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Keynote Address by

VALDIS DOMBROVSKIS

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Ladies and Gentlemen,

In 2010, I had the pleasure to address this Summit as Prime Minister about Latvia's way through the crisis. Now, five years later, Latvia is for years among the fast growing EU economies and a member of the euro area. The growth outlook for Europe's economy as a whole is gradually improving. The EU economy is expected to grow by 1.8 percent of GDP this year. Unemployment in the EU is expected to fall below 10 percent – for the first time since 2010. But as you all know, these developments are mainly due to short term factors. In the longer term, Europe cannot rely on low energy prices to sustain growth. In the longer term, Europe cannot build the competitiveness on the international cost advantages caused by depreciation of the euro. In the longer term, Europe cannot rely on unorthodox monetary policy tools like quantitative easing.

Europe must address underlying structural problems of the economy. Europe must raise its long-term growth potential. It must develop a sustainable economic model for the decades to come: a model that builds on Europe's strengths – a home market that is the biggest in the world, a strong industrial culture, a highly skilled workforce. A model that is ready to embrace the dramatic changes which global competition, innovation and digitalisation will bring into our economies. A model that recognises big economic divergences among member states – from Germany to Latvia, for instance. A model that allows Europe to rebalance and converge further, and makes the Eurozone more robust. A model that maintains growth and well-being over the decades to come in spite of demographic changes.

So, how do we increase Europe's growth potential? We are focussing on three priorities. First, investment.

Stronger domestic investment will raise Europe's productivity and growth potential in the long-term. And it will strengthen domestic demand in the short-term. Negotiations on the ambitious EU Investment Plan are at the finishing line. The plan should mobilise 315 billion euros of both public and private investment by overcoming strong risk aversion by both borrowers and lenders. And it should tackle key barriers to private investment, such as the regulatory burden.

Second, fiscal responsibility. Excessive public deficit and debt is still a source of instability and a drag on growth which Europe cannot afford. It is clear that we must stick to our medium-term objective: a structurally-balanced budget in all EU member states. We also need to reduce high public debt in those member states with a particularly high debt burden. There is no such thing as sustainable growth without sustainable public finances.

Third - and probably most important - we must adjust the structure of Europe's economy. Open existing market regulations and create new opportunities for businesses. Allow labour markets to be sufficiently flexible to create new permanent employment, and wages to reflect productivity – in both directions. And modernise public administration. Structural reforms are probably Europe's key challenge. In a currency union, even more than in countries outside the euro area, the economy must be allowed to adjust to changing circumstances and asymmetric shocks.

Structural reforms are, of course, not easy. That is my own experience as former Prime Minister of Latvia. My government only managed strong adjustments because people were ready to act; because we took steps following close consultation with social partners and other stakeholders; and because we acted quickly. When I spoke here five years ago – only one year into my government – our adjustment programme had already been largely completed. If you delay the reforms, it will take longer for the effects of growth to be seen, and even longer for them to be translated into real money in people's pockets.

Financial stability is precondition for economic growth. If you delay adjustment, you delay financial stability. And without financial stability you cannot return to economic growth. This is also the lesson we can draw from the case of Greece. As adjustment is being delayed, financial stability is being delayed too. Adjustment fatigue sets in and people are simply tired of waiting for years to feel the benefits of reforms. Still, Greece, its economy, and its people need these reforms. Progress has been made in some areas, but more needs to be done to reach an overall agreement, and time is now running out. It is therefore important that Greece puts on the table a comprehensive reform package. We need clarity and detail on which reforms they DO want, not just what they DO NOT want. Structural reforms are not a matter for countries in crisis only. The best time to carry out reforms is actually when the economy is doing well.

Europe needs national parliaments, governments, and social partners to act. But in a European Union and even more so in a currency union reforms are not a matter of national interest only. Last week, the European Commission recommended to each member state a set of reforms to address their economic challenges. Germany and France are the two biggest economies counting for about half of the Eurozone's GDP. They have a special responsibility. By embracing the challenges of competitiveness and innovation, they will advance and Europe will advance.

Germany is one of a few EU member states, which is fully compliant with the Stability and Growth Pact. It has taken welcome steps to invest in public infrastructure, education and research and could go further in this respect. In order to continue growing in spite of demographic trends, Germany should encourage stronger labour market participation of second earners, mini-jobbers and elderly people. It should also further reduce barriers to competition in services.

France is committed to the reforms that are so necessary to strengthen its economy and to get more people back into work. France needs to deliver the necessary fiscal adjustment to ensure the sustainability of its public finances and to bring the budget deficit below 3 percent of GDP by 2017. It is essential to maintain the reform momentum: to continue the labour market reforms, to accelerate the simplification effort in order to boost competitiveness, to improve the efficiency of the tax system, and to reform the wage setting and un-

employment benefits system. I am happy to listen to the Prime Minister Valls in a moment.

Structural reforms are not only needed in the individual EU member states but also at European level. In this respect, allow me to briefly set out what we – the EU and the European Commission – can and will do to promote competitiveness and structural reform. Europe's internal market and the common economic policy of the euro area can work as important drivers for reform, competitiveness and innovation - if they are properly used. Competition in the internal market is a strong lever that forces member states' economies to change. To take just one example, numerous sectors of the economy have been revolutionised by the digital economy, by the possibility to buy services and goods from all member states over the internet. A digital single market can boost the economy by up to 250 billion euros over the next five years. My colleague Günther Oettinger will go in more detail on this tomorrow.

Economic policy coordination within the euro area has also had positive effects. Ireland, Portugal and Spain, for example, were in deep crisis just a couple of years ago. Today, they are among the fastest-growing EU economies. Without European solidarity, without the knowledge that failure to adjust could jeopardise their position in Europe, would their economic turnaround have happened so quickly? I am not sure.

The EU is a driver of reforms. Our main challenge today is the implementation gap. For only about half of our country-specific reform recommendations, at least some progress has been made last year. We must do better than that. The Juncker Commission is using its fresh start to streamline economic policy coordination in the European Semester, to make it more transparent, more consultative, and more focussed. For the first time, we have carried out several months of prior consultation based on our analysis. I have myself travelled to many countries across the EU – from Germany to Italy, from France to Finland – to discuss our economic diagnosis with governments, parliaments and social partners. On that basis, last week's policy recommendations focus on the key socio-economic priorities for each member state, which can – and must – be addressed. I am sure that there is further scope for such practical improvements.

As a second step, we must have an open discussion on how economic and fiscal policy coordination and the Economic and Monetary Union as a whole should de-

velop over the medium term. The Presidents of five EU institutions are working together to report to EU leaders with their ideas in June. We are only at the start of this debate. It involves many economic, legal and political challenges. But we need to have a shared understanding about the direction in which EMU should develop a clear common sense of purpose to communicate to citizens and markets.

The global economy is changing tremendously. I want the EU to use all its levers to make Europe's economy more flexible and adaptable to change. We will push forward the internal market and economic policy coordination in the EMU. And we will continue to constructively challenge member states to move ahead with structural reforms. Recommendations alone will not make the difference; implementation will.

Thank you very much.