

**The Thirteenth Asia Europe Meeting (ASEM) of Finance Ministers**  
**Sofia, Bulgaria, 26 April 2018**  
**Communiqué**

1. The Thirteenth ASEM Finance Ministers' Meeting (ASEM FinMM13) was held in Sofia, Bulgaria on 26 April 2018. The Meeting was attended by Finance Ministers and representatives from 45 ASEM Members: Australia, Austria, Bangladesh, Belgium, Bulgaria, Cambodia, China, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Indonesia, Ireland, Italy, Japan, Kazakhstan, Laos, Latvia, Lithuania, Malaysia, Malta, Myanmar, the Netherlands, Norway, Pakistan, Poland, Portugal, the Republic of Korea, Romania, the Russian Federation, Singapore, Slovakia, Slovenia, Sweden, Switzerland, Thailand, the United Kingdom, Viet Nam and the European Commission, and by representatives of the International Monetary Fund (IMF), the World Bank (WB), the European Central Bank (ECB), the European Bank for Reconstruction and Development (EBRD), the European Stability Mechanism (ESM), the European Banking Federation (EBF), the Organization for Economic Co-operation and Development (OECD), the Asian Development Bank (ADB), the Asia-Europe Foundation (ASEF), the Single Resolution Board (SRB) and ASEAN+3 Macroeconomic Research Office as invited guests.
2. Mr. Vladislav Goranov, Minister of Finance of Republic of Bulgaria, welcomed the participants to the Thirteenth ASEM Finance Ministers' meeting. In his opening remarks, he underlined that ASEM offers a balance between informal discussions and practical cooperation, making the forum valued by both the political leaders and the civil society. The Minister also emphasized that strengthening the ties and cooperation among the ASEM partners in its three pillars – political, economic and social-cultural – is of significant benefit to the stability and prosperity of the two continents. Furthermore he called upon the Finance Ministers to continue to reinforce cooperation and enhance mutual understanding for co-prosperity of both regions.
3. The Meeting provided the opportunity for ASEM partners to exchange views on relevant issues of common interest and explored most effective ways to strengthen economic linkages and connectivity and create a stronger partnership between Asia and Europe for a future of shared, inclusive and sustainable growth. Ministers reaffirmed ASEM's cardinal values of equal partnership, mutual respect and mutual benefit. They emphasised the need for joint

efforts to uphold the open economy and for closer engagement towards a stronger and more dynamic partnership in the process of addressing global issues and creation of a favourable environment for a stronger, more sustainable, balanced and inclusive development.

**Economic Developments: Are we ready for the next global downturn?**

4. Ministers noted the continued improvements in the global economic outlook since their last meeting in June 2016. The economic momentum has firmed up as European and Asian economies contribute to and benefit from steady synchronised global growth and strong domestic demand. The favourable economic dynamics are expected to continue across both Europe and Asia in the near term.
5. Low interest rates, strong private consumption and high levels of business and households confidence boosted investments in Europe. Growth rates remain strong in the region in light of on-going trade recovery and sustainable domestic consumption. Commodity prices in energy and industrial metals are also recovering. Growth in Asia is supported by solid expansion in domestic demand driven by rapidly growing consumer markets, and by strong external demand from within the region and globally.
6. While the near-term outlook remains broadly positive, new downside risks emerge. Ministers agreed that retreat from cross-border integration, financial vulnerabilities, and structurally low economic growth are the three main risks to the global economy. There was a general agreement on focusing the discussion on preventive measures to address these risks rather than contingent policies in case the risks materialise. It is important to refrain from complacency while preserving and sustaining the ongoing expansion via continued structural efforts and deeper economic integration both at the regional and global level. We will work together to reduce excessive global imbalances in a way that supports global growth.
7. Ministers discussed further that despite the better-than-expected economic outturn among most of the ASEM members in 2017, challenges remain to raise growth and make it more inclusive. This is related to a possible more rapid and sizable tightening of global financial conditions, rising protectionism and the expected decrease in some favourable cyclical factors. The majority of large advanced economies are expected to operate at or above potential in 2018, while potential growth is held back by population aging and lacklustre productivity growth. At the same time developing economies still remain highly susceptible to global financial conditions and international price movements.

8. Ministers also noted that ensuring debt sustainability and taking measures in support of private debt deleveraging are crucial for maintaining a stable economic system. They pointed out that since global debt levels are high and still rising in nominal terms, this might pose a threat to the overall financial and economic stability. Stronger GDP growth helps mitigating the risk for specific countries as it continues to outpace the borrowing costs, but total private and public debt as a share of GDP have not been broadly reduced. Ministers agreed on the importance of the issue as high debt levels represent refinancing risks, can deepen and extend the length of downturns if there is a lack of fiscal space and weight on investment prospects in different European and Asian countries.
9. In view of potential threats of financial vulnerability and contagion, Ministers stressed the value of an adequate and effective Global Financial Safety Net (GFSN) with an adequately resourced IMF at its centre and the important role of Regional Financing Arrangements (RFAs), namely the Chiang Mai Initiative Multilateralisation (CMIM) with the support of ASEAN+3 Macroeconomic Research Office (AMRO) in Asia, and the European Stability Mechanism (ESM) in Europe in preserving financial stability in their respective areas. Ministers welcomed the MoU signed between AMRO and ESM, which will contribute to further cooperation between the two continents in the area of crisis prevention and management. Ministers also encouraged their continuous collaboration with the IMF and other RFAs to strengthen the GFSN as a whole.
10. Ministers agreed to continue using all policy tools to achieve the goal of strong, sustainable, balanced and inclusive growth. Ministers agreed that to boost productivity and promote inclusiveness, fiscal policy should prioritise quality of public finances, including high-quality investment, address inequality and support structural reforms while fiscal buffers need to be rebuilt. In this regard, Ministers reiterated the importance of growth enhancing investment, including in infrastructure.
11. Ministers acknowledged that international trade and investment are important engines of growth, productivity, innovation, job creation and development and underlined the positive impact of a well-functioning rules-based multilateral trading system on growth and investment. Ministers reaffirmed that enhanced cooperation is needed to facilitate trade, fight against protectionism, and improve the multilateral trading system.

### **Tax and digitalization of the economy**

12. New developments and innovations in the recent years have led to technological changes and a rapid expansion of the digital economy. This can bring great benefits to international community and can lead to economic growth and prosperity of the societies, but also creates challenges for international taxation as well as for domestic resource mobilization.
13. Ministers discussed recent developments to further their understanding of the complexity of the issues involved. They considered the different approaches for long term consensus-based solutions and welcomed the Interim Report on tax challenges arising from digitalization prepared by OECD. There was clear acknowledgment of the ongoing process of the digital transformation and the need to monitor these changes.
14. Ministers exchanged views on the different perspectives of the discussed issues and recognised the need to undertake a comprehensive review of the two key aspects of the existing tax framework, namely the profit allocation and nexus rules that would consider the impact of digitalization on the economy, relating to the principle of aligning profit with underlying economic activities and value creation.
15. Ministers noted that some work is already under way to better understand and address these developments but further efforts are required to ensure that governments can harness the opportunities of digitalisation, while safeguarding the effectiveness of international and domestic tax systems.
16. Ministers welcomed the OECD Interim report analysing the impact of the digitalization of the economy on the international tax system and reaffirmed their commitment to work towards achieving a global consensus-based solution to the tax challenges arising from digitalization to ensure a more sustainable international tax system and minimise disruptions from uncoordinated measures. ASEM countries will actively contribute to the global discussions on tax and digitalization of the economy within the G20 and OECD, and push for consensus-based solutions as soon as possible.

**Addressing new and emerging risks in the financial system – cyber security**

17. Ministers discussed new and emerging risks in the financial sector, including cyber risk. They agreed that cyber security risk to the global financial system is of critical concern. Attacks on cyber space increased in sophistication frequency and persistence. They are threatening to disrupt interconnected global financial system and are a growing danger for the integrity, efficiency and soundness of financial markets worldwide. The trend toward digital customer interactions increases the exposure of the financial sector to cyber risks.

18. Ministers acknowledged that digitalization and innovations in the financial sector brings huge benefits in the form of increased efficiency and better services for all. However, the evolving technology; interconnections among financial institutions and between financial institutions and external parties; determined efforts by cyber criminals to find new methods to attack and compromise IT systems; and the attractiveness of financial institutions as targets for cyber criminals seeking illicit financial gain are the driving factors for the changing nature of cyber risk to financial institutions. Financial services are crucial to both national and international financial systems and malicious use of Information and Communication Technologies could undermine security and confidence and endanger financial stability.
19. The increasing reliance on information and communication technology will require additional efforts and focus on the part of financial sector supervisory authorities on ICT governance and risks, as well as robust cooperation with other authorities and regulators that hold responsibility for cyber security. The Ministers further noted that they would work together to fight against cyber criminals to prohibit illicit gains and to promote the cyber resilience of the financial sector and institutions.

**Other matters and future meetings**

20. The Fourteenth ASEM Finance Ministers’ Meeting will be hosted by [to be decided] in 2020. Ministers asked their Deputies to work out the agenda of the next meeting. The conclusions of this meeting will constitute the Finance Ministers’ inputs to the Twelfth ASEM Summit, which will be held on 18-19 October 2018 in Brussels, Belgium.