The process of building the single market and implementing EMU

The EU is the largest source of FDI in the economies and industries

The European Union is a major economy in the world measured by

economy compared with the USA and Japan.

- The European Union is a major economy in the world measured by
  share of global GDP. Rapid economic growth in the new Member
  States is adding to this. The EU also trades more than the other big
  economies; the figures for both the EU-25 and the euro area show
  that the EU holds the largest shares of global external trade.

- The EU is the largest source of FDI in the economies and industries
  of foreign countries — almost twice as large as others. The EU is
  also a massive investor in emerging economies from Asia to
  Latin America. It has a strong positive balance for outward FDI, which
  demonstrates the desire of EU enterprises to seek win-win
  partnerships abroad. FDI is expected to increase appreciably as the EU
  economy grows.

- The process of building the single market and implementing EMU
  has greatly encouraged trade, both within the EU and with the
  outside world. This experience makes the Union a market that is
  very open to trade — both in volume and also as a net importer of
  goods.

- As a major global financial centre, the EU is home to many of the
  largest banks in the world. As EMU progresses, further consolida-
  tion of the financial sector is expected, leading to the creation of
  pan-European financial institutions with global reach. For busines-
  ses, the fragmented national economies made it difficult for
  European enterprises to become truly global. However, within the
  single market, pan-European companies are emerging with the size
  and brand power to compete worldwide.

### Table 2: The EU and other major world economies: key figures

<table>
<thead>
<tr>
<th></th>
<th>EU (Euro-area)</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of world population (%)</td>
<td>7.2 % (4.5 %)</td>
<td>4.6 % (2.0 %)</td>
</tr>
<tr>
<td>Share of world GDP (%)</td>
<td>22 % (16 %)</td>
<td>21 % (7 %)</td>
</tr>
<tr>
<td>Share of world trade in goods (%)</td>
<td>19.6 % (17.4 %)</td>
<td>17.4 % (6.7 %)</td>
</tr>
<tr>
<td>World FDI inflows (%)</td>
<td>25.7 % (31.3 %)</td>
<td>13.3 % (1.3 %)</td>
</tr>
<tr>
<td>World FDI outflows (%)</td>
<td>46.1 % (24.8 %)</td>
<td>5.3 % (5.3 %)</td>
</tr>
<tr>
<td>Openness to trade (%)</td>
<td>146.5 % (8.8 %)</td>
<td>9.5 % (9.5 %)</td>
</tr>
<tr>
<td>Top 100 brands in the world (%)</td>
<td>78 (58)</td>
<td>7 (7)</td>
</tr>
<tr>
<td>Top 25 banks in the world by assets (%)</td>
<td>15</td>
<td>3</td>
</tr>
</tbody>
</table>

The key figures given in Table 2 show important features of the EU economy compared with the USA and Japan.

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### Economic governance in the euro area

To achieve EMU and create the conditions for a strong and stable single currency, the euro-area Member States successfully coordinated economic policies to enable their economies to converge. Today, the euro-area countries share a single currency with:

- one monetary authority (the European Central Bank),
- one monetary policy,

while maintaining:

- separate national budgetary authorities,
- separate economic policies.

Because separate economic policies can have spillover effects on other euro-area members, economic policy must be coordinated and fiscal disci-

pline ensured, while retaining the flexibility to respond to economic shocks and periods of recession. This is achieved by:

- coordinating the economic assessments and policy responses of euro-
  area members;
- following agreed rules for fiscal discipline on the size of budget
deficits and limits on government debt; and
- taking steps to maintain the sustainability of budget positions over
economic cycles and to meet longer-term commitments.

As the new Member States align their economies to achieve convergence with the euro area, they will need to meet the same economic criteria before entry. Proper governance of the euro-area economies is vital, not only for the prosperity of EU citizens, but also to maintain the euro as a strong and stable currency within world markets so that it contributes to world economic stability and growth. Since its creation in 1999, the euro has demonstrated its capacity to ensure a greater macroeconomic stabili-

ty than in the last three decades. In spite of unfavourable external

shocks, the single monetary policy has successfully anchored price stabi-

lity at around a 2 % annual rate of inflation.

### The major actors

The European Central Bank and national central banks of the euro area
together decide and implement monetary policy to achieve price stability. The European Commission monitors national economic policies in close
collaboration with Member States’ authorities and proposes assessments and
to the Ecofin Council.

The Ecofin Council brings together the Ministers for Economic

Financial Affairs from the Member States to decide on policy proposals from

The Member States of the euro area manage their budgets independently

but treat them as a matter of common concern and cooperate through the

Ecofin Council.

Further information:

European Commission Directorate-General for Economic and Financial Affairs

http://europa.eu.int/comm/economy_finance/index_en.htm

The European Central Bank http://www.ecb.int/

The Council of the European Union http://ue.eu.int/

The European Commission http://europa.eu.int/comm/index_en.htm

The Euro http://europa.eu.int/euro

The Union shall set itself the following objectives:

- economic and social progress …
- high employment …
- balanced and sustainable development …
- through the creation of an area without internal frontiers …
- through strengthening economic and social cohesion …
- and through the establishment of an eco-

monetary and monetary union, ultimately

including a single currency in accordance with the provisions of this Treaty.'

Treaty on the European Union, 7 February 1992

Article 2, first indent
The single market — a foundation for the euro

In 2004, 10 States joined the European Union, bringing membership to 25 countries — the EU-25. Today, the EU is a single market of over 450 million consumers and around 20 million enterprises where goods, services, capital and people move freely and enjoy the real economic and social benefits of greater integration. Within the single market, the single currency area — the euro area — covers over 305 million EU citizens in 12 countries and is set to expand in the future. This process of integration, which continues today, has a long history.

- The 1968 customs union removed many barriers between national economies and increased trade within the EU. Today, free trade within the EU, from the Arctic to the Mediterranean; and with its trading partners worldwide.
- The EU single market implemented in 1992, removed the remaining barriers to free trade and levelled the playing field for all. Consumer protection and product safety legislation have harmonised. Capital, companies and people move freely throughout the EU. More competitive markets, such as energy, telecommunications and air transport, bring wider consumer choice, lower prices and higher economic growth.
- While creating the single market, the EU began the process of economic and monetary union (EMU). By adopting a common framework for fiscal discipline and multilateral surveillance of Member States’ economic policies, national economies converged — laying the foundations for the single currency, the euro, in 1999. The European Central Bank now leads monetary policy to maintain price stability in the euro area. The new Member States will adopt EMU when their economies meet the conditions of convergence.

The single market brought more trade, more jobs and more wealth to EU citizens. EMU brings economic strength and stability which leads to even greater opportunities for growth and prosperity — both for the European Union and for its trading partners worldwide.

EMU and the euro — bringing stability to the EU and the world

The EU is among the largest economic players in the world measured by GDP (1) (see Table 1), and economic integration has played an important role in building this position. However, EMU does not stop with the introduction of the euro — it is a continuing process of improvement in economic governance (2) for the EU Member States. People and enterprises across the euro area are now benefiting from the advantages of the single currency. These benefits lie in the greater efficiency and stability of a single currency, in particular:

- Companies benefit in that they no longer need to factor exchange rate risks into their pricing, thus reducing the transaction costs of cross-border trade inside the euro area, which previously accounted for 1% of EU GDP. In addition, in a larger market, lending is more competitive, which reduces interest rates. These cost savings release capital for more investment, leading to more employment and lower prices.
- Ordinary people benefit since the single currency allows them to compare prices across the continent. Further, travel in the euro area is easier as currency exchange is no longer necessary — reducing costs and boosting travel and tourism. Overall, consumers are benefitting from lower costs and a stable economy. Mobility is also encouraged and people move more easily to study or work in another Member State.
- Member States benefit since the free movement of capital without exchange rate risks in the euro area makes cross-border investments in industry and services much more attractive, creating additional economic growth, employment and wealth. Foreign direct investment (FDI) flows, where a company invests in another country, have increased more than 12 times within the single market.
- The world economy benefits since the euro area has a macroeconomic regime that is more predictable: coordination of national budgetary policies and a single monetary policy in the hands of a single, independent central bank whose main task is to ensure price stability. The resulting stability and liquidity of the euro make it an attractive reserve currency that foreign governments can use to diversify their foreign currency holdings, which lowers risk and contributes to global economic stability.

(1) Gross domestic product — a measure of national output and wealth.

(2) An explanation of economic governance in the euro area is found on the last page of this brochure.

<table>
<thead>
<tr>
<th>Table 1: Comparison of major economies</th>
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<tbody>
<tr>
<td>Gross domestic product (GDP) (in EUR billion)</td>
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<tr>
<td>---------------------------------------------</td>
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<tr>
<td>EU-25</td>
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<tr>
<td>Euro area</td>
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<tr>
<td>USA</td>
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<tr>
<td>Japan</td>
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<tr>
<td>China</td>
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<tr>
<td>India</td>
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<td>Russia</td>
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<td>Latin America and Caribbean</td>
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<td>Middle East and North Africa</td>
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<tr>
<td>Sub-Saharan Africa</td>
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<tr>
<td>Asian NIS</td>
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</tbody>
</table>

Sources: GDP PPP from World Bank data for 2002; Population data from World Bank data for 2002; Asian NIS (newly industrialised States) includes Singapore, Hong Kong and South Korea; data excludes Taiwan.

Currency conversion: EUR 1 = USD 1.2168 (ECB, 1 September 2004).

Unify in diversity is the motto of today’s European Union, which groups together 25 different countries with 20 official languages and a rich mix of cultures. The experience of building the Union has made the EU open to the enlargement of the European Union is bringing more growth to the continent and also to its partners worldwide. The EU is the largest source of FDI in the world. In addition, of the major world economies, the EU is the most open to international trade, as shown by openness indicators (see Chart 1).

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The EU — open to the wider world

Average imports and exports/GDP %

![Openness to trade of major economies](chart)