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The Union has to manage the crisis, coordinate the adjustment needed at the level of eurozone and member states and reform its economic governance to reduce the risk of future crises. We have not prevented the crisis from happening, at least we have done our job in exploring what went wrong. We discovered that the EU budgetary surveillance mechanism did not reflect the real situation, the enforcement of fiscal rules failed, non-fiscal risks were not monitored then, when important decisions were needed urgently, lack of clarity with regard to bail-out persisted and lack of fiscal coordination undermined market confidence. Member states did not take advantage of good times to generate sufficient fiscal space for the bad times. Fundamental reforms of the eurozone system have become urgent as it has become clear that the problems go much deeper than sheer enforcement. But fundamental reforms are always difficult. And, as usual, when it comes to addressing fundamental questions, crisis has helped.

Despite the fact that the latest data are telling us that Europe is slowly emerging from the crisis, there are still many threats that we have to cope with today. The threat of a sovereign contagion is still looming around the corner, despite our rescue packages for Member States in need. All will be well, as long as we can contain this situation with the stability mechanism, but we should be looking towards long-term solutions that will not only solve the current problems, but also prevent future crises of this nature.

- Today, there are underlying discrepancies in terms of economic situation in the euro area. There are economies which grow dynamically and these are rather rich economies and there are mostly poor economies that are confronted with austerity packages and unsustainable debts. This makes it rather likely that the crisis will draw a new map of European economy where the gap between the rich and the poor will be widened. The truth is that not only growth rates are less favourable in case of those more strongly affected by the crisis but that they also suffer from more severe adjustment difficulties. The challenge of a two speed Europe and a growing divergence is real.

- It does not come as surprise that the crisis has pushed policymakers' attention to debts, fiscal austerity and governance reforms. But sustainability of reforms and debts depends on whether Europe will be capable of restoring growth. Europe is currently faced with an evident growth deficit. As the lack of growth comes in the moment of austerity imperative, the question that we therefore have to address is how to finance the growth that Europe needs. It will not suffice to finance growth that will merely take Europe back to pre-crisis levels of GDP. Growth in Europe will have to be supply-driven, based on structural change and productivity gains and delivering a more competitive economy.

- It is also vital to take the global context into account when discussing funding opportunities for Europe's growth. In trying to attract funding to promote post-crisis growth, we have to take into account the fact that Europe is competing for investment with rapidly growing emerging economies. Global competition for funds will also be intense as a result of a global credit squeeze, financial sector reform, exchange rate policies, shifting competitiveness, etc. Europe should therefore avoid creating negative incentives that will divert capital flows away from Europe to other parts of the world (such as the introduction of a financial transactions tax at EU level only). There are many factors at work which will impact Europe's attractiveness to investors. In general, the global context will mean that securing adequate financing for growth will be a problem in the years to come.

- National budgets have been cut, and will face further cuts in the near future as a result of budget consolidation imperatives and in order to ensure the long-term sustainability of public finances that is necessary to ensure growth in the long term. It is easy to say that fiscal austerity must be implemented in such a way that it does note undermine the long-term capacity of the European economy to create growth and sustainable jobs. It is more difficult to do it. In the face of national budget cuts, there is also a serious risk that governments may first of all look to cuts on education and research budgets. Since European universities are predominantly funded through national budgets, this would severely reduce Europe's capacity for technological development and innovation and therefore its medium and long-term economic growth potential. This would for obvious reason increase the knowledge and innovation gap between Europe and the US.

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- An important role as a public source of funding growth will have to be played by the European budget. The EU budget, in particular the multiannual financial framework for after 2013 will by no means become a fund of last resort for EU investment needs, because it is too small. Practitioners also know that for any investment policy to be effective, efficient and result oriented, a critical mass of funding is essential. Therefore, decent, adequate funding of European policies through the EU budget is a precondition for full use of their potential and achieving their full impact. Again, as in the case of national public funding, the EU budget catalytic role, its quality and its leverage function will have to be ensured. Its new role should be the one of coordinating funding available for some policy areas through different financial instruments, creating additional synergies. The challenge of careful selection of priorities for public funding through identifying market failure in the current financial context and growth priorities will have to be taken into account more than ever in making choices on growth policy

- Funding from the EU budget should therefore focus on policies that, in a measurable way, contribute to the achievement of objectives and interests of the Union, strengthen integration and cooperation in Europe, ensure the application of European law, relate to important aspects of EU citizens' lives, engage and well use the potential of civil society, strengthen European institutional capacity, improve the Union’s territorial cohesion, promote mobility, promote mutual learning, prevent development disparities, and work towards economic, social and territorial cohesion.

- With regard to public funding, ensuring the highest quality of spending will be instrumental, as well as using it to influence changes in investment patterns. Exploiting fully the catalytic role and the leverage function of public funding, including through public procurement and public-private partnerships will be essential.

- We need to reach out to more innovative financing instruments, involving the EIB and EIF, as well as the EBRD and the World Bank. Blending grants and loans, venture capital instruments, new forms of risk sharing and guarantees, project bonds are examples of funding tools that should be developed or expanded. The EIB should also play a more prominent role in enhancing the leverage function of structural funds.

- Already under preparation, project bonds can serve to tap private capital. The EIB has responded to the crisis with a major increase in the scale of lending, but the size of the infrastructure challenge is such that the EU needs to help unlock private finance. This could be achieved by using appropriations from the EU budget to support projects to the extent required to enhance their credit rating, and thereby attract financing by the EIB, other financial institutions, and private capital market investors.

In this way, project bonds can help the EU to ensure the necessary investment to take the EU 2020 Strategy forward and to ensure investment for pan-European infrastructure projects.

- Europe is in need of large amounts of investment in transport, telecommunications and energy infrastructures. Especially in this context, attention should be paid to the use of public funding to mobilise the private sector. Private sector capacity will play an absolutely pivotal role due to the nature of the growth that we need. In the face of limited capacity of national budgets to support growth and the aforementioned credit squeeze imposed by the banking sector, the pressure on the private sector to promote growth is due to increase. Conditions for private enterprise have changed, however. We see that the banking sector is not really doing its job: part of the conditionality associated with the bailout packages of the financial sector was a commitment to resume lending to the private sector. We still do not know, however, what the outcome of the stress tests will be and what the current liquidity situation of our banks is. SMEs now claim that banks are not lending, while banks claim that SMEs are not applying for credit. This apparent contradiction also results from redefined risk conditions by the banking sector, which has increased the cost of credit. There is a stringent need for a thorough liquidity assessment in the next round of banking sector stress tests. Innovative enterprises, in particular SMEs, need to have better access to venture capital, new forms of guarantees, equity and quasi-equity financial instruments, which are not provided today by the market. Europe therefore needs to look into possibilities to better use existing growth funding instruments as well as to create new effective financing methods and tools.

- The recent crisis has generated the need to look for potential new sources of funding to increase the resources available through national budgets or the European budget. In this context, several forms of taxation of the financial sector are being considered as candidates for these additional budgetary resources. Two concrete proposals in this context are the possible introduction of the Financial Activities Tax (FAT) and/or Financial Transactions Tax (FTT).

- In general, all EU member states, not only euro zone, will require huge volumes of financing in the years to come. Governments, regions, municipalities will have to borrow large sums both to pay debts and to grow. The task is to get the confidence of markets back, to convince those who make investment decisions that they should invest in Europe. Poorer countries with adjustment problems and unsustainable debt resources needed to boost growth are in particularly difficult situation with regard to the availability of resources needed to finance growth and restructuring. It will take time till private sustainable financing will be available. Therefore, the question whether and how the growing divergence will influence European politics is legitimate.

- I have elaborated so extensively on issues related to growth, competitiveness and jobs because of their relevance for the efforts to make financial and economic governance reforms sustainable. In fact, the first reaction of the EU to the crisis was focused on measures aiming at reducing the impact of crisis on investment and growth. Only as a second step measures to reform financial sector and then improve financial and economic governance have been taken.

- With regard to financial stability, the European Parliament and the European Council agreed on the package of financial supervision regulation in September 2010. A new European financial supervisory structure embracing the three European supervisory authorities, overseeing the supervision of banks, insurance companies and securities markets was launched 1 January 2011. The European Systemic Risk Board (ESRB) widened oversight including the macro economy and financial markets at large, with a view to identifying excessive risk at an early stage. This was the result of a lengthy process of negotiations; both between the different parliamentary fractions and between the different European institutions and member states.

- Following the adoption of the supervision package, the European Commission presented us with a legislative package of six proposals on economic governance. In broad lines, we can identify two main strands in this package: we are looking at a reform of the Stability and Growth Pact to make it more effective, and we are introducing a new system of dealing with excessive macroeconomic imbalances.

- The SGP was originally to ensure that no single member state's fiscal policy would endanger the financial and economic stability of other member states and the eurozone. Due to an ineffective sanctioning mechanism and the presence of numerous escape clauses ("exceptional economic circumstances"), the pact was never, in fact, enforced. Member states did not take advantage of good times to generate a sufficient fiscal space for the bad times. Despite cases of violations of the debt and deficit thresholds, no country was ever fined. This left the pact toothless already at an early stage.

- Over the last decade, since the euro has been put into motion, the world and the Union have changed dramatically. In particular the interdependence of financial markets has grown, and its direct consequence - the systemic risk. For this the euro zone was not prepared. When problems emerged in early 2010, the EU did not have any legal instrument to provide assistance to the euro area member states. Granting financial assistance to a non-euro country has been foreseen in the Treaty. Consequently, and rather quickly, the temporary instrument of crisis resolution was established, combining intergovernmental and communitarian approaches. Now the work on the permanent solution is well advanced (ESM).

- The package on economic governance strengthens the stability and growth pact. Fiscal surveillance will embrace also the overall level of public debt. It broadens further the surveillance to identify and address macroeconomic imbalances and divergences in competitiveness. This surveillance will be executed on the basis of a scoreboard of economic and financial indicators, leading where justified to in-depth analyses of countries and issuance of recommendations. A tighter system of incentives and sanctions is proposed, based on semi-automaticity. All those proposals are now in the procedure of the trilogue between Council, Commission and Parliament.

- The European Semester of policy coordination is a crucial element in the new economic architecture of Europe. The crisis has left no doubts - linkages between national fiscal, budgetary, economic, social, growth and competitiveness related policies must be improved. In their respective National Reform Programmes, the member states will set out the action they will undertake in areas such as employment, research, innovation, energy or social inclusion; again adding to the coordination of economic policymaking in Europe. The Semester is in reality a six month health check of national public finances, allowing for monitoring, surveillance and gradually a kind of supervision of persistent problems in the area of fiscal policies. Benefits of this novelty will emerge only over time, hopefully reducing the risk or even preventing a recurrence of a similar debt-rooted crisis. Nevertheless. the current debt problems must be overcome.

- The Semester, however, is a purely intergovernmental initiative, much like the Pact for the Euro. The Eurogroup adopted its Pact in March, and it was joined by most non-eurozone member states (all but Czech Rep., UK, Hungary, Sweden) to form a 'Euro-plus pact'. Under this pact, national governments will make commitments to introduce commonly agreed measures nationally. The hope is that the peer pressure that is exerted in this way will lead to the introduction of serious structural reform in the macroeconomic policy sphere.

- The Euro Plus Pact aims to strengthen the economic part of the EMU by addressing four broad strategic goals: fostering competitiveness, fostering employment, reforms contributing to the sustainability of public finances, and reinforcing financial stability. Participating Member States will pursue these objectives with their own policy-mix, taking into account their specific challenges. The Pact commits euro-zone states to closer economic coordination as well as those non-euro states who have opted in. The pact focuses on what belongs largely to the national competence area. Is therefore rather flexible as far as its enforcement is concerned and intergovernmental in nature. All commitments made by member states will become part of their national reform programs (areas such as labor and wage, pensions, taxation, education, research, smes, debt brake)

- It remains to be seen how effective these two intergovernmental procedures will prove to be in the future. The procedures that take place under the community method, i.e. the SGP and the macroeconomic imbalances procedure, have more concrete enforcement mechanisms in place and are more transparent to the citizens.

- The intergovernmental approach to the increased cooperation on economic and fiscal issues should be seen as the second best solution. It has been considered by member states as the only possible way to move forward. It must, however, as soon as possible be replaced by more effective approach based on the mechanism of the community method.

- An issue that remains largely open is the place of the EU Member States that are outside the eurozone. In the emerging new European architecture, all the proposed regulations are intended to safeguard the stability of the euro and it remains unclear what claims non-eurozone countries will have to the rescue mechanism and what their role will be under the SGP and the new macro imbalances procedure. The possibility of opt-ins is open for all procedures in the European Parliament, but until now nobody seems to be aware what the legal implications of such an opt-in would be and how much would be possible for these countries to participate in.

- All of the instruments that I have mentioned, are Europe's integrated answer to the crisis. A proposal will follow in September to deal with cross-border crisis management of financial institutions to complement this. We have managed to implement structures that several years ago were unthinkable. Ironically, we have to thank the economic crisis for this; a crisis that might have been prevented if such a system would have been put in place years ago.

- There is no better economic choice than euro and no better political choice. We are all increasingly interconnected and interdependent. European unity is the only path to follow in the context of globalization. We also depend strongly on how major challenges - climate change, resource efficiency and energy security, demography -are handled globally. We are too small not to be united and our common interest is to be involved in global solutions and to lead them. On this we can be efficient only if we act together.
- Of course, why we have embarked on those fundamental reforms only now? For many reasons. Certainly, one can say that when final decision on the eurozone architecture were made, there was no political will to go further in terms of political integration. Then it seemed justified to assume in the market situation that monetary integration would lead gradually to stronger political integration while the Stability and Growth Pact would play its fiscal disciplining role. Growing interdependence of financial markets and explosion of new financial instruments led to growing volatility and contagion potential.

- Of course, what can be done today on the reform path reflects a balance between what is required and feasible. Nevertheless, what has been already done is the strengthening of Maastricht mechanism. There is a certain new dosis of fiscal risk sharing. Debate on even more fundamental reforms has been opened for which political appetite is not yet with us.