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Opening remarks on:
Beyond the present economic governance framework:
2015 challenges and the need for reform

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On the governance framework, we have certainly come a long way since the start of the crisis. Nevertheless, I am tempted to say that we are half way through with reforms. We also see social imbalances, as well as political instability in some countries. We need further reforms to improve and complete the governance of the euro zone.

As more competences are moved to, or newly established at, the EU level, we need an unprecedented level of shared effort, cooperation and coordination at the member state level and between member states and the Union level.

On what should we focus when moving forward? On this we need a debate.

There seems to be a growing consensus that weaknesses of the common currency system could be corrected by a deeper fiscal integration.

We would not be starting from scratch. The six pack, two pack, fiscal compact, European semester architecture, banking union , all the new frameworks within the current Treaty have created a foundation on which we can build further fiscal integration.

In December, the European Council has authorized four presidents to work on further progress in the governance of the EMU. It is not at all clear whether any elements of the previous Commission blueprint on genuine economic and monetary union as well as the previous four presidents report will find its way to the new document.

Further progress would need a more effective control on national budgets, possibly with a stronger role of national parliaments in European governance but also some form of European fiscal capacity to improve shock absorption capacity. Better fiscal coordination would help shifting the burden of coping with future crises to ex ante rather than ex post instruments.

This would not be effective without a mechanism to coordinate structural policies and implement structural reforms. However, purely cooperative approach to fostering structural change have shown its limits over the last decade. For structural reforms, both commitment technology and enforcement capabilities remain a challenge.

A deeper fiscal integration together with a commitment catalyst for structural reforms will provide the ECB with better conditions to conduct its monetary policy and for its policy to transmit smoothly to the real economy. Recently, President Draghi stressed that lack of structural reforms leads to permanent divergence within the monetary union and this raises the spectre of exit from which all member states ultimately would suffer. Mr Draghi also stressed that we need to move from coordination to common decision making and from rules to institutions. We should support the ECB's policies, in particular quantitative easing, by providing the right fiscal and structural reform background. Beyond this however, we must remember that divergences among economies cannot be undone or reversed by monetary policy, but that the latter can only support structural change.

Finally, we also need to do more to tackle the supranational element of the governance framework and find ways of recognising the interaction of national and supranational policies. This brings me to the issue of fiscal union, which for quite some time pops up in the debates on Eurozone governance, with ideas on a Eurozone finance minister and treasury, with a taxation capacity as well as the issuance of mutual debt. While we are far away from making Eurobonds happen, I am certainly encouraged to see that the ECB, through its QE programme, will be purchasing European institutions securities. It is true that it will be sharing the risk on them with national central banks, but still, these securities are the closest asset to the idea of mutualised debt. I hope this is a starting point towards a serious discussion on debt mutualisation, in particular, and fiscal union more generally.

Allow me to finish on this point. I hope that over the years to come we will slowly build towards a genuine fiscal union. The latter should rest on a few cornerstones, including strong oversight and incentives for sound national fiscal policies, instruments enhancing fiscal risk sharing, which bring with them new risks, as well as a genuine break between sovereigns and the banking sector, probably going beyond the mechanisms we have in the banking union.

We also need to remember that at the European level, the Fiscal Compact has to be incorporated into the Treaty by the end of 2016, while fiscal rules should have become part of national legislation. Their enforcement will therefore be the national matter, involving national Parliaments and courts. Some of us would like to see as well the European court jurisdiction considered here. This would, however, require treaty change.

Today, even in the two pack according to which a government can be asked to revise its budget if it does not comply with targets coming from fiscal rules, European level does not have any power to enforce this.

Nearly every piece of new regulation triggered over the last years endless debates on inadequate legal basis for euro area specific reforms. Intergovernmental treaties were sometimes a second best solution. We are also unhappy with the legal basis for some major reforms introduced (including those of the banking union). We seem to have reached the limits of the current treaties, whether we like it or not, a genuine discussion on Treaty change will need to come if we are to avoid introducing further reforms through the back door. This approach always fights back. Currency union continues not to have a legal personality. But some of the elements of the fiscal

Union can be introduced within the current treaty and through the secondary legislation. It is hard to say for how many more years we can continue the Treaty stretching exercise.

Now is the moment for economic governance reforms. We are not yet out of the crisis. Every national decision has a systemic dimension. We have to be prepared for the next crisis.