



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 **49.5 %**
Profit before taxes Cost/income ratio

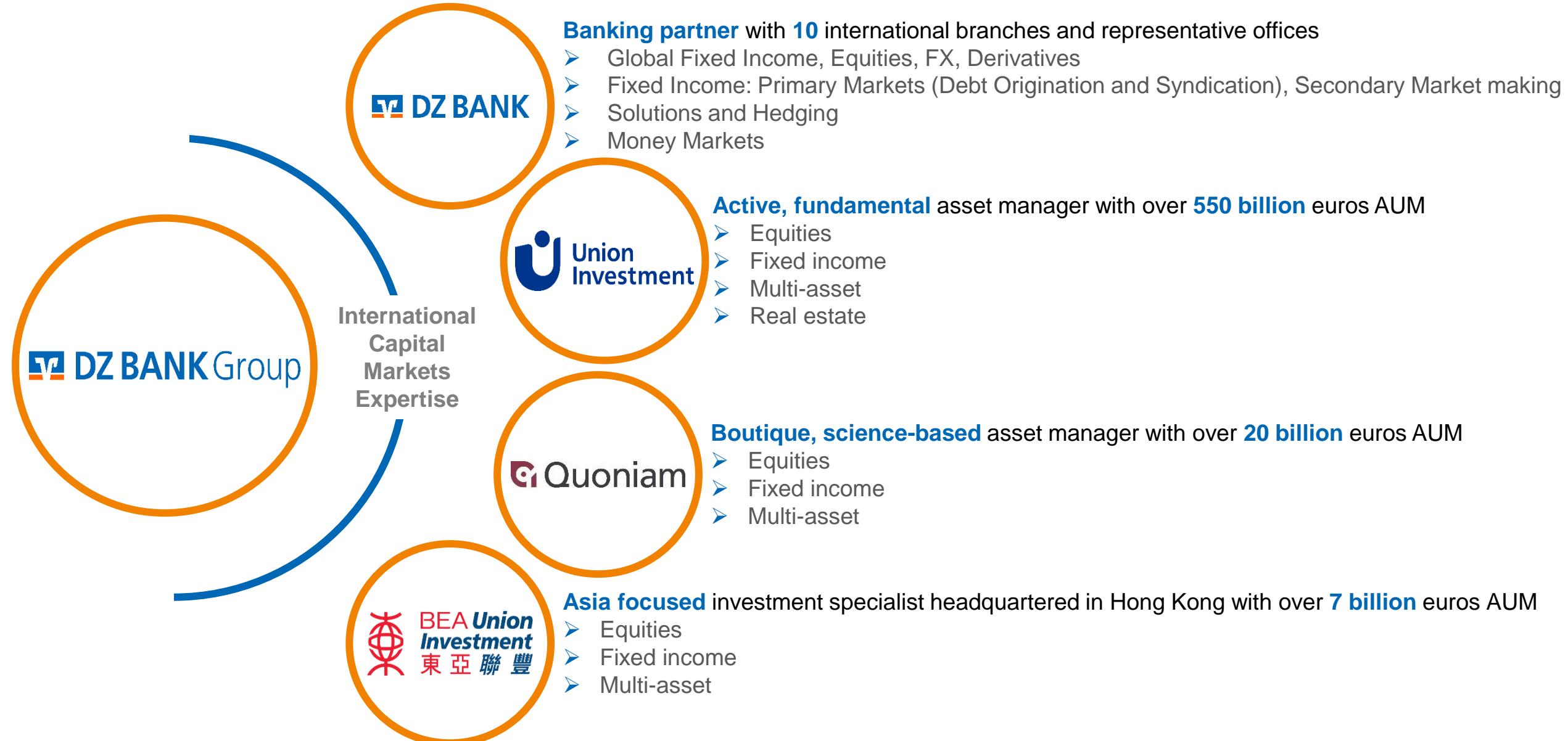
Solid capital ratios

17.9 % **6.7 %**
Common equity Tier 1 capital ratio Leverage ratio

Improved balance sheet and manpower

666 €bn **34,500**
Total assets Employees

Hidden champions of the German financial sector



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



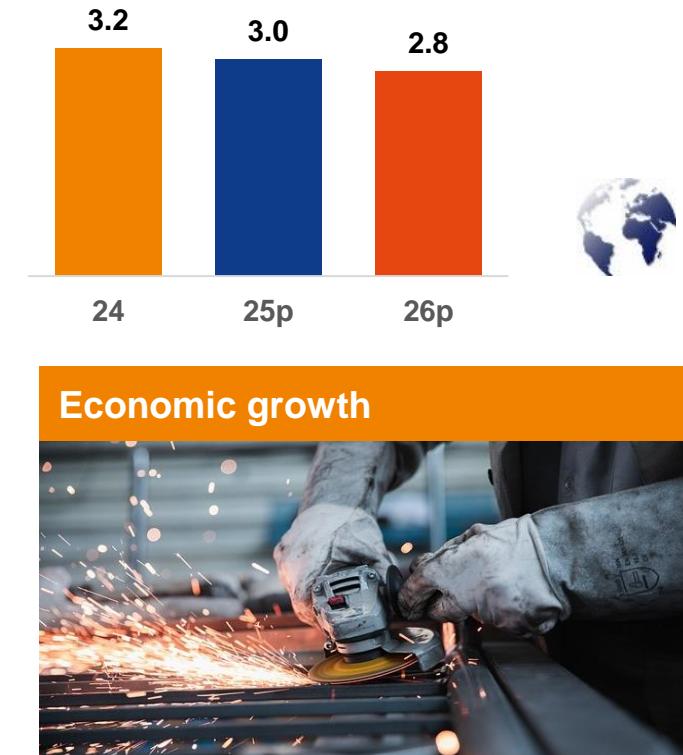
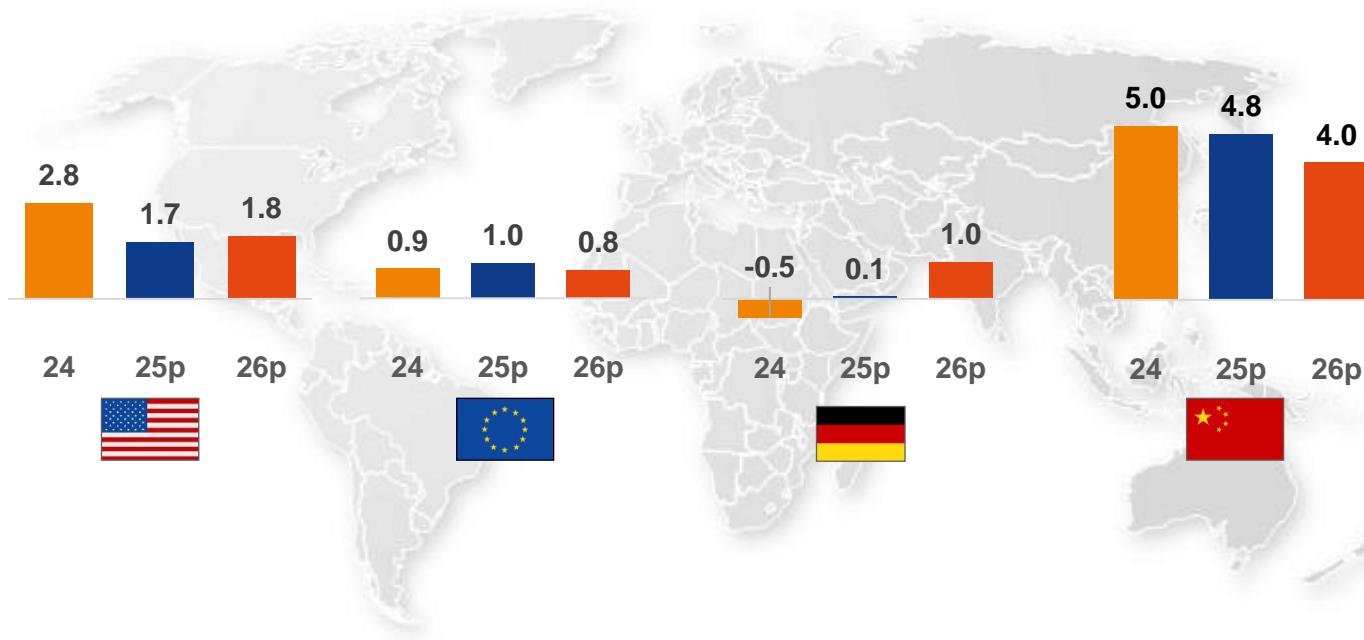
- **Global GDP growth ~2.5% in 2025 (weak but stable)**
- **Trade fragmentation & tariffs remain a drag**
- **Inflation easing, but above pre-pandemic trend**
- **Sentiment improving, yet new orders still soft**

Global economy: tariff effects & uncertainty remain a burden



Germany still lags recovery

GDP (yoY in %; p = forecast)



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

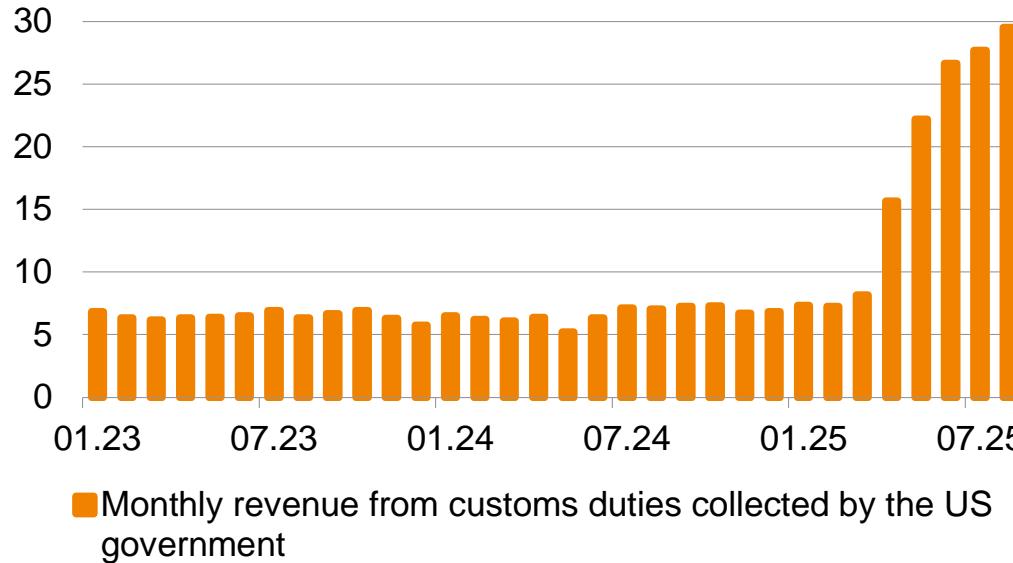


- Economy surprisingly robust GDP $\approx 1.8\%$ in 2025 $\rightarrow \approx 2.0\%$ in 2026
- Inflation 2.9% \rightarrow 3.3% (2026)
- Effective tariff rate highest since early 2000s but no significant rise in inflation due to tariffs so far
- Fiscal deficit widens but government revenue from customs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

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

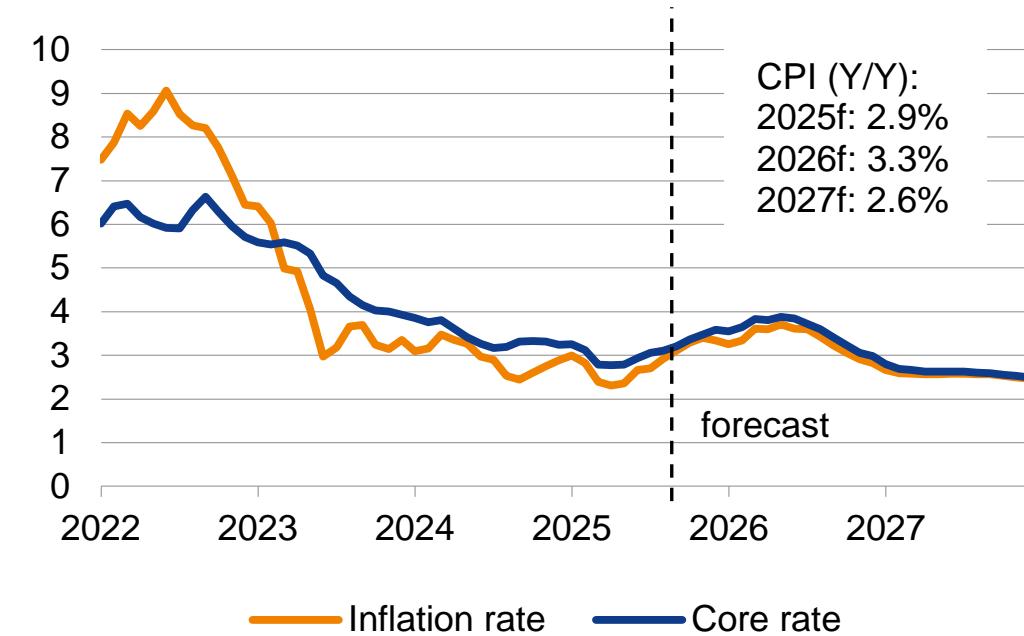


Government revenue from customs duties rises sharply in billion USD



Source: US Department of the Treasury

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



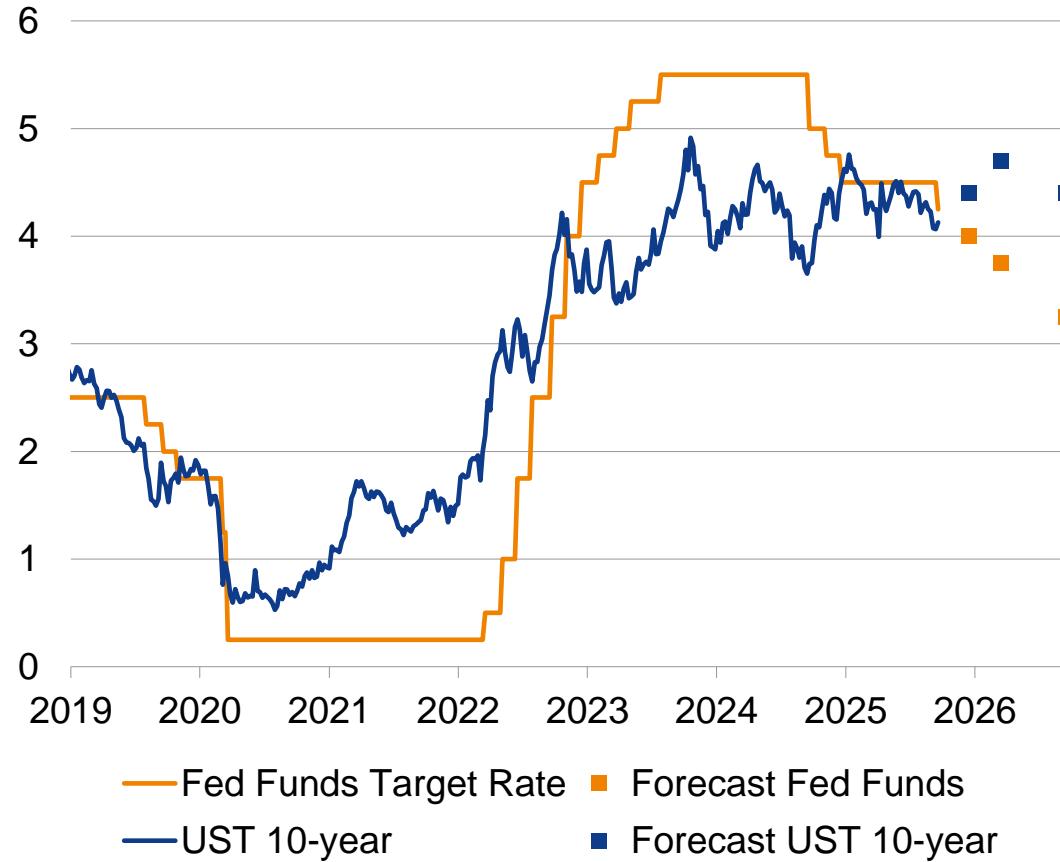
Source: BLS, forecast: DZ BANK

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

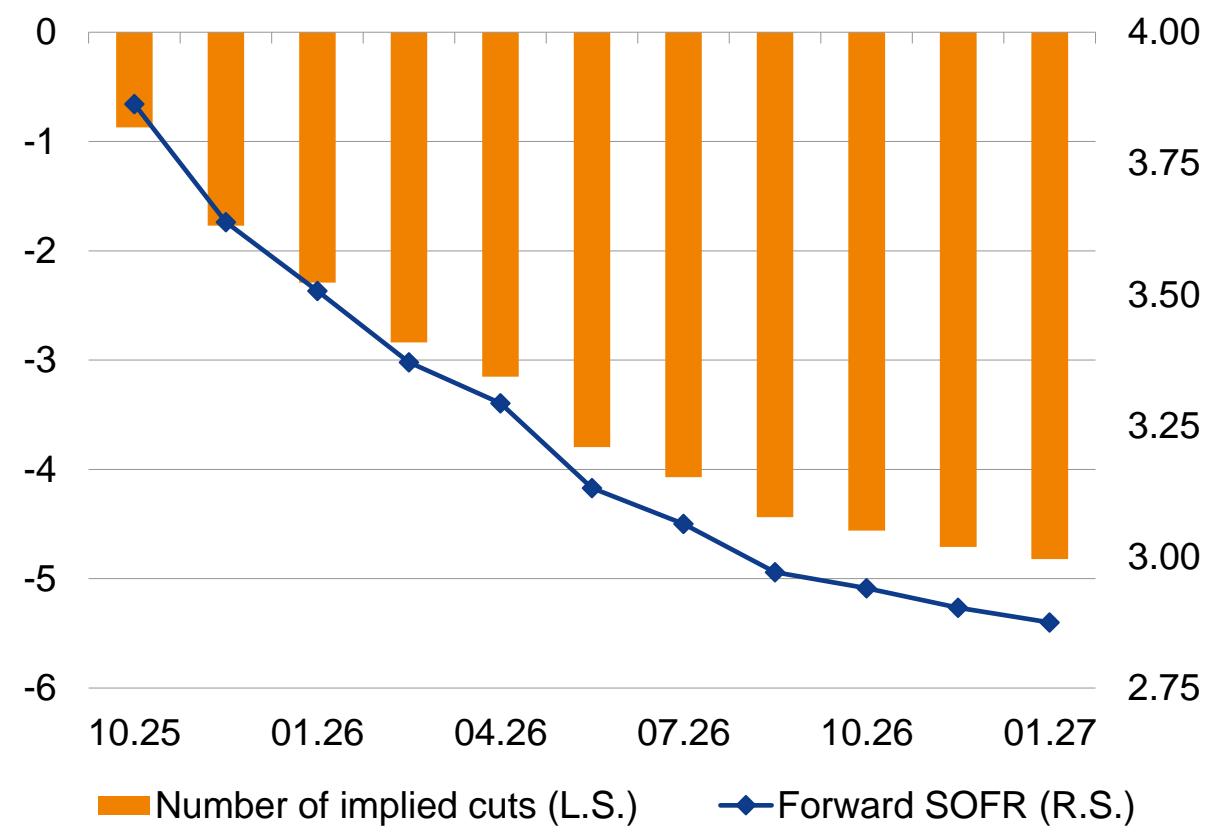


The market has also recently revised its expectations downwards

In percent



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



Source: DZ BANK, Bloomberg

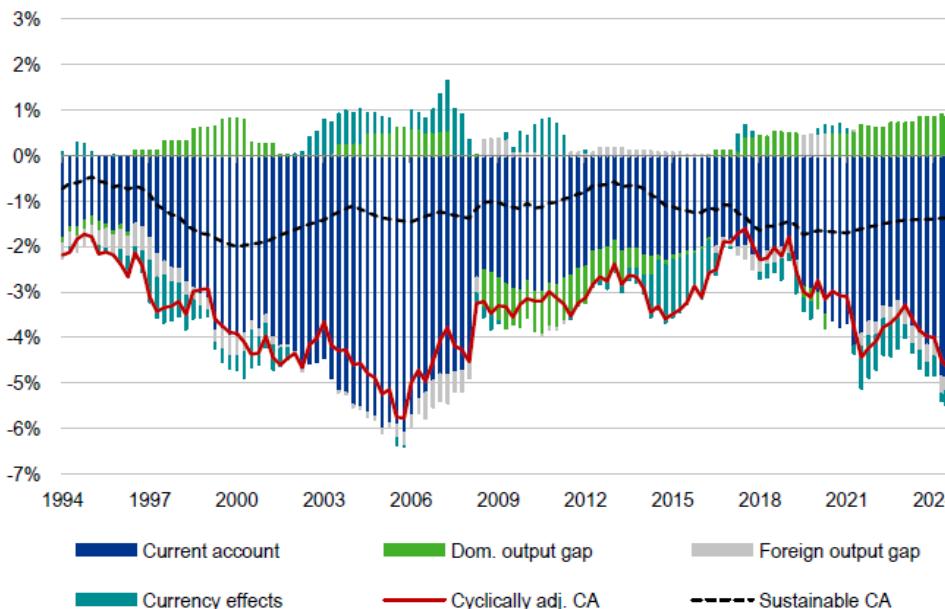
Public finance clouded by high and rising debt



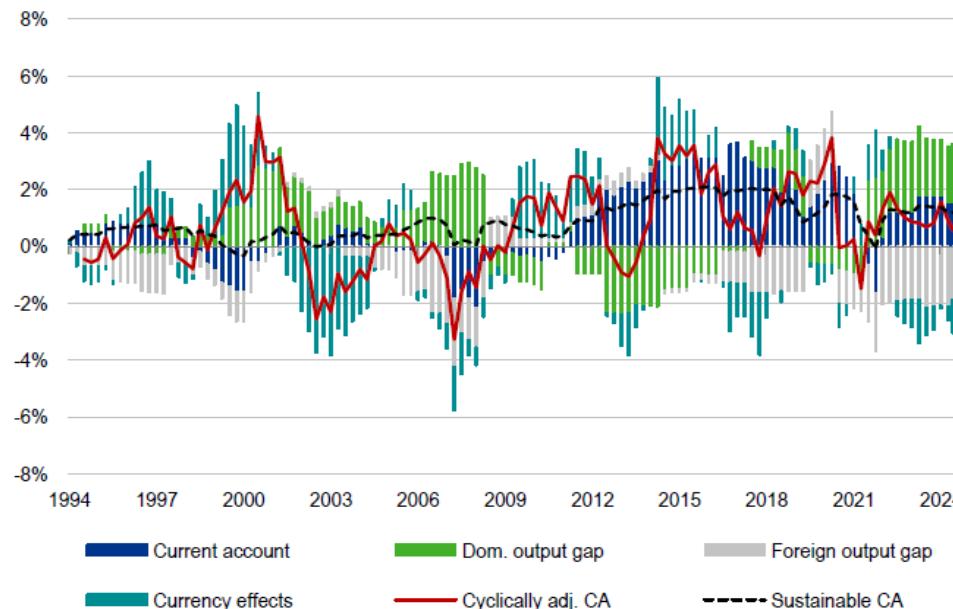
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Contrasting Current Accounts: Euro Area Surplus vs. Unsustainable US Deficit

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



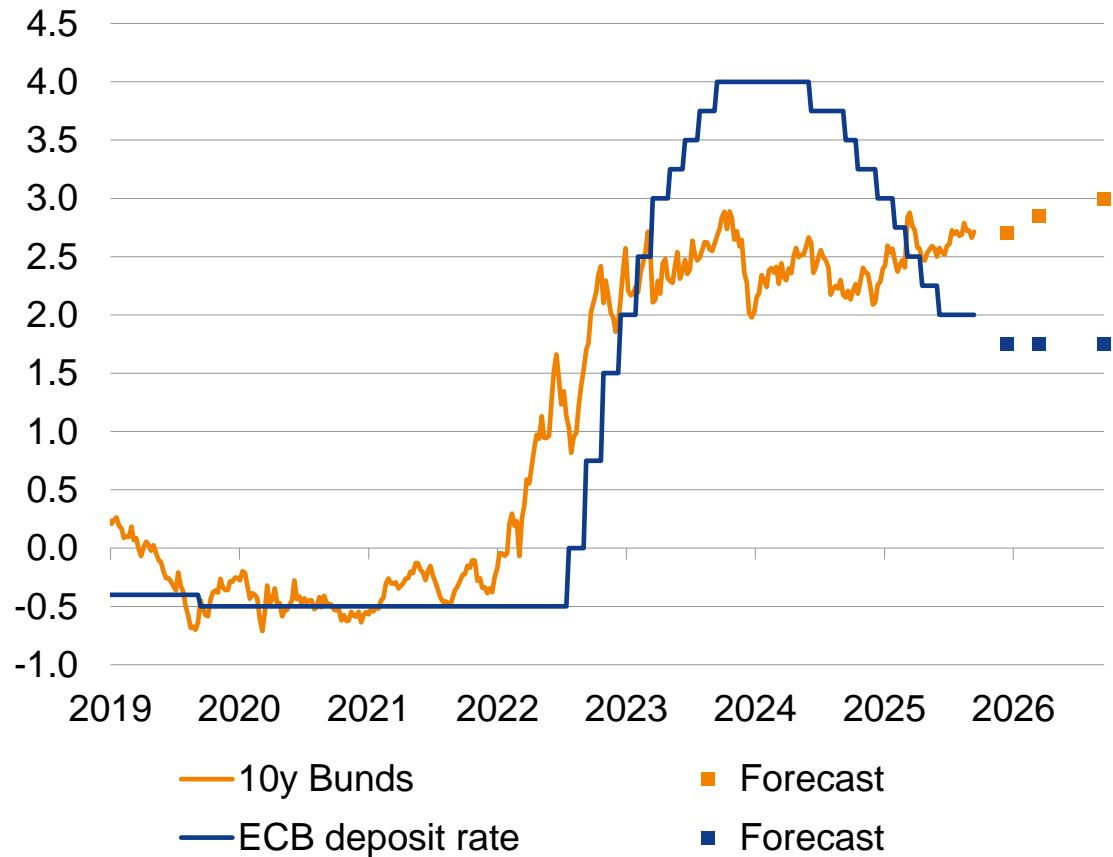
- Euro Area GDP +1.0% 2025 → 0.8% 2026
- Inflation ~2%
- ECB near end of easing cycle; ECB deposit rate 1.75%; final cut likely end-2025
- Fiscal expansion ('ReArm Europe') → higher yields, limited spread widening
- France & Belgium under downgrade pressure; periphery improving

A last cut is in the pipeline for the ECB

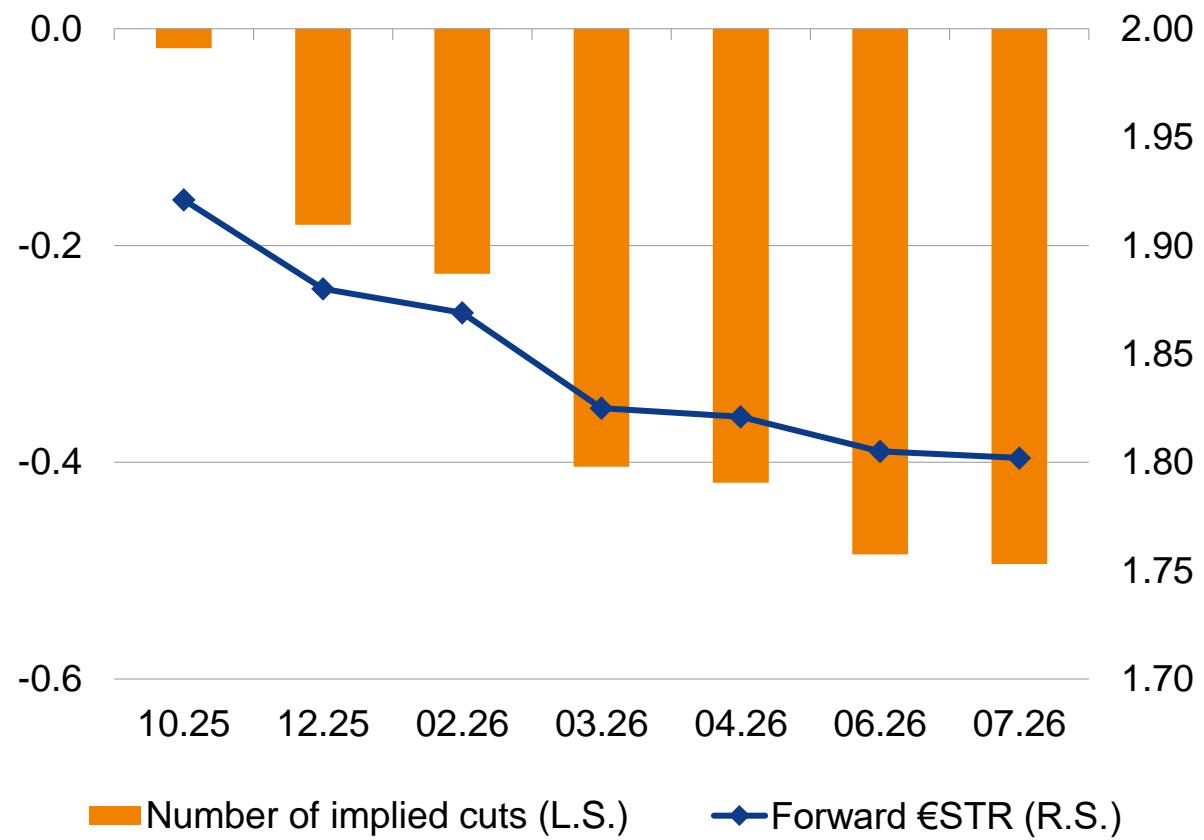


Monetary policy is thus moving towards the lower end of the neutral zone

In percent



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



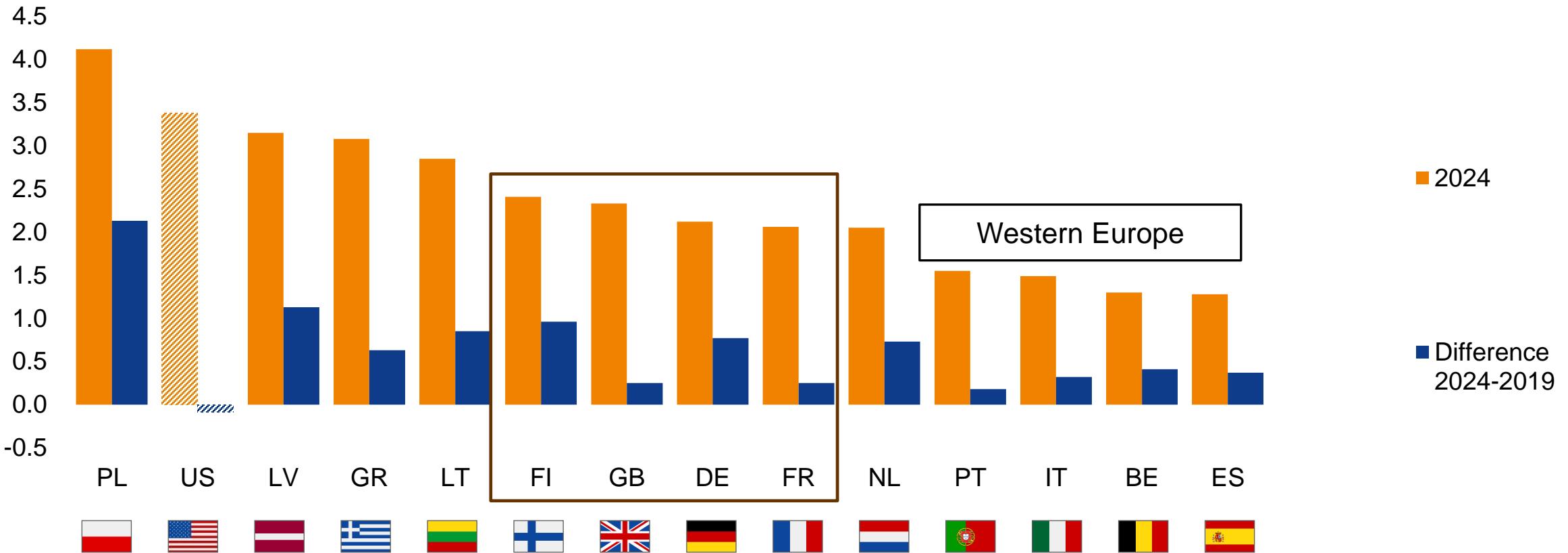
Source: DZ BANK, Bloomberg

Need for higher military spending intensify budget worries



Highly indebted countries have limited capacities to increase their spending

Military expenditure in percent of GDP



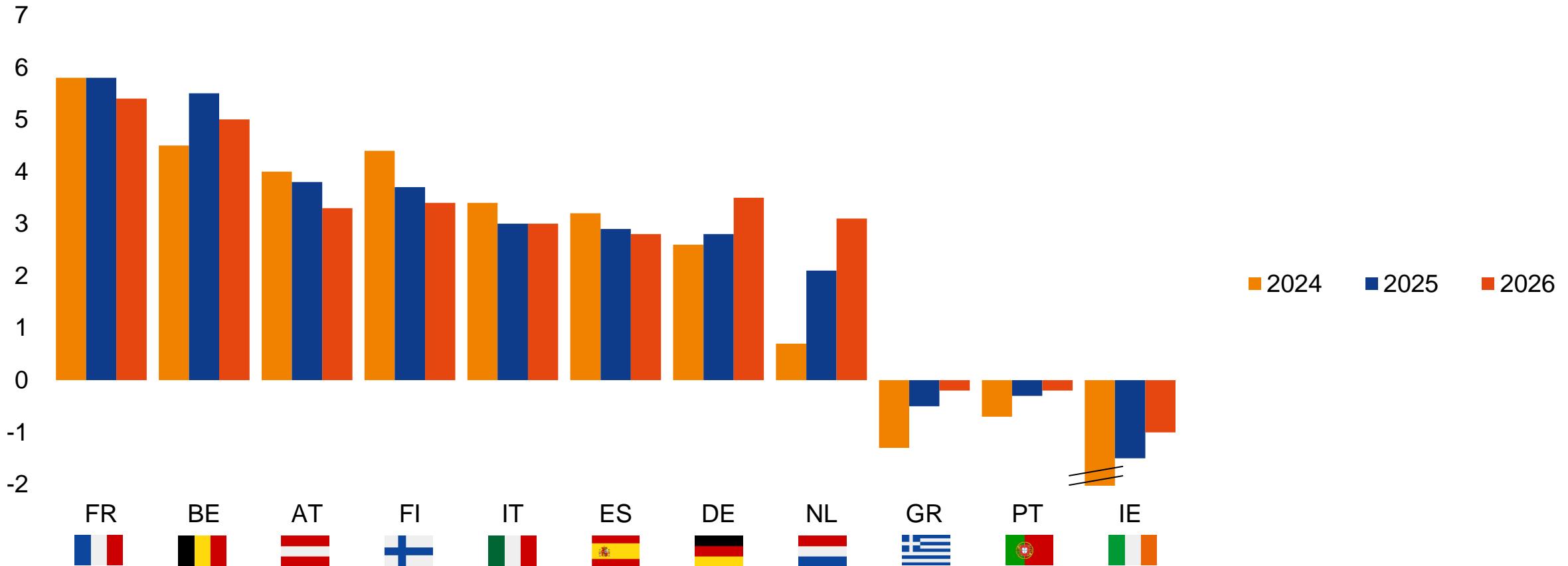
Source: DZ BANK, NATO

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

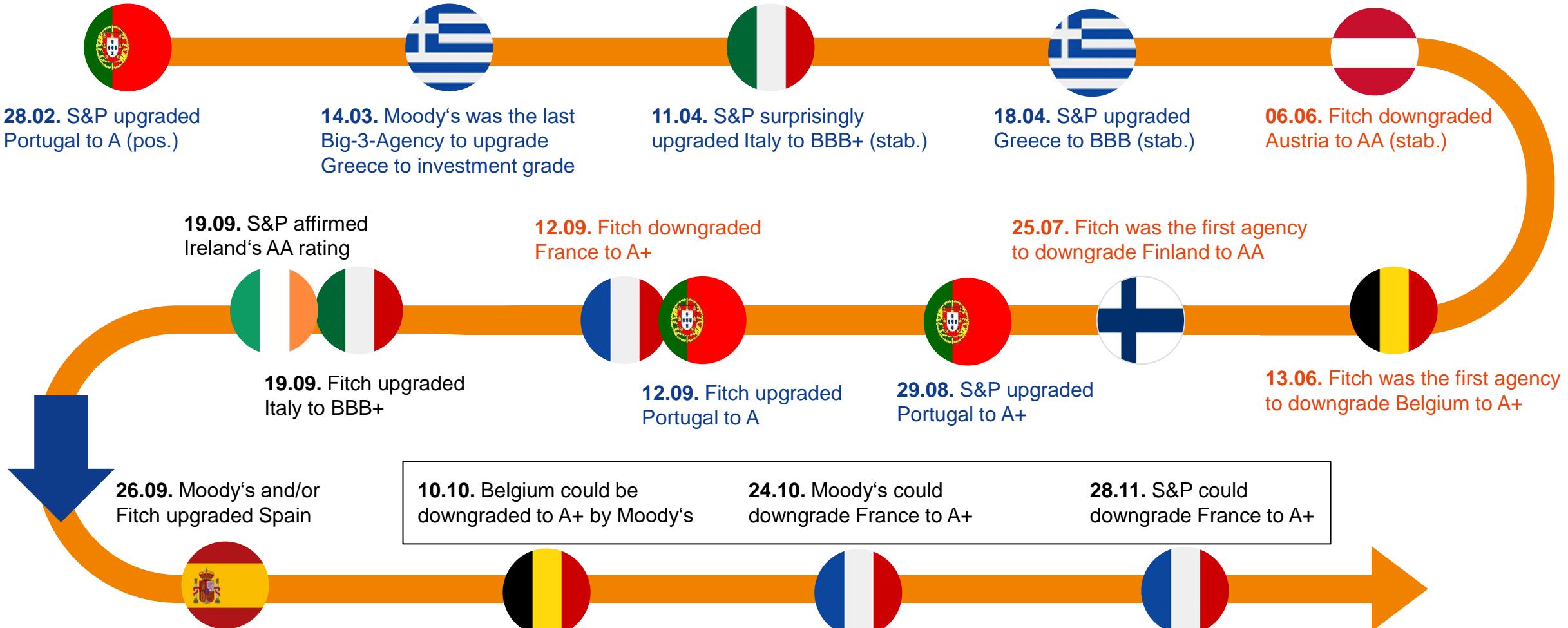


Source: DZ BANK, EU-COM

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



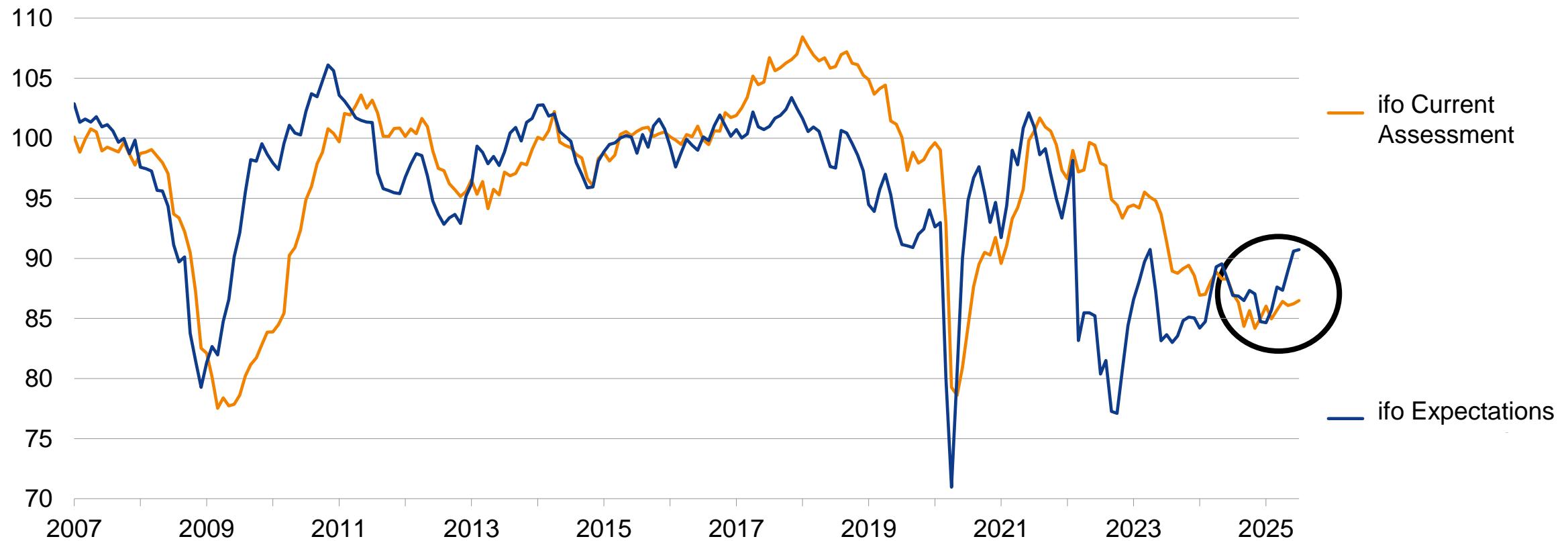
- Economic recovery is mainly driven by fiscal stimulus measures
- Exemptions from the debt brake unlikely to call into question Germany's AAA rating, unless the debt ratio rises to levels significantly above 90% of GDP
- The headwinds for exports are likely to continue in the second half of the year
- 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)



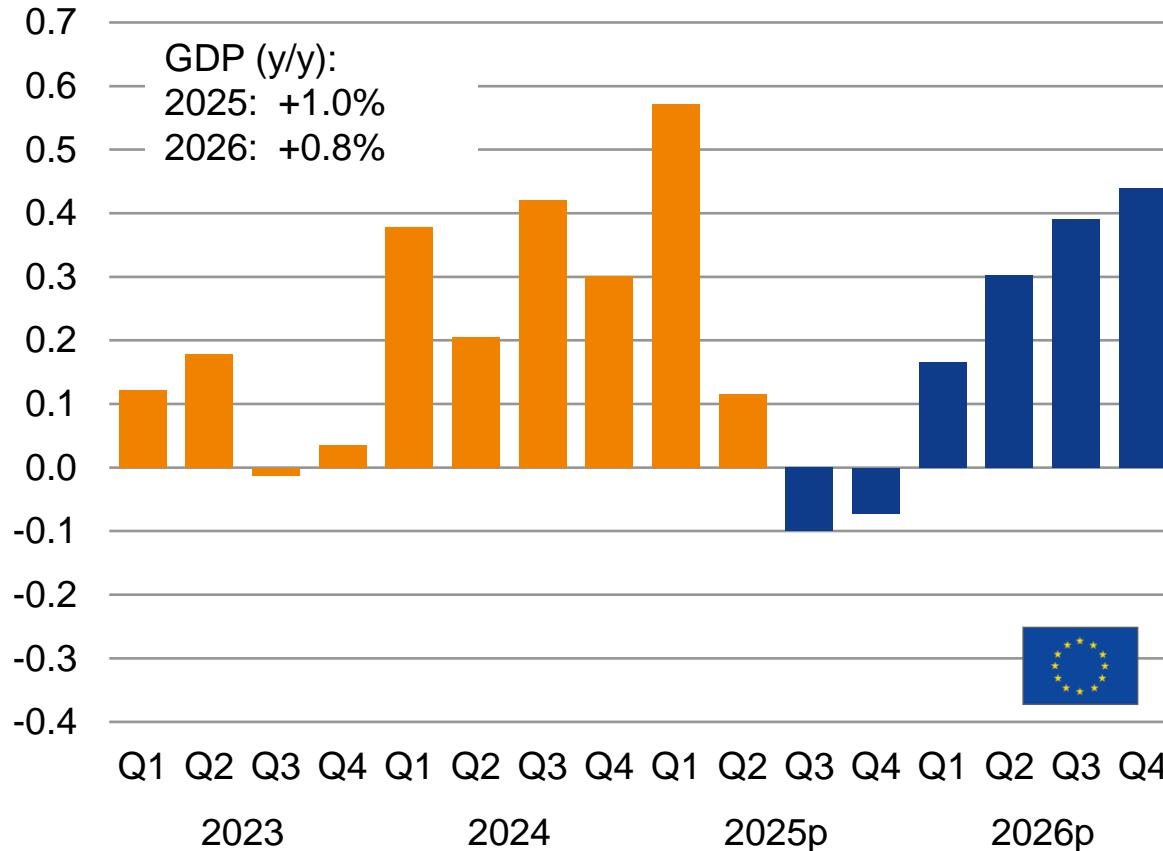
Source: ifo Institute

Outcome of tariff negotiations unsatisfactory from European perspective

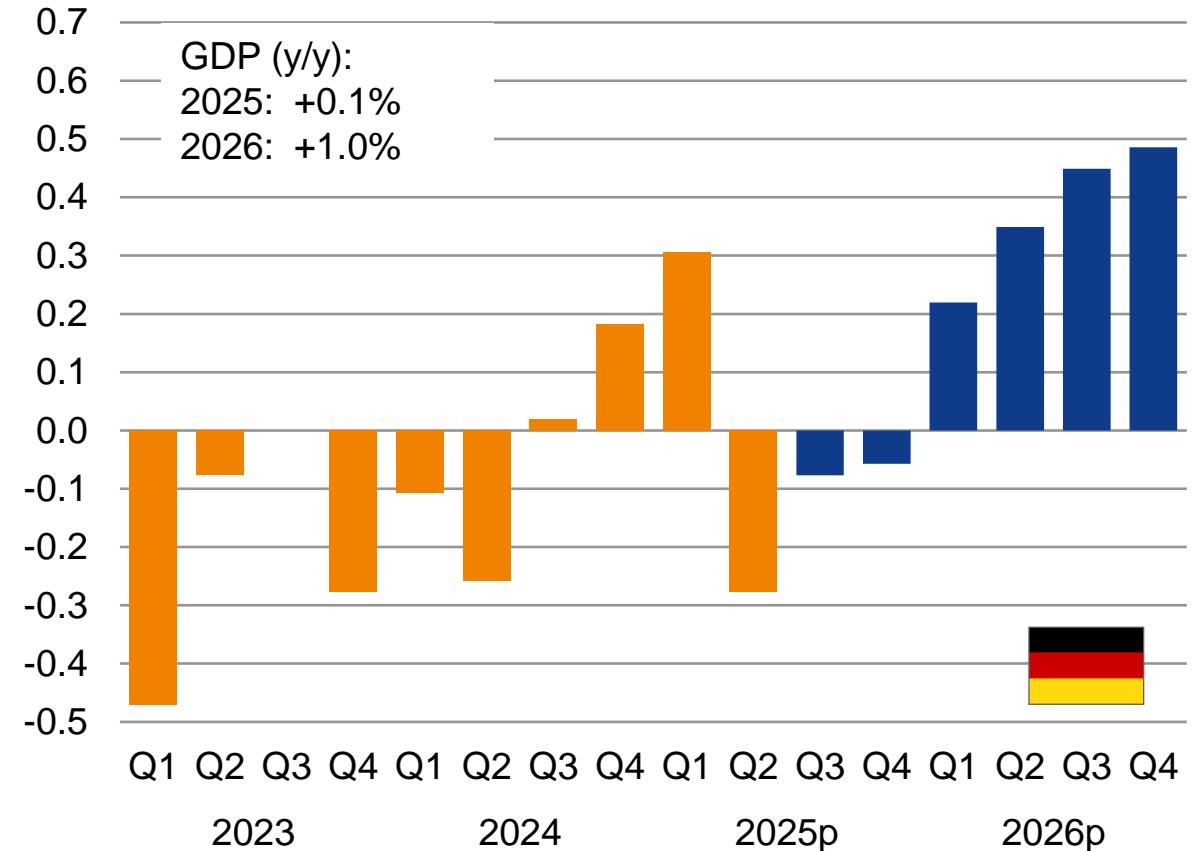
Burden for the export sector foreseeable



Euro area: GDP q/q in %



Germany: GDP q/q in %



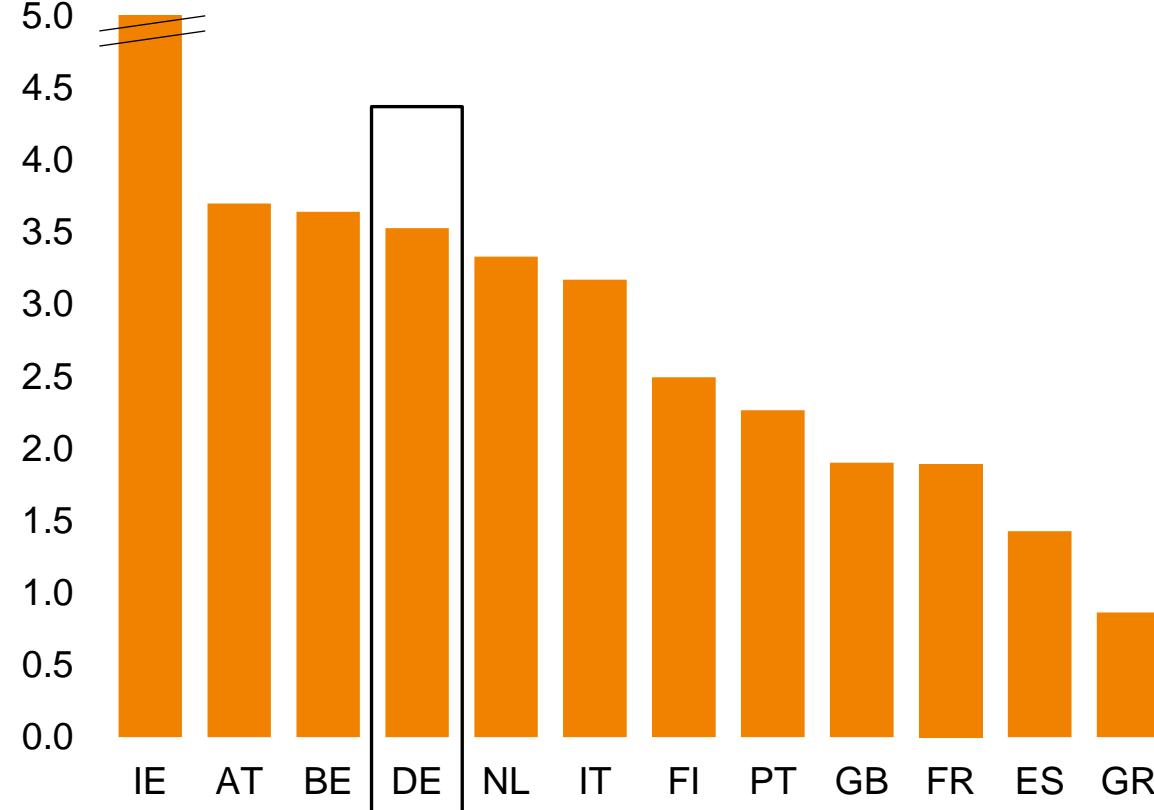
Source: Eurostat, Destatis, Forecast: DZ BANK

Germany still strongly affected by tariffs

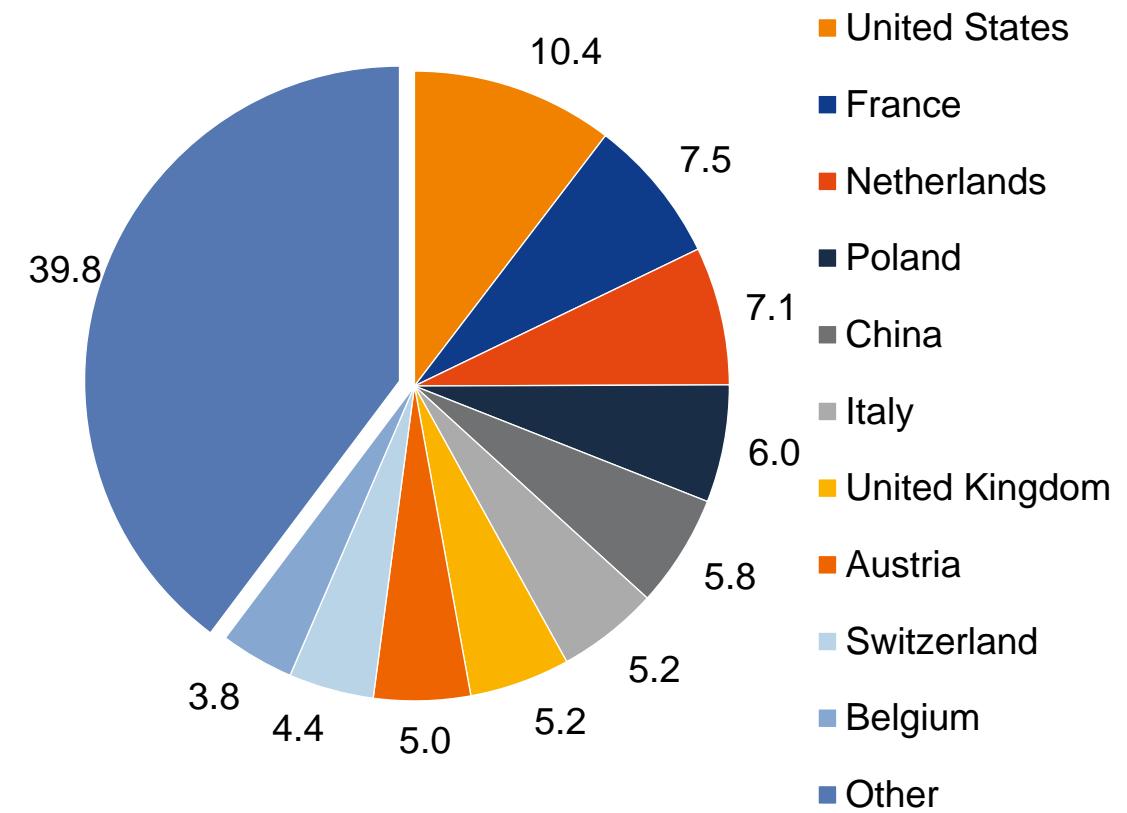
France and Spain less affected, but also have limited fiscal capacity to support growth



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 ...

