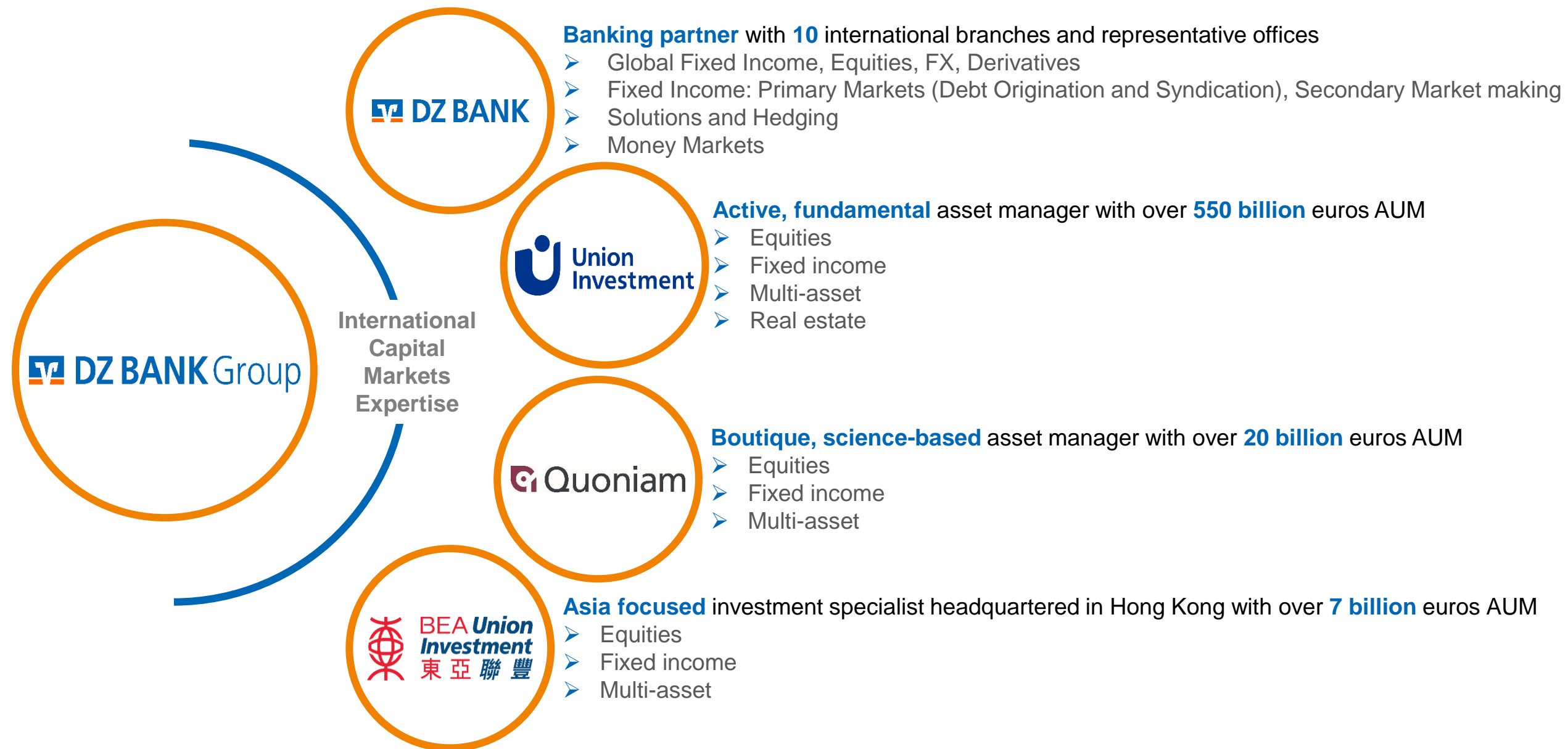
**666 €bn**

Total assets

**34,500**

Employees

# Hidden champions of the German financial sector



# Global economy: slower growth, higher friction but there is resilience amid fragmentation



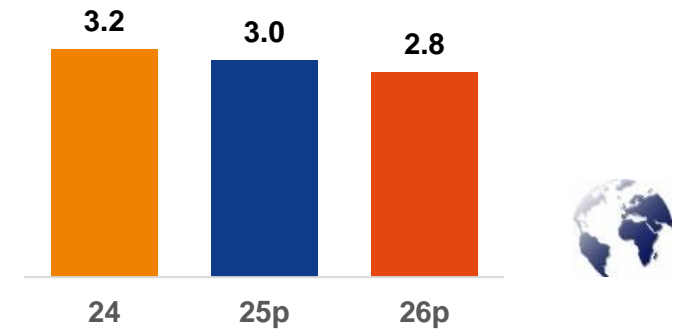
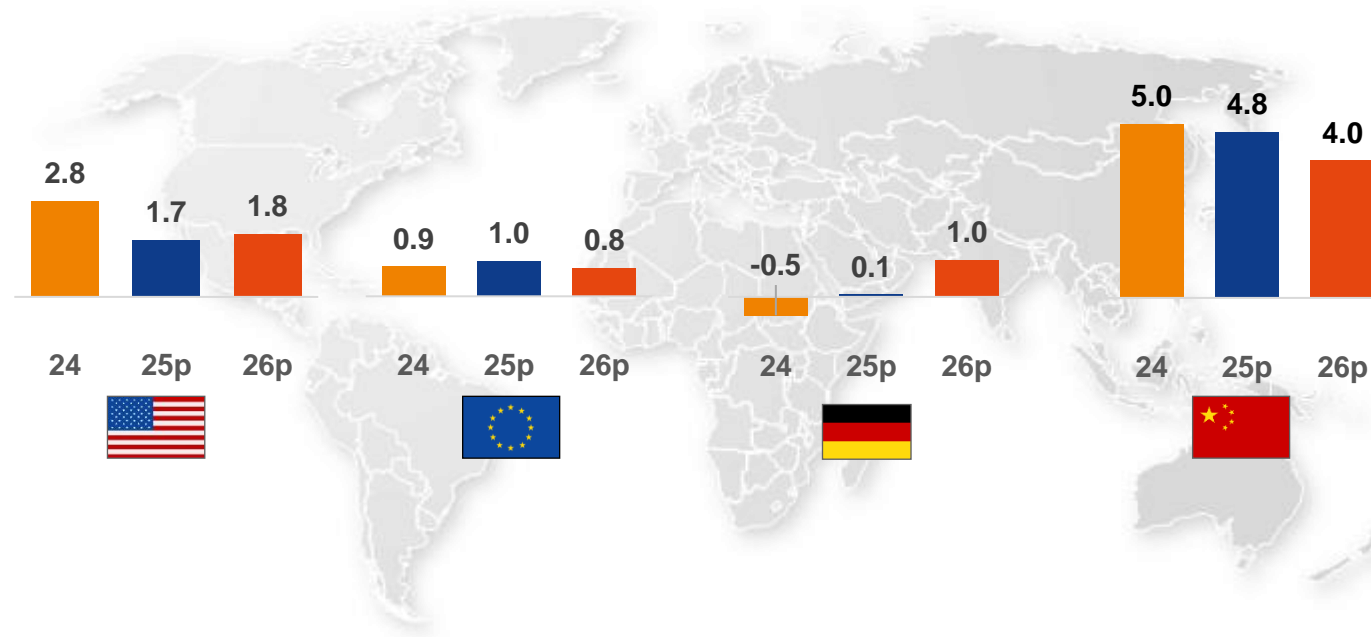
- **Global GDP growth ~2.5% in 2025 (weak but stable)**
- **Trade fragmentation & tariffs remain a drag**
- **Inflation easing, but above pre-pandemic trend**
- **Sentiment improving, yet new orders still soft**

# Global economy: tariff effects & uncertainty remain a burden



## Germany still lags recovery

GDP (yoy in %; p = forecast)



### Economic growth



Source: LSEG, Oxford Economics, DZ BANK

# Global industry: production increases in August – tariffs risks remain



Global sentiment improves broadly, but outlook and new orders remain subdued

Global Manufacturing PMIs, seasonally adjusted



Source: S&P Global, DZ BANK; a value above 50 (green) indicates economic growth, while a value below 50 (red) indicates a shrinking economy.

# United States: economy surprises on the upside

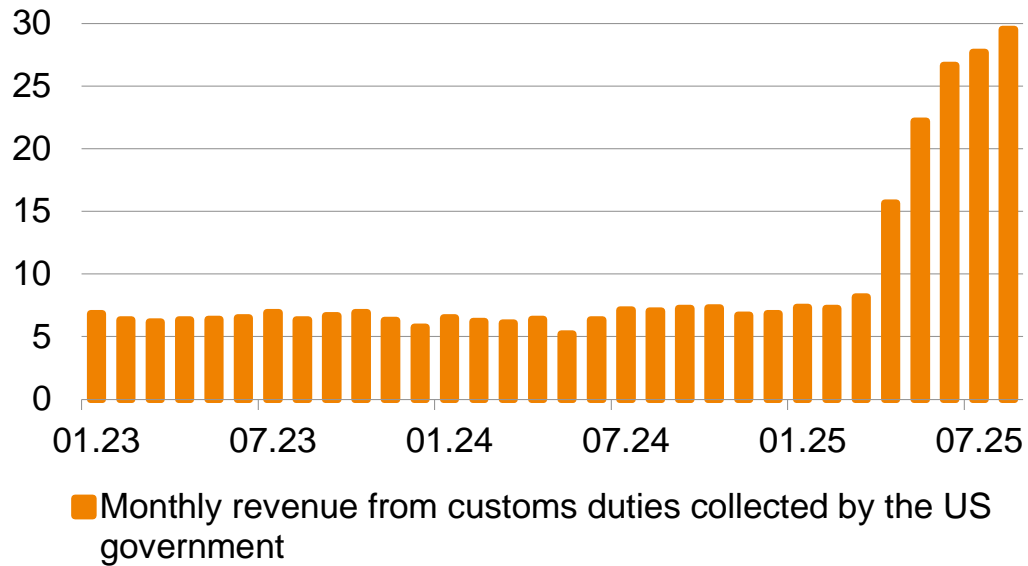


- **Economy surprisingly robust GDP  $\approx 1.8\%$  in 2025  $\rightarrow \approx 2.0\%$  in 2026**
- **Inflation  $2.9\% \rightarrow 3.3\%$  (2026)**
- **Effective tariff rate highest since early 2000s but no significant rise in inflation due to tariffs so far**
- **Fiscal deficit widens but government revenue from customs duties rises sharply**
- **Fed cautious: one more 25bp cut in Q4 2025, three by mid-2026**
- **10y yields  $4.4\text{--}4.7\%$ ; curve remains steep**

# United States: consumers have so far been largely spared however; inflation is likely to rise further

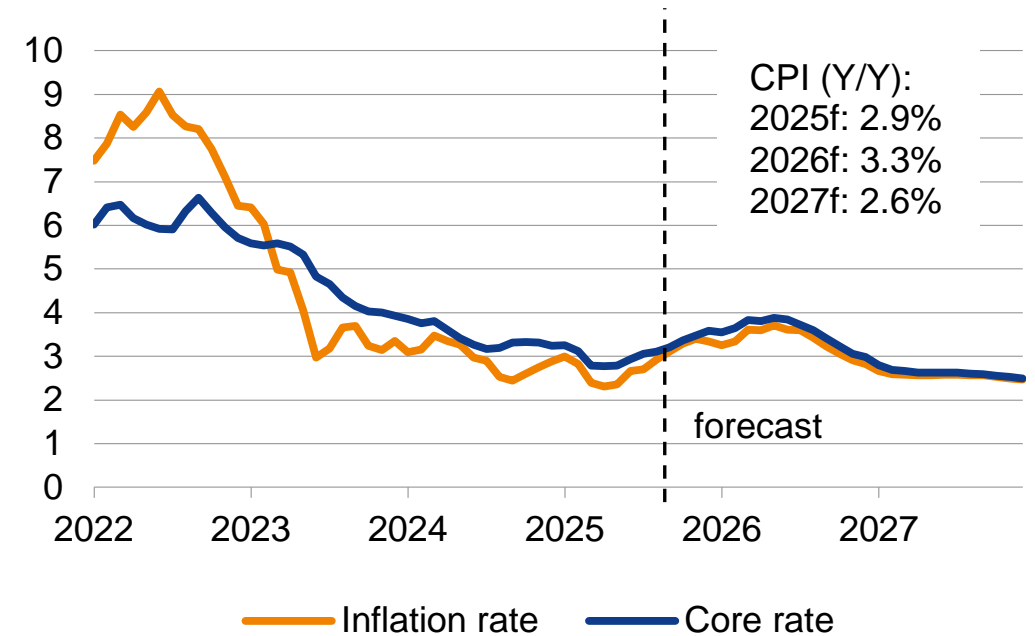


**Government revenue from customs duties rises sharply in billion USD**



Source: US Department of the Treasury

**No significant rise in inflation due to tariffs so far Y/Y in %**

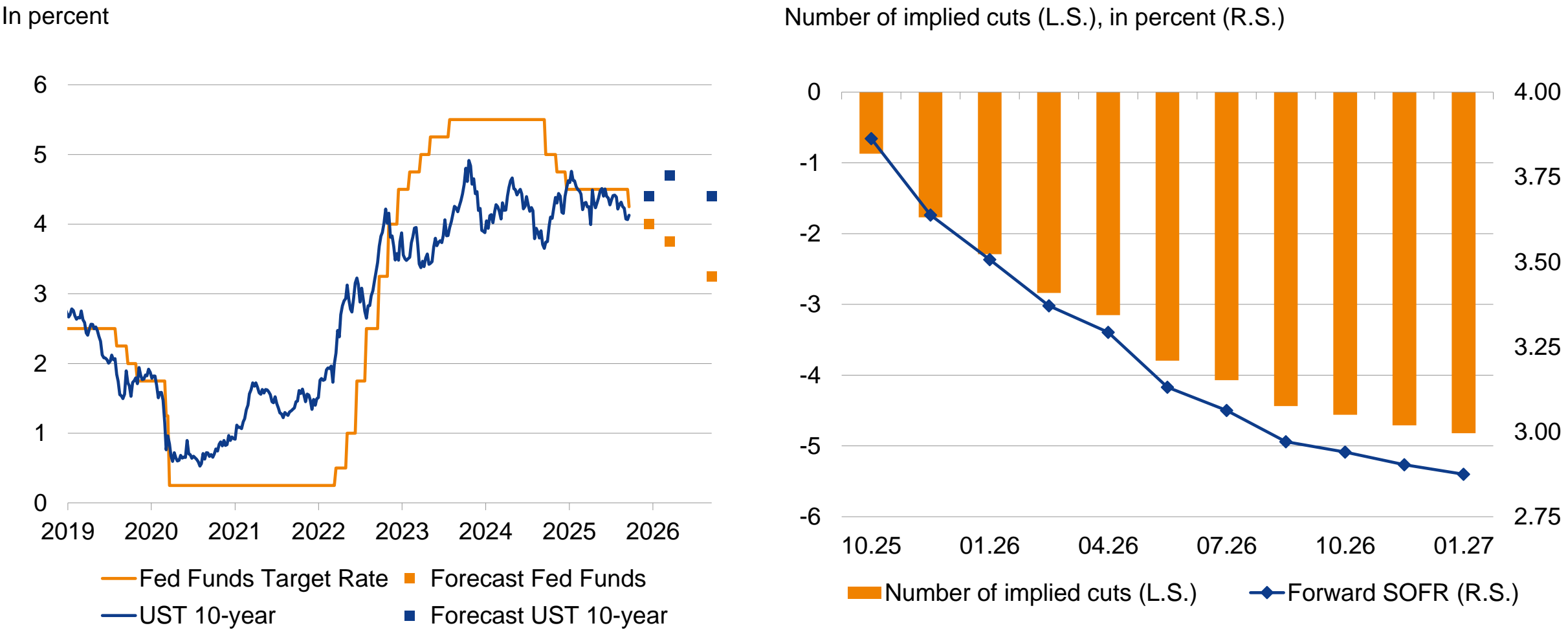


Source: BLS, forecast: DZ BANK



# The Fed to cut once again this year, then three more times by mid-2026

The market has also recently revised its expectations downwards



Source: DZ BANK, Bloomberg

# Public finance clouded by high and rising debt

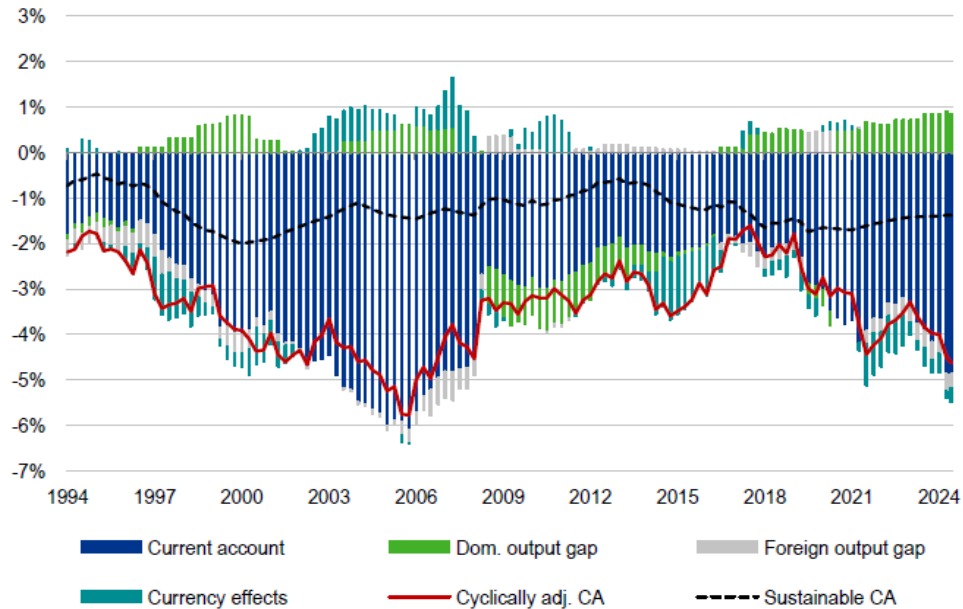


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## Contrasting Current Accounts: Euro Area Surplus vs. Unsustainable US Deficit

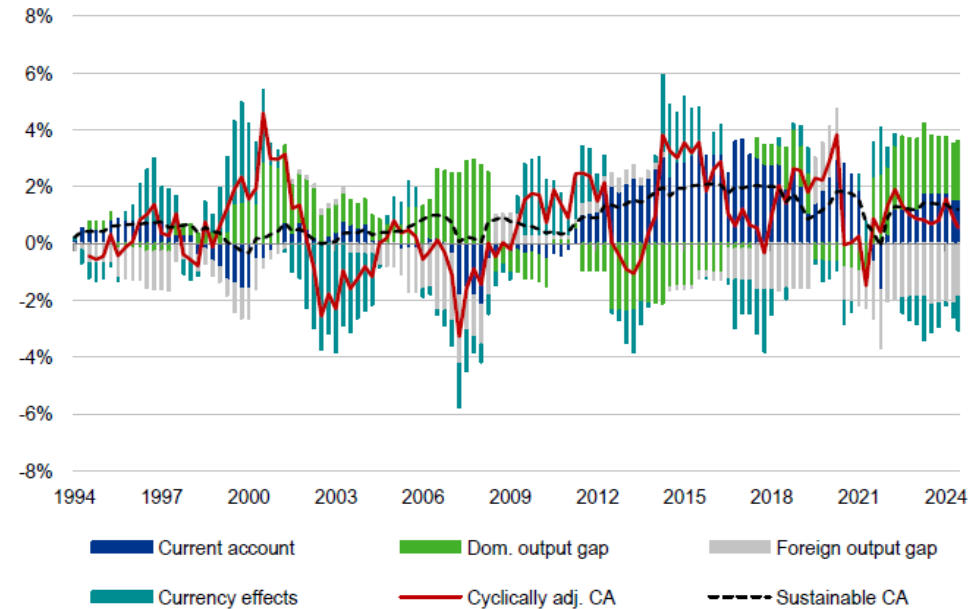
### United States

In percent of GDP



### Euro area

In percent of GDP



Source: Union Investment

# Europe: Weak Recovery, Fiscal Strains, Diverging Policies

## Euro Area: Tariffs, Fiscal Expansion, and Fragile Growth



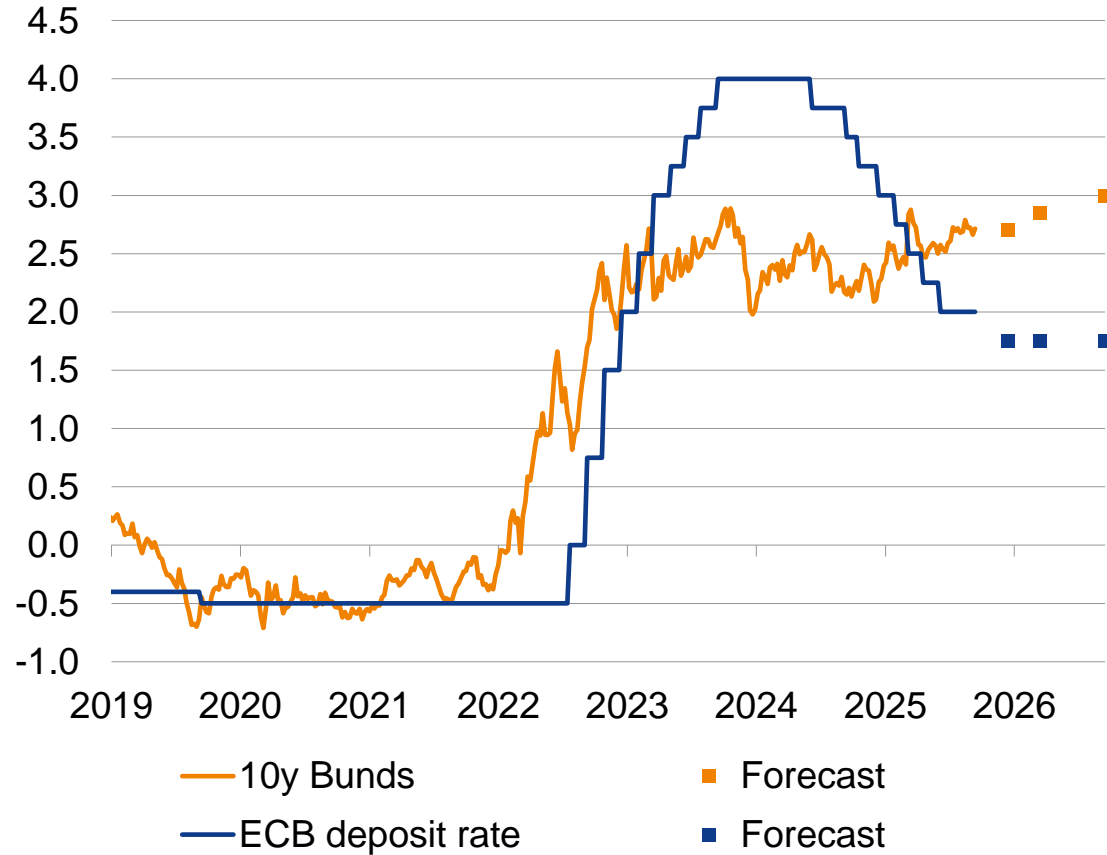
- **Euro Area GDP +1.0% 2025 → 0.8% 2026**
- **Inflation ~2%**
- **ECB near end of easing cycle; ECB deposit rate 1.75%; final cut likely end-2025**
- **Fiscal expansion ('ReArm Europe') → higher yields, limited spread widening**
- **France & Belgium under downgrade pressure; periphery improving**

# A last cut is in the pipeline for the ECB

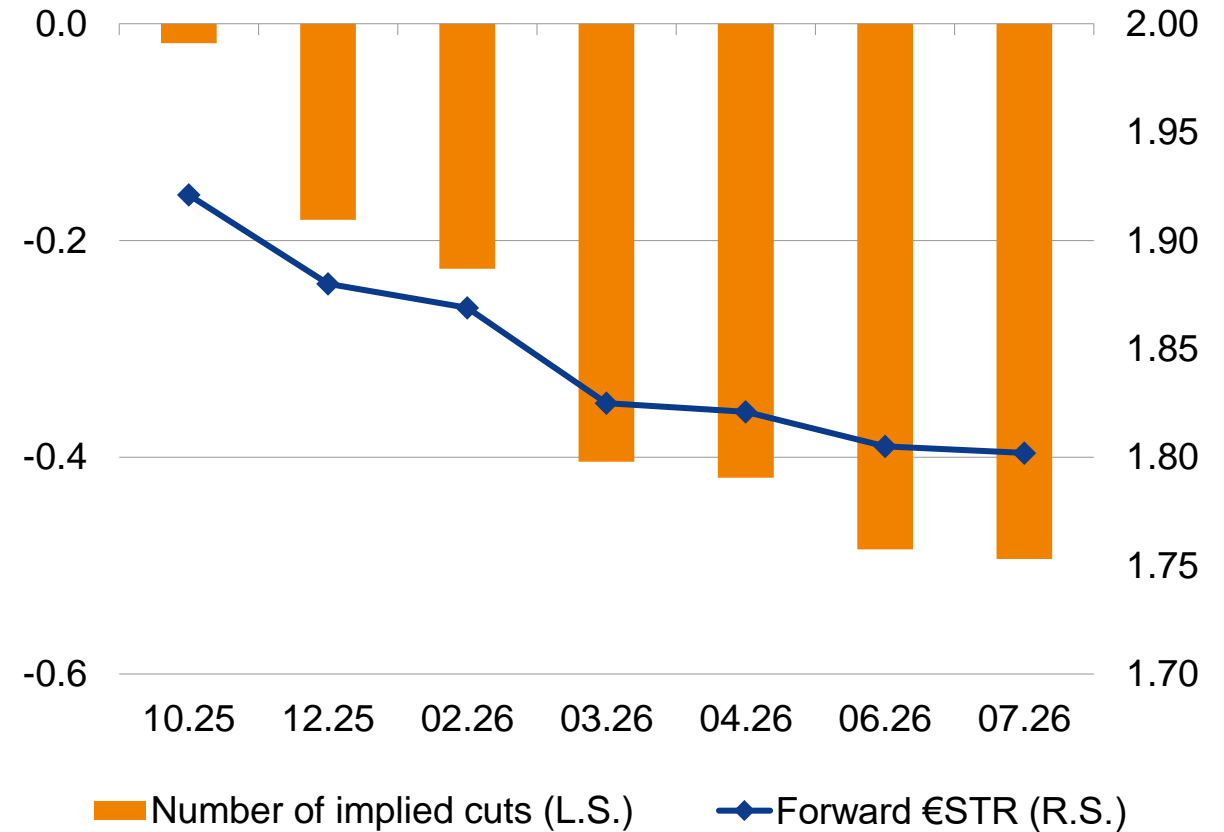


Monetary policy is thus moving towards the lower end of the neutral zone

In percent



Number of implied cuts (L.S.), in percent (R.S.)



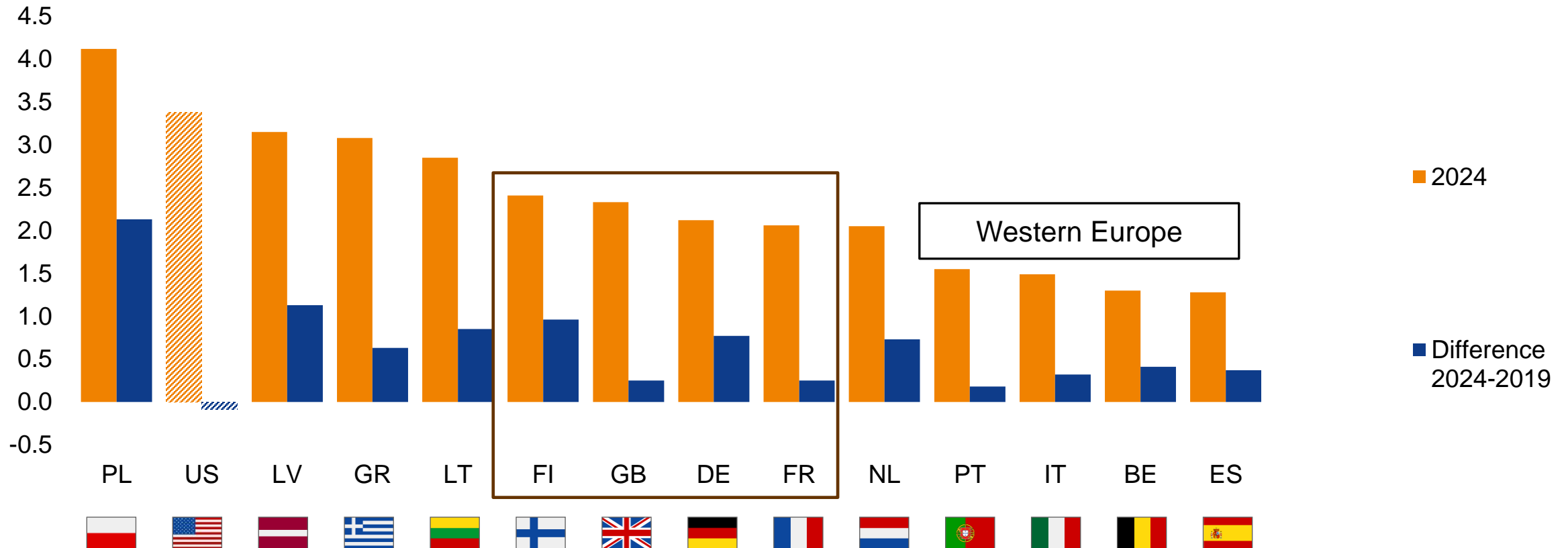
Source: DZ BANK, Bloomberg

# Need for higher military spending intensify budget worries



Highly indebted countries have limited capacities to increase their spending

Military expenditure in percent of GDP



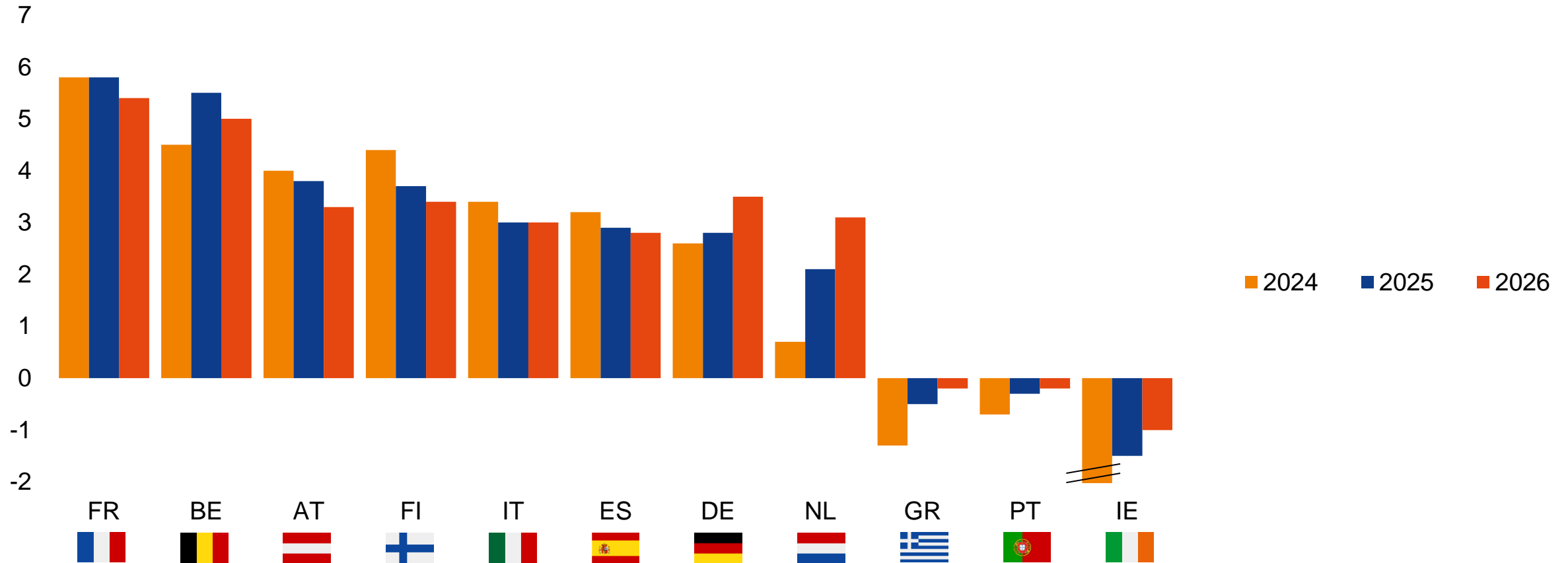
Source: DZ BANK, NATO

# No longer fiscal constraints for the core countries



The periphery shines with fiscal consolidation, French deficit remains in the spotlight

Budget deficits in percent of GDP

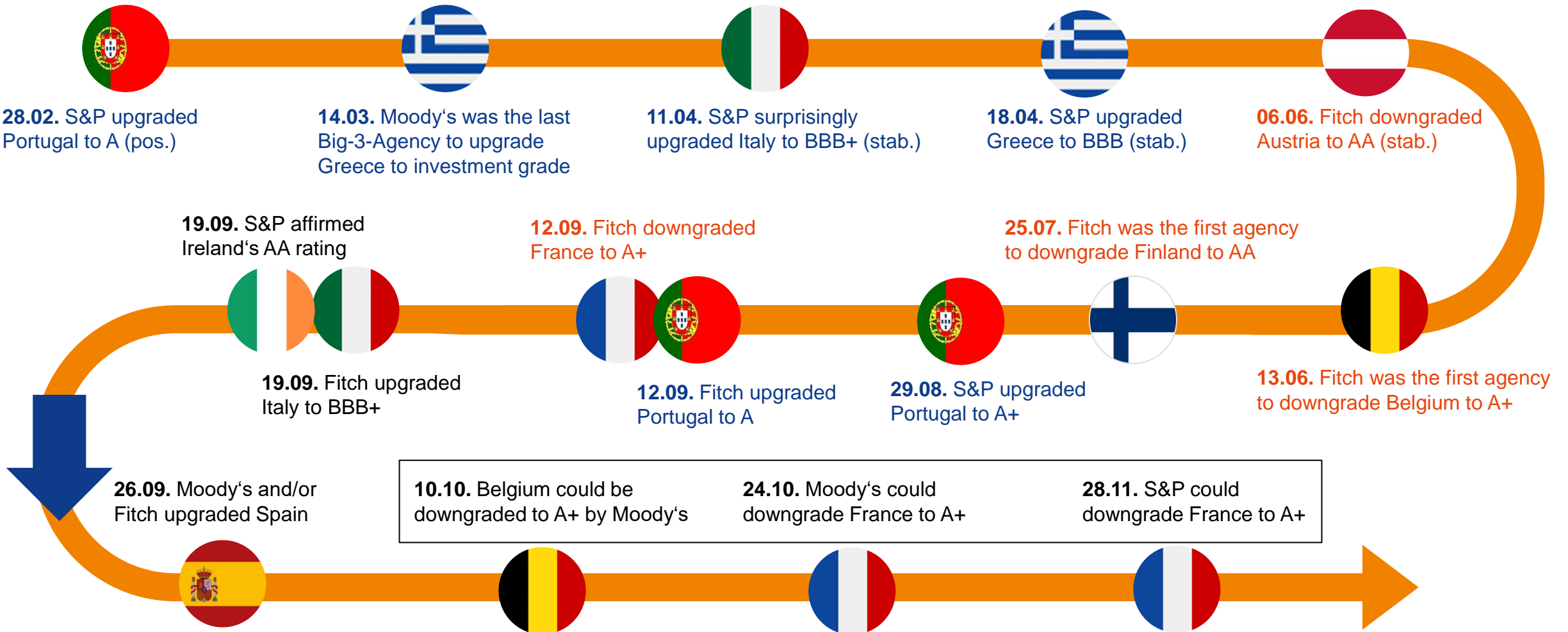


Source: DZ BANK, EU-COM

# France might face further downgrades to single-A in the next months



Rating trend remains positive for Portugal, Ireland, Spain and possibly also Italy



Source: DZ BANK, Fitch, S&P, Moody's

# Germany: Fiscal Stimulus Masks Structural Weakness



- **Economic recovery is mainly driven by fiscal stimulus measures**
- **Exemptions from the debt brake unlikely to call into question Germany's AAA rating, unless the debt ratio rises to levels significantly above 90% of GDP**
- **The headwinds for exports are likely to continue in the second half of the year**
- **Federal government has announced an 'autumn of reforms' - this will be essential for shaping the future growth path.**

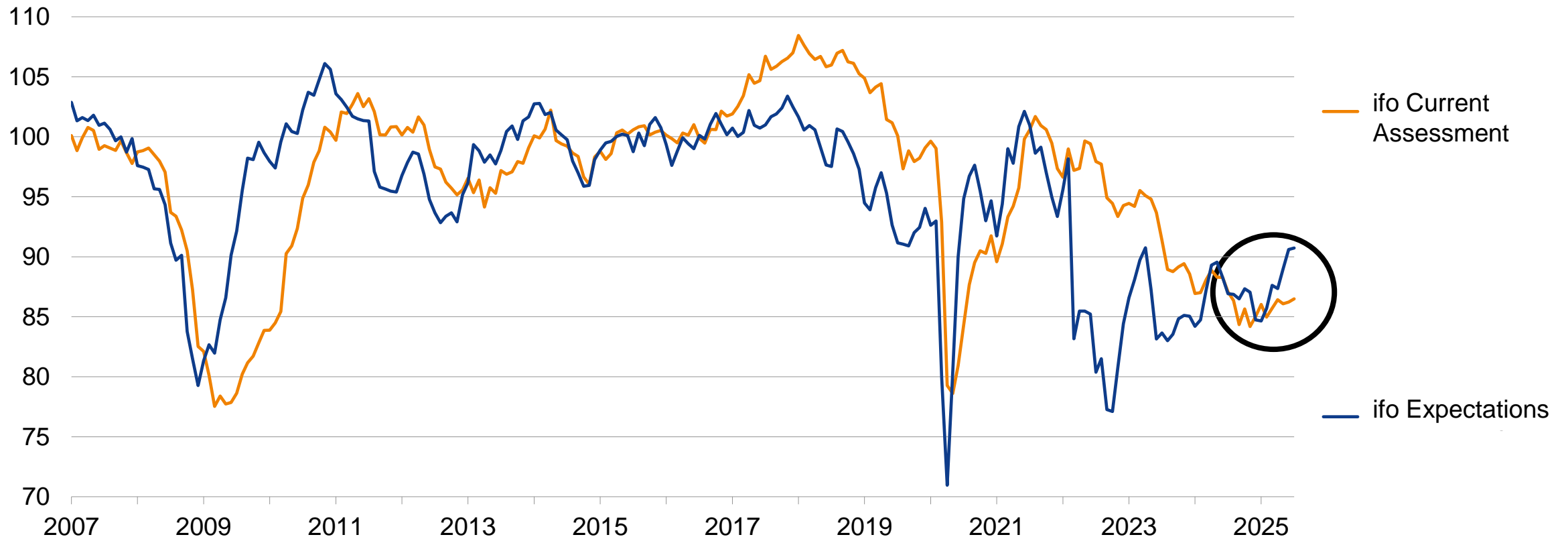


# Business climate recently showing slight improvement



Discrepancy between expectations and the status quo

ifo Business Climate: Components (index, 2015=100)



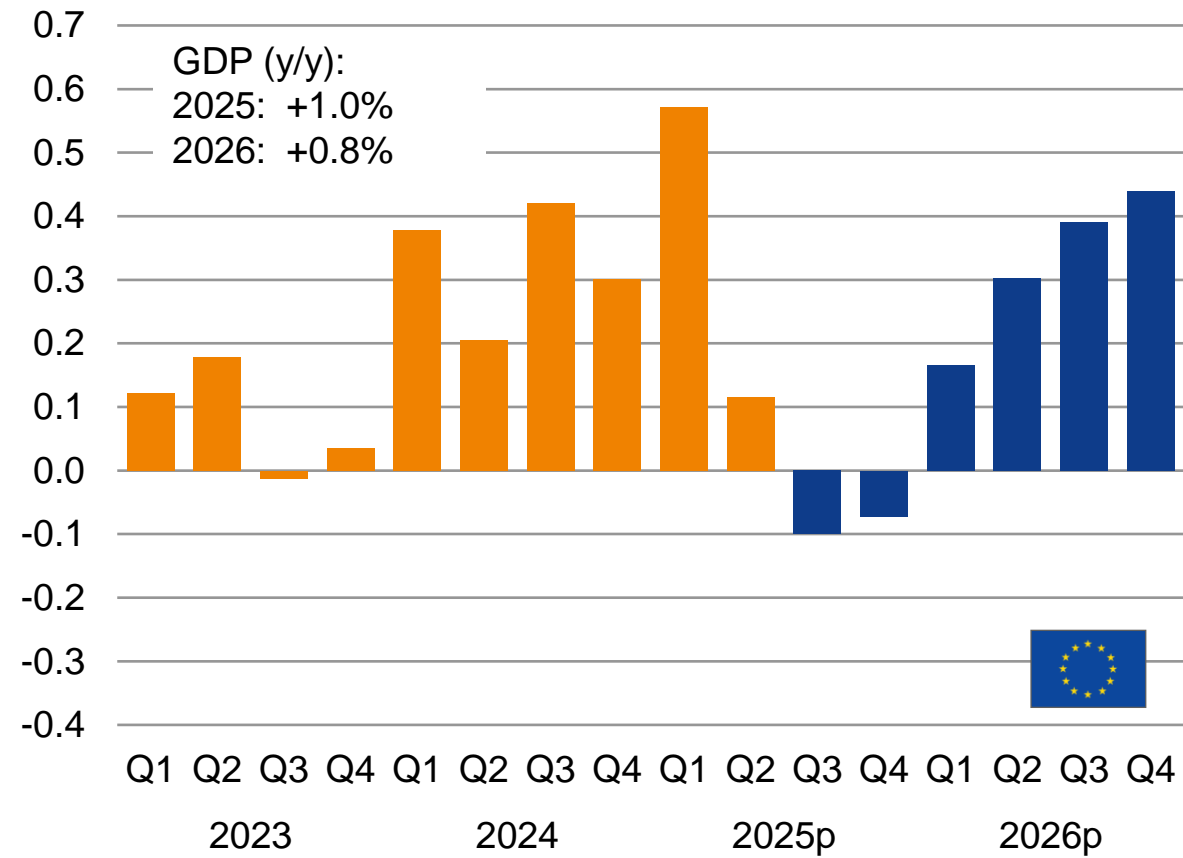
Source: ifo Institute

# Outcome of tariff negotiations unsatisfactory from European perspective

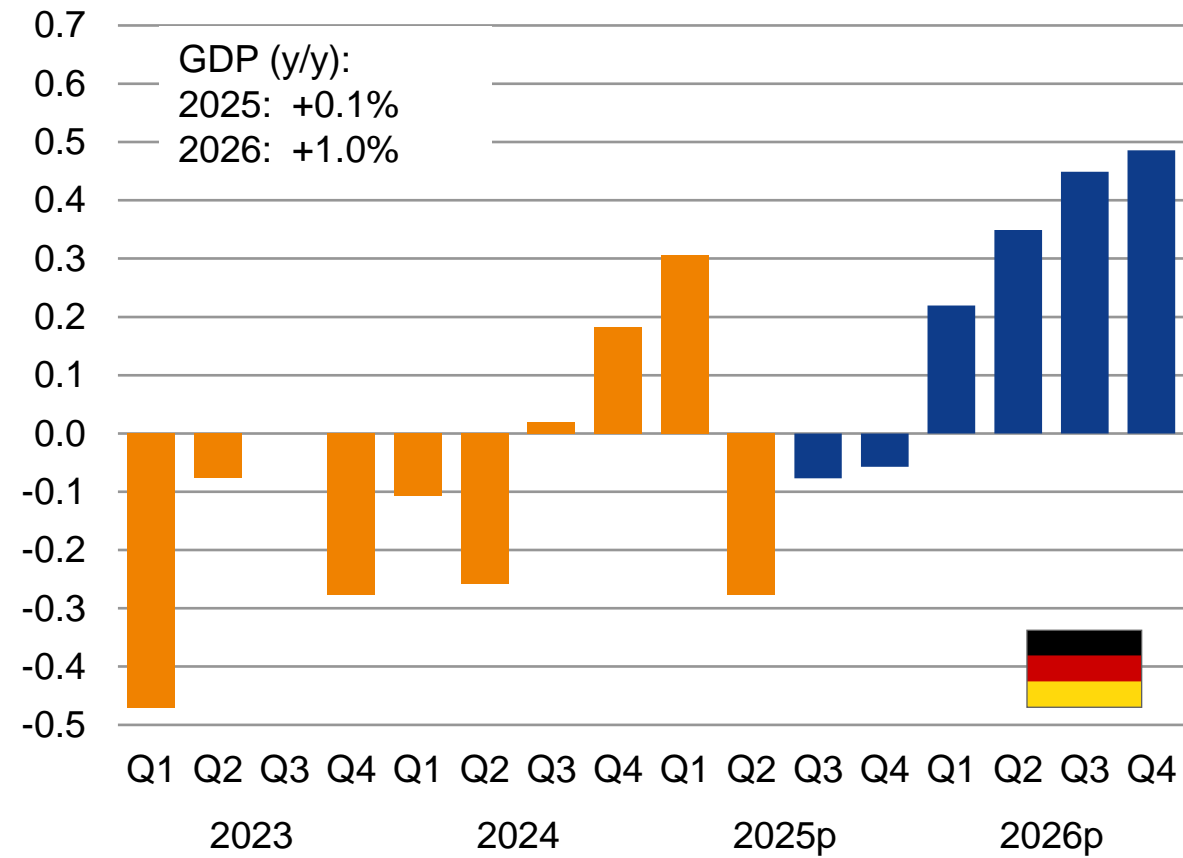
## Burden for the export sector foreseeable



Euro area: GDP q/q in %



Germany: GDP q/q in %



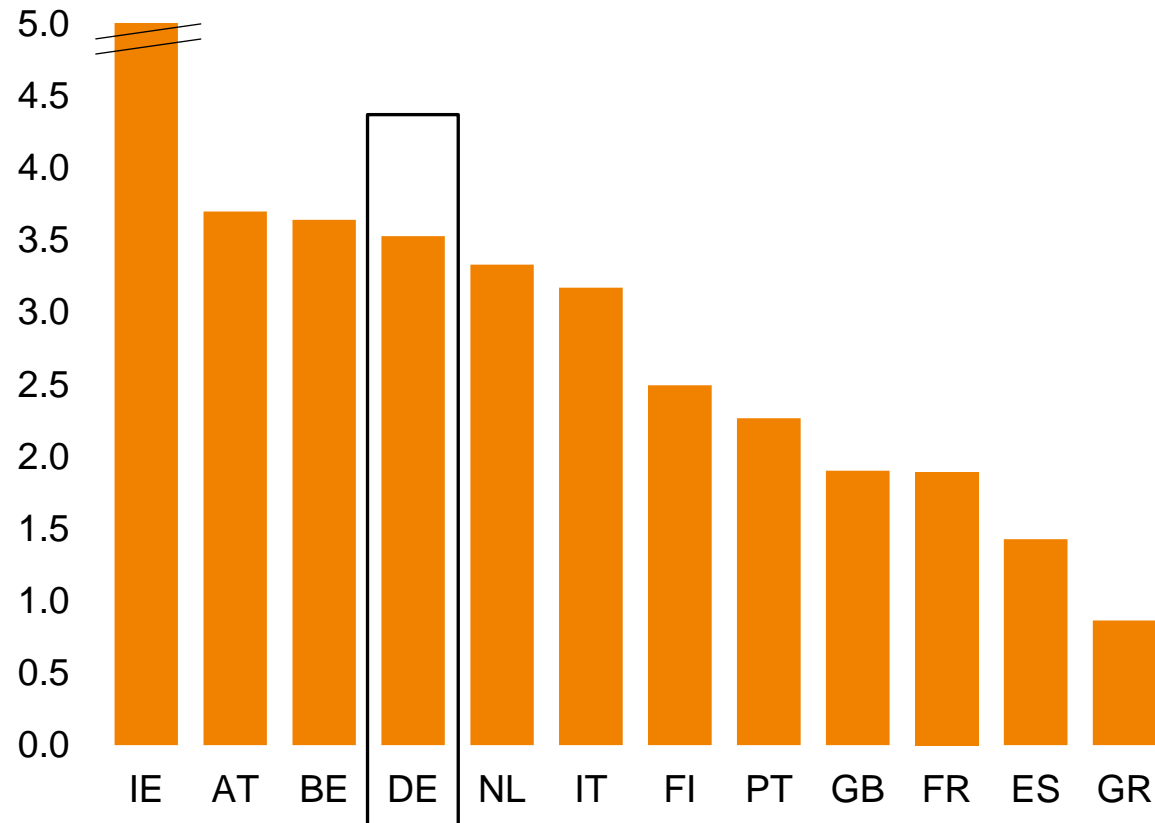
Source: Eurostat, Destatis, Forecast: DZ BANK

# Germany still strongly affected by tariffs

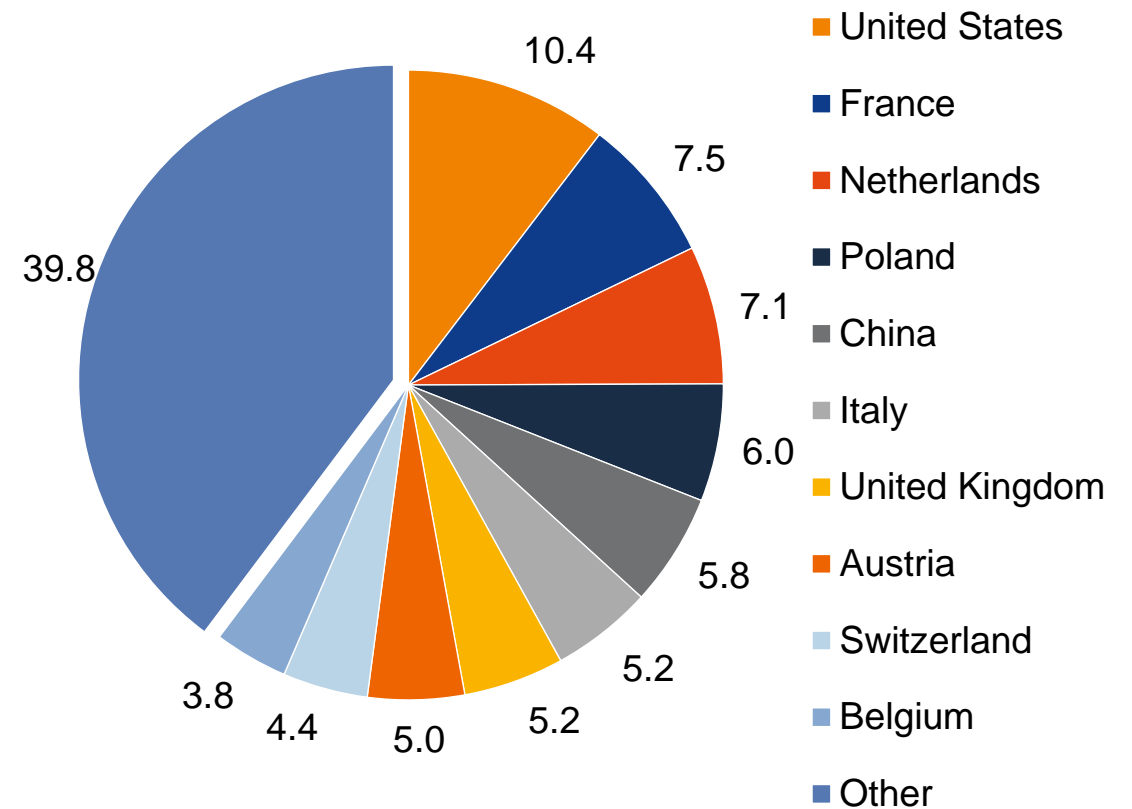
France and Spain less affected, but also have limited fiscal capacity to support growth



Exports to the USA in percent of GDP



German exports to partners, shares in percent,



Source: Federal Statistical Office, DZ BANK

# Strategic Implications for Reserve Managers



- **USD strength persists; EUR undervalued vs fundamentals**
- **But what's next for the dollar?**
- **Diversify duration and geography — avoid concentration risk amid tariff-driven volatility**
- **Reinforce liquidity buffers — fiscal and political shocks can move yields abruptly**

The euro's share in international reserves may continue to rise ...

