***<u>Speech</u>***

# *'Asia and Europe: two sides of the same recovery'*

Ladies and gentlemen,

Let me, first of all, thank you for the opportunity to speak here today.

One could say that 'the meeting *is* the message': the increasingly intense dialogue between Asian and European officials – at all levels – is in itself a sure sign of the importance we attach to this relationship; of the need to address our problems in tandem; of the opportunities that derive from cooperation.

The differences between our countries are often large: in their economic fundamentals, financial positions, their trade relationships or social development. But what we share is equally significant: increasingly, Asia and Europe have become fundamentally entwined. The energy at one end of the market translates into jobs at the other end. The experience of one assists the development of the other. And one continent's weakness can be another's vulnerability.

In Europe, we are well aware of the fact that the strategic choices we make for ourselves can only be successful if we take into account what our partners in Asia are doing. And similarly, we need to make sure our actions are properly understood and considered abroad.

In times like these – with global markets uncertain and nervous – fora like these can provide some of the clarity and stability we need for sustainable growth. Working together, we can make sure Asia and Europe form two sides of the same recovery.

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That recovery can use a boost – and we, in Europe, are doing all we can to provide it.

The European economy continues on its path of economic growth. In 2016, the recovery has entered its fourth year. By now, economic activity in the EU and the euro area exceeds its pre-crisis peak. So we have come a long way.

Circumstances have helped: in particular relatively low levels of oil prices and the euro, a very accommodative monetary policy, and supportive fiscal policies.

The results are there: this year, the expected growth rates are 1.6% in the euro area and 1.8% in the EU. Next year, the rates should be slightly higher still.

But we cannot take continued growth for granted: a modest global expansion, weak global trade, and increased uncertainty are weighing on economic activity in Europe too.

Growth in Europe is already mainly driven by domestic factors. Access to credit is improving further. Fiscal policy in the euro area is expected to be slightly supportive to growth this year. Consumer confidence has increased in recent months.

To make the most of these trends, we now focus on three areas:

- First, fiscal adjustment to improve both the credibility and the quality of public finances. Overall, the government deficit in the euro area is set to fall to 1.9% of GDP this year, down from the peak of above 6% of GDP in 2009-2010. However, adjustment efforts are still needed in a number of countries, where high debt levels are still a persistent vulnerability.

As for the quality aspects, efforts to make tax systems fairer, more transparent and more conducive to jobs and investment are vital.

- Second, structural reforms to make our economies more vibrant. This has clearly worked in recent years, as the countries that have made most progress in reforms - such as Ireland, Spain and Portugal and, earlier, the Baltic countries - are now catching up and even form part of the core group of EU performers.

In many Member States, labour market reforms and fiscal policy measures are supporting net job creation. Other areas, like more flexible product and services markets and the effectiveness of our welfare systems, are the focus of our reform efforts for the years to come.

- And third, we are increasing the momentum for investment. Already, after a long period of weakness, investment has strongly accelerated at the end of last year.

The European Fund for Strategic Investments, launched by the European Commission, is now in full swing. The total of approved lending and guarantees for projects has achieved almost one third of the final EUR 315 billion target. At the same time, the regulatory and governance framework for investment is put sharply into focus, and barriers are being targeted wherever they occur.

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While we are addressing our immediate economic woes, the reform of Europe's Economic and Monetary Union architecture continues.

A lot has been achieved in this since the financial crisis. Institutionally and economically, the euro area is much more resilient than it was before the crisis.

We have drawn the lessons and pushed through the reforms necessary to regain credibility and, on the back of that, stability. Now, we are working on the next steps.

In the short term, that means a more integrated financial union in particular. The bank-sovereign nexus has acted as a crisis accelerator again and again. We need to turn that momentum around, and use cross-border financial markets to smoothen and absorb asymmetric shocks.

In the longer run, more far-reaching actions will be launched to make the convergence process between countries more binding, and integration of fiscal tools more profound.

The aim is clear: the Economic and Monetary Union will come out of this exercise stronger, and more united than it was before.

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Ladies and gentlemen,

Asia's challenges are, of course, generally different than Europe's.

Yet the context is similar.

The downturn in Emerging Market Economies across the world is also linked with a deteriorating external environment, including declining demand from trading partners, lower commodity prices, and tighter external financing conditions.

But there are also country-specific domestic factors at play, including cyclical weaknesses, structural vulnerabilities, and political uncertainty.

Here too, prudent macroeconomic policies, a sound institutional framework and reforms addressing structural bottlenecks are critical to achieve lasting growth.

Vulnerabilities to a further monetary policy normalisation in the US are quite high across many countries also in Asia. Especially those countries with significant external imbalances and insufficient buffers, like currency reserves or sovereign wealth funds, are at risk of a sudden devaluation.

The Asian economies have shown their vast potential throughout the crisis. Their combined contribution in supporting the global recovery was impressive. That is a strong starting point for the next phase of expansion as well. With the right structural reforms, the region should be able to maintain its growth momentum.

A lot of work has been done by Asian governments to improve their macroeconomic position in recent years. On the whole, macroeconomic policy frameworks in many countries are now more resilient than in the past. Low current-account deficits and ample foreign exchange reserves have been achieved and will serve as a buffer against depreciating currencies.

At the same time, the key challenge is to navigate a prolonged period of weak growth coinciding with adverse external shocks. In this environment, both fiscal and monetary policy space becomes severely constrained and much needed structural reforms are more difficult to implement.

As we know, China's economy is at a critical juncture, with both regional and global consequences. The challenge is to manage the transition from an investment- and credit-driven pattern of growth towards a more consumption- and service-driven economy.

As China's biggest trading partner, the EU is certainly willing to join forces in this effort. We can share our experience in dealing with restructuring and its economic consequences. Our companies have the know-how to succeed in the economic transformation that lies ahead. But there is also a need for clear and effective communication on future plans. This would boost market confidence and contain unnecessary volatility.

As for Japan, we understand that strong monetary easing by the Bank of Japan is instrumental in exiting deflation. At the same time it is important to ensure that all G20 members adhere to commonly agreed exchange rate commitments, including refraining from competitive devaluations.

We encourage Japan to accelerate progress with structural reform, in particular to reduce duality in the labour market and to underpin wage growth. Creating an environment in which firms want to invest more helps to increase the potential positive impact of monetary easing and fiscal policy measures.

Similarly, we want to forge closer links with economies across Asia, including India - currently the world's fastest growing large economy; South-Korea, an important trading partner in particular since we signed the first of a new generation of Free

Trade Agreements; and countries like Indonesia, Mongolia, Thailand and Malaysia, whose ambition for higher growth runs in parallel with ours.

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Ladies and gentlemen,

Throughout its recovery, Europe has drawn a lot of strength from Asia's economic energy.

And now, similarly, Europe's economic size and policy experience can help Asian economies manage the next phase of the transition.

So let us link up as closely as we can, so that both profit from the exchange.

Let us continue to use our combined weight for the benefit of a global economy that is open, transparent, and productive to all that fully engage in it.

Thank you.