



**The People's Bank of China, Beijing – 25 May 2026**

**“Europe and China:  
a key economic relationship under the pressure of great uncertainty and  
growing imbalances”**

**Speech by François Villeroy de Galhau**

**Governor of the Banque de France**

Dear Governor Pan Gongsheng,  
Dear colleagues of the People's Bank of China,  
Da Jia Hao,

It is a great honor and pleasure to address you today in Beijing, in your great country of China, while we meet regularly in Basel or in Washington. And today, at a moment when the global economy is undergoing profound transformations and experiencing high levels of uncertainty. Geopolitical tensions, fragmentation risks, energy and climate challenges, are reshaping the international economic landscape and testing the resilience of our economies and financial systems. In such an unpredictable environment, the relationship between Europe – including France – and China is of particular importance. Furthering our cooperation in key areas will unquestionably be a major source of growth and stability for the global economy.

Hence, allow me today to discuss with you two major and related topics shaping the global economy: first, the evolving relationship between Europe and China **(I)**, and second, the widening of global imbalances and the need for coordinated action to preserve global economic and financial stability **(II)**.

### **I. EU-China economic relations have brought mutual benefits, but now require greater resilience and balance**

The EU and China are major players in the global economy, and our economic exchanges are among the most developed in the world. Taken together, our economies represent around one third of global GDP and one third of global trade flows (excluding intra-zone trade). Over the past decades, economic and financial ties between Europe and China have deepened.

## EU-CHINA: A KEY ECONOMIC RELATIONSHIP SHAPED BY TRADE



### Trade in goods (exports + imports), 2025: USD 860 bn

- China = EU's 1st supplier, 4th customer
- EU = China 2<sup>nd</sup> trading partner

### FDI stocks, 2024:

- EUR → China : 260 USD bn, 7 % of China inward FDI stock
- China → EU: USD 85 bn, 7 % of EU inward extra-EU FDI stock

### Companies, 2023:

- 13 000 European companies (including Joint Ventures) in China
- Over 3 000 Chinese companies in the EU (including Joint Ventures)

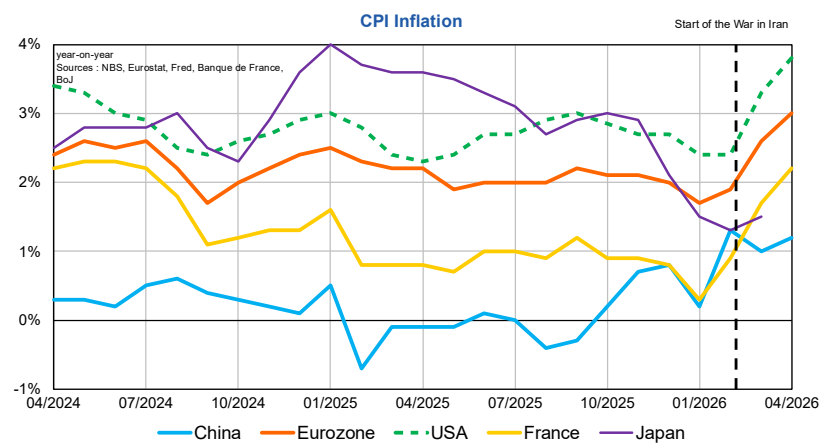
China-EU trade flows have more than quadrupled since the beginning of the 2000s, and now exceed USD 860 billion a year. China has become the EU's leading supplier of goods and services and its fourth largest customer, while the EU is China's second-largest trading partner. In addition to traditional trade exchanges, bilateral economic relations have become increasingly enriched through closer financial, industrial and technological ties. China and the EU respectively account for 7% of each other's stock of inward FDI.

Thus, Europe and China now have deeply embedded value chains, particularly in sectors such as the automotive industry or pharmaceuticals. This economic cooperation is supported by 13,000 European companies in China, and over 3,000 Chinese companies in Europe.

This growing integration has long represented a genuine success for both China and Europe, generating substantial gains in terms of economic development, modernisation of the production system, and lower production costs. The relationship has nevertheless been challenged recently by a series of major shocks. The Covid crisis first revealed the vulnerabilities associated with highly integrated supply chains. More recently, tensions in the Middle East have once again underscored the interconnectedness of our economies and their

vulnerability to geopolitical shocks, particularly via energy prices, with effects that have quickly spread throughout the global economy.

### A RISING INFLATION AMID GLOBAL UNCERTAINTY



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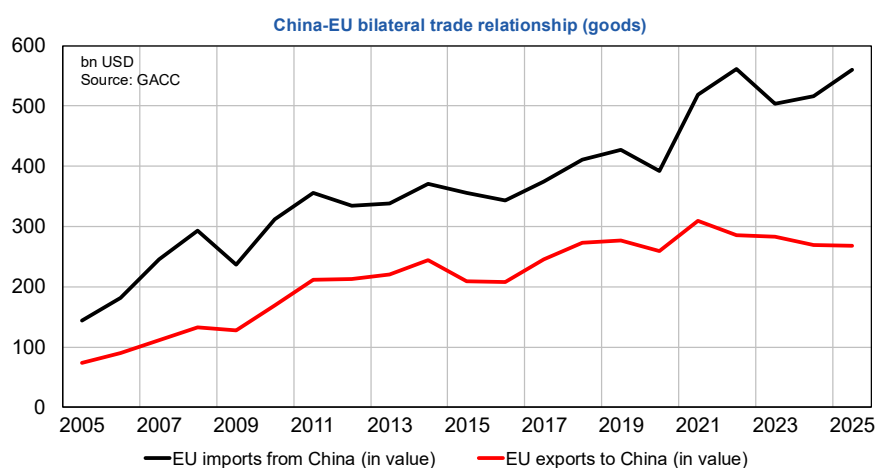
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After averaging 2.1% in 2025, euro area inflation was projected in our March forecasts to rise to 2.6% in 2026 in the ECB macroeconomic projections baseline,<sup>i</sup> with alternative adverse and severe scenarios ranging from 3.5% to 4.4%, largely depending on the scale and persistence of energy price shocks. Economic activity proved to be more resilient than expected at the end of 2025, and has kept growing in the first quarter of 2026, albeit at a slower pace. However, rising energy prices and the deterioration of the geopolitical context are likely to weigh on the European economy thereafter. In this context, euro area GDP growth was expected to slow down to 0.9% in 2026 in the baseline scenario,<sup>ii</sup> slightly below our December projections. Within the euro area, France would have less inflation than the average, and also slightly less growth this year – while performing better than Germany and Italy.

While several Asian economies are significantly affected by rising energy prices, China appears comparatively less exposed, thanks to its energy mix and lower dependence on hydrocarbon imports from the Middle East. Higher import prices may also have helped to reduce the deflationary pressures faced by China. Nevertheless, given the high degree of global interdependence, a prolonged

slowdown in global demand caused by these external shocks would ultimately affect the Chinese economy. Moreover, this recent episode illustrates the absolute necessity to limit our dependency on fossil fuels, thereby improving our economic sovereignty, with positive environmental externalities. In this regard, China's and France's major investment in the energy transition is a source of inspiration. Launched in Paris in 2017, with the Banque de France and the People's Bank of China among its founding members, the Network for Greening the Financial System (NGFS) plays a leading role in supporting the transition towards more sustainable economies, identifying risks, strengthening resilience and improving transparency. Its climate scenarios, for instance, have become a common reference for stress-testing exercises for both the ECB and Chinese authorities. I also want to highlight the work undertaken on the Multi-jurisdiction Common Ground Taxonomy that fosters our cooperation in green finance. The deepening of EU-China economic relations has long represented a mutually beneficial dynamic. However, we have now reached a pivotal moment where the benefits of this relationship appear increasingly unevenly distributed. While the EU's balance in services remains slightly positive, its trade deficit in goods has increased dramatically over the past two decades.

### A GROWING UNBALANCED BILATERAL TRADE RELATIONSHIP

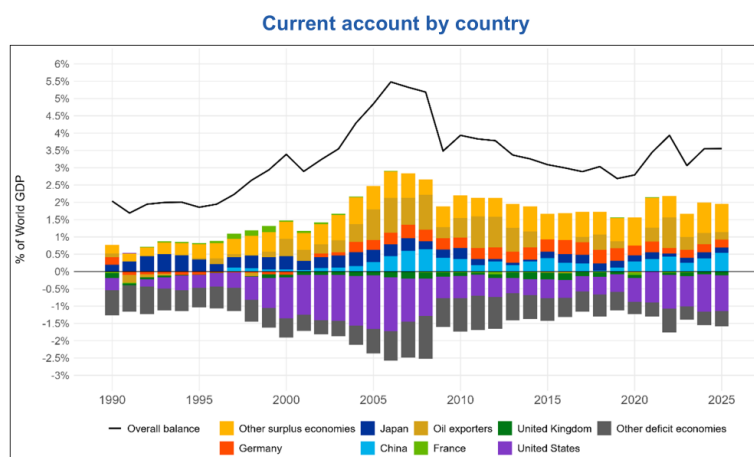


A more balanced economic relationship would benefit both sides, particularly by lowering the risk of renewed trade tensions. In this respect, greater Chinese investment in Europe, particularly in sectors where China has developed strong leadership, could help to rebalance the relationship, especially when it creates value locally and supports technological transfers. Beyond direct investments, Europe is equally receptive to Chinese financial flows; our market offers the distinct advantage of high and stable yields, providing an excellent opportunity for diversifying your global portfolios. Paris is the financial centre which developed the most in continental Europe following Brexit. The joint declaration on cross-investments signed during President's Macron recent visit to China provides an encouraging framework in this regard.

## **II. More broadly, the imbalance in EU-China economic relations reflects the wider resurgence of global macroeconomic imbalances**

After several years of narrowing, global imbalances are widening again.<sup>iii</sup>

### **GLOBAL IMBALANCES ARE WIDENING AFTER YEARS OF NARROWING**



Source: IMF, WEO and BOP data

Note: overall balance is sum of absolute values of current account surpluses and deficits.

In 2025, the US current account deficit reached 3.6% of GDP;<sup>iv</sup> China's surplus rose to 3.8% of GDP and the euro area continued to post a surplus of around 1.7% of GDP. While China's surplus could be considered as not new as a

percentage of domestic GDP, it is growing significantly as a share of global GDP.

These imbalances should not be understood simply as bilateral trade gaps. As emphasised in the recent Memo on Global Imbalances, prepared<sup>v</sup> in the framework of the G7 French Presidency co-written by Chong-En Bai, Gita Gopinath, H el ene Rey, and Axel Weber, excessive current account deficits and surpluses increasingly reflect unbalanced growth dynamics across the major economic areas. They are the macroeconomic reflection of unsustainable domestic growth models and saving-investment dynamics. The US's deficit reflects chronically high fiscal deficit, as well as low private savings and strong domestic demand; China's surplus reflects weak household consumption and excess industrial supply; Europe's surplus reflects high savings combined with insufficient productive investment.

These growing imbalances pose significant risks to the global economy: they fuel trade tensions, geoeconomic fragmentation, and financial instability. They also increase the risk of sudden reversals in capital flows and disorderly corrections in global financial markets. The current situation is therefore not sustainable. This is why reducing excessive current account imbalances have become one of the priorities of the French G7 presidency – and we discussed it in our Paris meeting exactly one week ago. The objective is to identify coordinated responses capable of reducing imbalances, while supporting growth in the countries concerned, as well as preserving global economic stability. In this spirit, the G7 has identified qualitative directions for adjustment: deficit economies should strengthen savings and fiscal sustainability, while surplus economies should reinforce domestic sources of growth. Reducing global imbalances is a shared responsibility. The answer cannot be a disorderly retreat from openness, nor a spiral of tariffs, subsidies and defensive measures. The first best solution remains coordinated adjustment, notably by the largest contributors to imbalances. China has engaged in supporting a stronger household sector, but further efforts will need to be accelerated to deliver a more rapid rebalancing, including through: higher disposable income, stronger social

safety nets, better health and pension coverage. This would not only support Chinese consumers; it would also make Chinese growth more balanced, more resilient and less dependent on external demand. Europe, for its part, must invest more. The Draghi<sup>vi</sup> and Letta<sup>vii</sup> reports clearly show us the way forward, by combining the deepening of the Single Market and the Savings and Investments Union (SIU) around three imperatives – *three “i”s*. First, *integrate* the Single Market further, notably through the creation of an optional 28th regime by 2028, which could reduce the administrative burden on companies operating across borders, and in particular the “cost of failure”.<sup>viii</sup> Second, *invest* better. The Commission’s March 2025 action plan on the Savings and Investments Union must be much more clearly prioritised and accelerated towards European equity financing and venture capital. Third, *innovate* faster, and, for that, dare and simplify. It is not a technical issue anymore, but a matter of economic sovereignty. The United States, finally, must restore a more sustainable balance between public spending, taxation and national saving. A credible fiscal path would reduce external financing needs, lower the risk of disorderly adjustment and contribute to global financial stability. In a highly integrated financial system, the sustainability of one major economy is never just a domestic matter. Acting simultaneously is crucial. If some countries adjust, while others do not, this could result in lower global demand, excessive financial tightening and renewed instability. In this context, France deeply wishes to maintain a close dialogue between the major systemic regions, which is essential for reducing economic tensions, promoting global growth, and preserving global financial stability. The UE and China are facing several common challenges, among which financial stability issues related to new risks raised by cryptos and an ageing population. We are also both deeply convinced by the necessity to respect the rules of international economic governance, especially those of the WTO, ensuring an open, fair and balanced international trade system.

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At a time of growing uncertainty, Europe and China both have the capacity and the responsibility to act as anchors of stability in the global economy. Through continued dialogue and cooperation, we can contribute together to a more balanced, sustainable and resilient international economic order. As Confucius observed, “Excess and deficiency are equally at fault”,<sup>ix</sup> implying that stability requires greater balance, coordination and shared responsibility.

祝中法友谊源远流长<sup>x</sup>

Zhu zhong fa you yi yuan yuan liu chang

Thank you very much.

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- <sup>i</sup> European Central Bank (ECB). (2026). [ECB staff macroeconomic projections for the euro area](#). March.
- <sup>ii</sup> European Central Bank (ECB). (2026). [ECB staff macroeconomic projections for the euro area](#). March.
- <sup>iii</sup> Gourinchas (P-O), Mumssen (C.). (2026). Global Imbalances: Old Questions, New Answers?. International Monetary Fund (IMF), 6 April
- <sup>iv</sup> The US current account deficit reached 4.6% of US GDP in 2025H1, the highest level since the previous peak in 2006 just before the Great Financial Crisis (GFC).
- <sup>v</sup> Report commissioned by the Élysée as part of the French G7 presidency.
- <sup>vi</sup> Draghi (M.) (2024), [The future of European competitiveness](#), September.
- <sup>vii</sup> Letta (E.) (2024), [Much more than a market](#), April.
- <sup>viii</sup> Coste (O.), Coatanlem (Y.) (2024), "*The Cost of Failure and the Quest for Competitiveness: Disruptive Innovation as a Catalyst*". IEP Policy Brief n 24, IEP Bocconi.
- <sup>ix</sup> 过犹不及, Guo you bu ji, This proverb means that doing too much is just as inappropriate as not doing enough. It highlights the importance of moderation and balance in our actions.
- <sup>x</sup> "May the friendship between France and China last forever!"