Thematic Discussion – "Strengthening efforts at all levels to promote pro-poor sustained economic growth, including through equitable macro-economic policies"

Round Table 2 – "Coherence and coordination of macroeconomic policies – at all levels" – Speaking Notes

Statement by Mr. Augusto Manuel Nogueira Gomes Correia, President, Portuguese Institute for Development Assistance

Thank you very much Mr. Moderator,

I'm very pleased to be a part of today's discussion on coherence and coordination of macroeconomic policies at all levels.

I was invited to participate in today's thematic discussion as my country currently holds the Presidency of the European Union, in order to speak about the European experience on coherence and coordination in this important field.

As our Ministers stated just last month during their Council meeting, Europe is united in its resolve that only by working together can we represent our interests and goals in the world of tomorrow. The European Union is determined to contribute its ideas of a sustainable, efficient and just economic and social order to the global process. It is in this spirit that we participate here today.

Indeed, the European experience has been a very special one for all of our member states. We have recently celebrated 50 years since the signing of the Treaty of Rome that created our European family. Fifty years on we are coming even closer together, while maintaining our cultural, traditional and linguistic diversity. This unity is based on our common values, those of freedom, democracy, the rule of law, respect for human rights and equality.

From a very different post war reality that incentivized our coming together in this European endeavor, we find ourselves today benefitting from a Europe without borders, where people and goods can travel freely in a single market of over 500 million people, under one rule of law, and for the majority of us, one currency. The EU economy has emerged from the wreckage of the post-war period to become the second largest in the world. Internal trade has been key to this economic success, driven by the integration of national markets into one single EU market.

I take this opportunity to quote a fellow country man and current President of the European Commission, José Manuel Barroso, "the single market is more important than ever. I now want to see it strengthened and adapted to the globalised world of the 21st century". Further strengthening the four freedoms of the internal market, the free movement of goods, persons, services and capital, and improving its functioning remain of paramount importance for growth, competitiveness and employment.

Integration has been a central driver for the European Union. Two values have driven this integration, solidarity and cohesion. Solidarity because our policies aim to benefit all citizens and regions that are economically and socially deprived compared to EU averages. Cohesion because there are positive benefits for all in narrowing income and wage differences between our countries and regions.

Solidarity and cohesion have driven not only our internal development policy, but also our broader macroeconomic approach.

One of the more visible aspects of our common European endeavor is that of the Euro. Membership in the Euro requires exchange rate stability as well as reaching specific criteria related to interest rates, budget deficits, inflation rates and the debt-to-GDP ratio. 13 of our 27 member states have already adopted the Euro, with two more planning to join on January 1st 2008. Those that have opted out of the Euro, or those that are in the process of joining, can join the "Exchange Rate Mechanism" in order to keep their currency stable against the Euro.

According to the European Commissioner for Economic Affairs, Joaquim Almunia, "low inflation and interest rates, exchange rate and market stability, cheaper imports, more trade and investment and cheaper travelling, increased price transparency and competition…are the little known benefits of the euro area". The euro-area Member States share a single monetary policy and a single exchange rate, while the other aspects of economic policy remain national concerns.

As a complement, we have introduced mechanisms for community surveillance and coordination of economic policies among these countries is necessary as national economic developments have an influence on monetary conditions in the euro-area.

In this context, the Stability and Growth Pact keeps the economic developments within the EU, and in particular in the euro-zone, broadly synchronized. The disciplines of this Pact prevent member states from taking policy decisions that would unduly benefit their own economies at the expense of other EU countries.

Ensuring economic policy coherence is a mandate given to the European Commission. Let me highlight the role that the Commission plays in assessing whether each member state's economic policy is in line with the Union's economic, social and environmental agreed objectives and to provide early warnings if it determines that a country's deficit is becoming too high or that some other factor related to the conditions of the Growth and Stability Pact is being breached. This analysis is undertaken by annual reports submitted by member states to the Commission.

Another key institution involved in ensuring the EU's macroeconomic coordination and coherence is the European Central Bank. When the euro was launched in 1999, the ECB took over full responsibility for monetary policy throughout the euro area. The primary objective of the ECB's monetary policy, as established by the Treaty of Rome, is to maintain price stability.

The ECB and the European Commission are currently working on a Single Euro Payments Area that could make all forms of cross-border payments faster and cheaper by 2010. This exercise should bring down costs for everyone from large companies to individuals that engage in money transfers throughout Europe.

The EU's commitment to the process of financial integration is clear. But it should also be clear – not least from the Treaty of Rome - that integration is not an end in itself. It is a means to foster a vibrant EU economy by promoting more productive use of capital and thereby raising output potential. Financial integration is, therefore, closely linked to the Lisbon strategy for structural reform in the EU.

Increasingly the EU's internal policies – for example the environment, energy, competition policy, agriculture and fisheries, transport, the fight against terrorism and illegal migration, dealing with global pandemics – impact on international relationships and play a vital part in the EU's external influence. Conversely, many of Europe's internal policy goals depend on the effective use of external policies.

Over the last fifty years the EU has developed a series of external policy instruments, political, economic, commercial and financial, which help us to protect and promote our interests and values.

Successive enlargements over the last three and a half decades have demonstrated the EU's ability to promote stability and prosperity and the success of this model of regional integration.