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Abstract

The Eurozone countries are still trying to find a way out to the crisis that has affected the European Monetary Union (EMU) since 2010. Sovereign debt crisis, difficulties in the banking system and large current account imbalances have characterized the crisis of the euro, while several countries of Eurozone have entered in a phase of slow and even negative growth. All this have put at risk the sustainability of EMU, leading to a climate of pessimism and distrust about the future of the single currency. The crisis of the Eurozone has shown that a sustainable currency union requires more governance because of the higher degree of economic, financial and fiscal spillovers between euro member countries. However, the crisis has led to significant changes in the institutional framework of EMU and in the economic policies of Eurozone, highlighting above all the role of ECB. The present contribution analyzes these changes in the eurozone governance and discusses whether they are the correct solutions to the crisis, it also focuses on the unresolved issue of growth in the peripheral Eurozone countries.

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Introduction.

The Eurozone countries are still trying to find a way out to the crisis that has affected the European Monetary Union (EMU) since 2010. Sovereign debt crisis, difficulties in the banking system and large account imbalances have characterized the economic conditions of Eurozone, while several euro countries have entered in a phase of slow and even negative growth. All this have put at risk the sustainability of EMU, leading to a climate of pessimism and distrust about the future of the single currency. The Eurozone crisis has shown that a sustainable currency union requires more governance because of the higher degree of economic, financial and fiscal spillovers between euro member countries; in addition, the global financial crisis has highlighted the lack of appropriate economic policy instruments to manage it. Actually, the Eurozone crisis forced the European authorities and the Heads of government of the member countries to try to reform the asymmetric and incomplete policy design of European Monetary Union. Of course, deep contrasts and divergent visions about EMU and its institutions have come to light. The confrontation is essentially between those who want to commit to greater sovereignity transfers and resource pooling and those who advocate the primacy of national sovereignity and do not like a union that transfers resources. Moreover, despite the political objective of creating an harmonious Europe, heterogeneity among member countries is still present, not only in terms of economic structures and levels of competitiveness, but also in the national institutions, fiscal systems and social models. This heterogeneity was strong from the outset of monetary union, but the path of convergence has not been able to overcome. However, the crisis has led to significant changes in the institutional framework of EMU and in the economic policies of eurozone, highlighting above all the role of ECB. The present contribution analyzes these changes in Eurozone governance and discusses whether they are the correct solutions to the crisis, it also focuses on the unresolved issue of growth in the peripheral Eurozone countries.

2. Eurozone governance before the crisis.

European political leaders favoured the creation of the common currency as a first step toward deeper political integration. The initial impetus that led to European Monetary Union was political rather than economical. The main political reason for increased European integration has been to enhance Europe's role in world affairs (Feldstein, 2011). EMU has clearly demostrated to be an incomplete system, as it is based on a monetary union without fiscal union (von Hagen, Eichengreen, 1996). Monetary policy is managed at European level by the ECB, which has a very narrow remit: namely, to ensure price stability. To achieve this objective, the ECB has been given the complete institutional independence[1]. However, the design of EMU did not give to ECB the role of lender of last resort, as it is usually done in the economic systems at the national level. Thus, the Eurozone has been deprived of an important stabilizer since its inception (De Grauwe, 2013). At the same time, fiscal policy has remained under the direct responsibility of individual member states. This was a conscious political choice when the Maastricht Treaty was signed, in order not to create a fully-fledged economic union together to the monetary union, so determining an asymmetry in the institutional architecture (Schilirò, 2012). In addition, a major feature of the introduction of the single currency was the loss of the exchange rate flexibility as an instrument of economic policy by the member countries. The no-bailout clause was a further relevant aspect of the governance. The clause reflects the underlying principle of national fiscal responsibility on which the EMU has been founded. This no-bailout clause, which precludes the sharing of liability for government debt across member States, has been codified in Art. 125 of the Treaty on the Functioning of the European

[1] The independence of ECB derives from Art. 282 of the TEU. For a survey on the literature regarding the Central Bank independence and its performance see Pollard (1993).

Union (TFEU) and by Art. 104, which rules out that national central banks or the ECB provide direct credit to public authorities, defined in a comprehensive sense. Moreover, the Stability and Growth Pact (SGP)[2] was introduced to establish specific constraints to individual member states and precise rules that restrict the actions of the national governments in addition to the fiscal criteria of the Maastricht Treaty. The SGP has been designed just to ensure a supranational budgetary discipline, so that short-sighted and opportunistic behaviors of the member states should be avoided or otherwise sanctioned.

The Eurozone governance was therefore built on the assumption that it could be grounded on rules-based prevention only, and that there was no need for crisis management (Pisani-Ferry, Sapir and Wolff, 2012, p.2). But the institutional framework of EMU appeared, since its inception, clearly incomplete and inadequate. In fact, the governance has been based on decentralised policymaking, soft coordination and an insufficiently stringent enforcement of common rules (Schilirò, 2013). In addition, European monitoring mechanism – managed by two institutions, the ECOFIN and the Eurogroup[3] – focused itself exclusively on sovereign indebtedness, whereas other warning signals like wage increases, international competitiveness, etc. were ignored. Even the issue of financial stability was not included in the EMU governance, while all the emphasis of ECB was on price stability[4]. This was probably due to the prevailing idea that the convergence between national economies could be enforced on one side by the market mechanism and, on the other one, by European directives, which, through best practices and benchmarking, would make homogeneous the rules and the laws in the member countries. So the institutional framework has given the national policy a wide range of discretion, that created an unstable environment, despite the Maastricth criteria and the Stability and Growth Pact.

At the same time, the governance of the EU/Eurozone relationship was relatively simple. The relevant provisions in the Eurozone could be designed as a self-contained set of rules, that interferred minimally with the general rules applicable to all EU members. Furthermore, in the light of the incomplete economic project of EMU, member states have committed to common EU objectives and indicators under the heading of the Lisbon Strategy (2000-2010) (Bongardt, Torres, 2012). The EU's approach of Lisbon Strategy was aimed at creating bottom-up support for reforms of the mixed economy so as to improve competitiveness and foster growth; it was driven by efficiency, but also by fairness and sustainability. However, given the different traditions and pathdependency of national institutions, policy instruments remained a national competence in Lisbon Strategy, while member countries adopted the Open Method of Coordination (OMC) at the EU level. As a result, the targets of the Lisbon strategy proved to be too ambitious and difficult to reach. Then, just before the euro crisis, the EU launched the Europe 2020 strategy, which seemed to set a shared long term vision for all the European countries. But again, given the current institutional set-up, no illusion had to be made about the responsibility and the capacity of national governments to implement this strategy. Yet, the members of the European Union adopted an important innovation for the governance of EU, the European Semester. With this institutional innovation, the EU institutions (European Commission, European Parliament, UE Council) would aim to monitor national policies (i.e. budget policies) and macroeconomic imbalances beyond the simple regime of nominal rules[5].

Actually, the Eurozone countries have not been homogenous economically, institutionally and politically since the outset of EMU. Such heterogeneity includes not only different political

[2] The SGP, established in Amsterdam on 17 June 1997, was later (March 2005) amended with some criteria relaxed, while procedural deadlines were extended (Schilirò, 2012).

[3] ECOFIN makes decisions regarding the Excessive Deficit Procedure, Eurogroup supports ECOFIN and keeps monitoring of economic developments.

[4] In the Eurozone, capital markets ignored the lack of monetary independence by the goverments of member countries, so they regarded individual nations as capable of running large deficits.

[5] The European Semester is part of an attempt to link economic policies in the fields of structural adjustment (competitiveness policy, known as Europe 2020 strategy) and Eurozone commitments, for all member states with tougher oversight and sanctioning mechanisms. The first cycle of the European Semester began in 2011.

attitudes, but also difference in economic structures, levels of competitiveness, fiscal traditions and social models (Feldstein, 2011). More specifically, in Europe, national labour markets are effectively separated by barriers of language, culture, union membership, national social insurance systems. Also the fiscal system and the monitoring of the banking system are managed at national level. With respect to the banking system in particular, ECB has had no direct role in banking supervision, unlike the Federal Reserve in the U.S. that serves as a bank regulator in setting standards regarding the operations and activities of banks. The Maastricht Treaty, in fact, simply states that ECB shall contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions. (Art. 105). Thus responsibility for supervision of the banking system in the eurozone is determined nationally.
This heterogeneity makes it more difficult to implement common rules. To overcome this heterogeneity what seems at stake is, therefore, the institutional convergence with respect to the reinforcing of the economic union.
However, the European Union has shown lack of political leadership. Therefore, the European institutions appear rather tarnished. Institutions and politicians are especially concerned about the needs of the market and, at the same time, they try to reassure the public opinion, but often disappoint both of them. They generally do not have an updated vision in terms of economic policy of medium-long term to which to anchor their decisions. As a matter of fact, European authorities have demonstrated the lack of a strategy of international alliances, inability to identify sectoral priorities, tackle unemployment and face the problem of growth in peripheral Eurozone countries. In short, it seems to be missing the ability to understand the economic and social reality of Eurozone that is constantly changing.

3. The effects of the Eurozone crisis.

The experience of the crisis showed that the EMU had a loose regime of coordination and an ineffective sanction system, whereas the single currency had already deprived member governments of the monetary and exchange-rate instruments of macroeconomic management. Thus the Eurozone could not be shielded from the global financial storm. The imposition of a single monetary policy and the same base interest by the ECB to all member countries produced asymmetric impulses in their economies, with effects above-average or below-average in terms of rates of growth and inflation, since the Eurozone was not an optimal currency area. Some member countries, in particular the "PIIGS" (Portugal, Ireland, Italy, Greece and Spain) recorded high deficit/GDP ratio and rising public debt, also their banking system was in trouble. Furthermore, they recorded strong macroeconomic imbalances and loss of competitiveness (Schilirò, 2013). As a consequence, the economies of the PIIGS have become extremely vulnerable to potential disturbances in international financial markets, inducing capital flights, followed by liquidity crises and, in the case of Greece, by solvency crises. All this determined deep concerns about the fiscal sustainability of the Eurozone.
The crisis of the Eurozone highlighted several issues. First, the crisis has emphasized a strong pursuit of the national interest, which usually comes to the fore in times of crisis. At the same time, the crisis showed the weaknesses of the various European authorities, *in primis* the European Commission, which was unable to assume a central role in managing the crisis. Even the European Parliament has also had a marginal role in formulating policies and economic decisions. But above all, the European citizens have been aware that their influence on European politics, expressed through the vote, is practically non-existent and their feeling of frustration and impotence is particularly strong because of the crisis.
Moreover, the presence of large trade imbalances between euro countries demonstrated that no mechanism exists to ensure convergence of members' competitive positions. This stems from the fact that economic policies (spending and taxation, social policies, wage policies, etc.) remain firmly in the hands of the member governments that do not coordinate such policies. The Eurozone

crisis have also showed the weaknesses of its banking system. The banks are not strong enough, but, at the same time, they are connected with the sovereign debts. The fragility of banks and the relationship with the debt crisis has created the risk of bank failures in several euro member countries and serious macroeconomic problems. In short, Eurozone governance has revealed the lack of a coordinated banking policy, which is crucial for crisis management. Finally, the critical situation of the crisis of EMU challenged the relationship between the euro member countries and European Union's non-euro countries.
But there is another relevant aspect of the crisis. Southern European countries like Greece, Portugal, Spain and Italy have to face prolonged recessions[6]. Moreover, since the onset of the crisis the weak growth in the European Union is making it much tougher for the hard-hit economies in southern Europe to recover competitiveness and regain control of their public finance (Darvas, Pisani, Wolff, 2013). These current difficulties of southern European countries matter politically to the extent that the EMU project is implicitly based on the idea of ever deeper integration, which itself depends on the presence of some degree of convergence. Unfortunately, the crisis has led to a greater divergence of the economies of the euro countries. The divergence of the southern eurozone countries, in particular, has shown to be structural and not just cyclical. This divergence has regarded productivity and growth. Therefore GDP per capita of the 17 Eurozone countries evolved in very different directions. For example, in Greece between 2007 and 2013, GDP per capita has decreased by 20 percentage points reaching 68% of the European average.
Table 1 shows the real GDP growth rate of the 17 Eurozone countries.

Table 1 – Real GDP growth rate
Percentage change on previous year

	2007	2008	2009	2010	2011	2012	2013^
Eurozone (17 countries)	3.0	0.4	-4.4	2.0	1.6	-0.7	-0.4
Austria	3.7	1.4	-3.8	1.8	2.8	0.9	0.6
Belgium	2.9	1.0	-2.8	2.3	1.8	-0.1	0.0
Cyprus	5.1	3.6	-1.9	1.3	0.4	-2.4	-8.7
Estonia	7.5	-4.2	-14.1	2.6	9.6	3.9	3.0
Finland	5.3	0.3	-8.5	3.4	2.7	-0.8	0.3
France	2.3	-0.1	-3.1	1.7	2.0	0.0	-0.1
Germany	3.3	1.1	-5.1	4.0	3.3	0.7	0.4
Greece	3.5	-0.2	-3.1	-4.9	-7.1	-6.4	-4.2
Ireland	5.0	-2.2	-6.4	-1.1	2.2	0.2	1.1
Italy	1.7	-1.2	-5.5	1.7	0.5	-2.5	-1.3
Luxembourg	6.6	-0.7	-5.6	3.1	1.9	-0.2	0.8
Malta	4.1	3.9	-2.8	4.0	1.6	0.8	1.4
Netherlands	3.9	1.8	-3.7	1.5	0.9	-1.2	-0.8
Portugal	2.4	0.0	-2.9	1.9	-1.3	-3.2	-2.3
Slovakia	10.5	5.8	-4.9	4.4	3.2	2.0	1.0
Slovenia	7.0	3.4	-7.9	1.3	0.7	-2.5	-2.0
Spain	3.5	0.9	-3.8	-0.2	0.1	-1.6	-1.5

Source:Eurostat (2013) ; ^ forecast

All the Eurozone countries suffered for the global crisis in 2009, when the growth rate of real GDP was negative throughout the Eurozone, although different countries have been affected to varying degrees. Estonia, Finland, Slovenia, Ireland, Italy suffered more than Portugal, Spain, Austria, Belgium, Cyprus. But from 2010 onwards the situation changed and the divergence among countries has increased just because of the crisis. This latter determined that countries such as Greece, Portugal, Spain, Italy but later also Slovenia, Cyprus, Netherlands have entered into a

[6] According to De Grauwe and Ji (2013), the austerity measures that southern Eurozone countries had to introduce since 2011 caused a double-dip recession.

recession. In some cases, such as Greece, Portugal, Spain and Italy, the fall in GDP has been so persistent as to prevent a recovery compared to the levels precedent to the crisis and thus accentuating the divergence with the stronger countries (like, for instance, Germany, Austria and Luxembourg).

According to De Grauwe (2013) and Darvas, Pisani, Wolff, (2013), the lower GDP growth of the Eurozone countries after the global crisis can be seen as the consequence of more aggressive budgetary consolidation against the background of a still-weak private economy.

In addition, an impressive change has happened in the unemployement rates. In fact, in Greece, Portugal, Spain, Ireland, Cyprus and Italy the number of unemployed has reached very high levels, while countries such as Germany, Luxembourg and Austria have maintained low unemployment rates; thus, because of the crisis, the Eurozone countries have shown a large dispersion in the unemployment rates (Estrada, Galì, Lopez-Salido, 2013). The high unemployment rates in the peripheral countries are the result of the insufficient structural reforms of labour markets, which, in turn, determined that unemployment assumed the role of the main shock absorber during the adjustment process. Moreover, the increase in dispersion across Eurozone countries, according to Estrada et al. (2013, p.31), is consistent with the hypothesis that the common currency in its initial design jointly with the lack of country-specific monetary policies or stabilizing risk-sharing devises may have been a factor behind the large differences in unemployment performance.

Lastly, imbalances in external accounts of the peripheral countries have expanded due to the crisis, revealing for the debtor countries a gap in the levels of competitiveness. This has obviously implication for the growth, as Kirkegaard (2011, p.7) already warned: «Without improving external competitiveness and, at the same time, increasing exports/reducing imports, the euro area periphery will not be able to restore domestic economic growth during their prolonged period of fiscal consolidation». At the same time, credit growth has been weak in southern European economies and lending conditions remain tight; whilst capital flows in the Eurozone are related to the current account imbalances and differences in levels of competitiveness. It seems clear that the crisis has certainly worsened the economic conditions of the peripheral countries, since the deficit countries had to bear the burden of the adjustments to the imbalances almost exclusively. The causes of the large current account imbalances in many peripheral countries may in part be attributed to higher domestic demand growth and diverging unit cost levels. Therefore, addressing external competitiveness of peripheral countries is essential to limit intra–Eurozone imbalances and to support growth in southern European countries. Under a common currency, competitiveness has to come by changing costs, such lowering salaries, or improving productivity through innovation and investment, but in political terms, of course, lowering production costs is very challenging. However, Estrada, Galì, Lopez-Salido (2013) through their empirical analysis, suggest that a comprehensive strategy aimed at reducing the large current account deficits of some of the Eurozone countries should include, beyond reduction in wages, structural reforms that help enhance relevant non-price competitiveness factors[7], since external adjustment requires continued gains in competitiveness. In particular, they support a strategy aiming to strengthen technological readiness (i.e. the quality of a country's business networks and supporting industries) and innovation capabilities through innovation and R&D effort.

Another aspect of these current account imbalances between the northern countries of the Eurozone and the southern countries is that these imbalances have contributed to the accumulation of large stock of foreign debt, whereas capital flows have not led to a more efficient allocation. In fact, the flows of foreign capital ceased to finance productive investment; at the same time too much investments went to real estate and other projects with low returns in terms of potential GDP

[7] Estrada, Galì and Lopez-Salido use a comprehensive set of variables (beyond prices and wages) to measure competitiveness, usually referred as the Global Competitiveness Index (CGI), composed of twelve “pillars”. These “pillars” are: Institutions; Infrastructure; Macroeconomic environment; Health and primary education; Higher education and training; Goods market efficiency; Labor market efficiency; Financial market development; Technological readiness; Market size; Business sophistication; Innovation.

growth[8]. Meanwhile, the manufacturing sector declined significantly in the southern European countries.
These capital flows led the system towards instability and sovereign default, that, according to Hughes Hallett and Martinez Oliva (2013), public intervention by loans, bailouts haircuts, liquidity injection and by the simple replacement of private with public creditors could only temporarily help to stay away from the point where the system breaks down.
However, the current account deficit of the peripheral Eurozone countries have led the ECB's intervention to prevent a meltdown of the EMU, with the aim of giving the countries more time to implement the structural reforms they needed.

4. The path to a new governance of EMU.

The answer of the European authorities and the Heads of government of the Eurozone countries to the crisis of the peripheral economies and, more generally, to the crisis of the Eurozone was to try to enhance the governance of EMU and to reinforce the cooperation in economic and social policies. They recognize that the interaction of monetary policy with a broader EU governance as well as the need of coordinated actions are essential for a successful response to the crisis. As a consequence, bailout programmes have been implemented since the spring 2010. Such programmes consisted of financial aids provided by the EU together with the IMF to countries on the verge of insolvency, like Greece[9], or in financial difficulties like Ireland and Portugal and, more recently, Spain and Cyprus. These bailouts exposed long-standing fears about an absence of democratic legitimacy in the EMU governance (Schilirò, 2012).
Another response was the creation of the European Financial Stability Facility (EFSF) in May 2010 aimed at ensuring financial stability in Europe. The EFSF has provided emergency financing until 1 July 2013. Later, from October 2102, it has become operative the European Stability Mechanism (ESM): a permanent rescue mechanism with a maximum lending capacity of €500 billion that provides financial assistance to eurozone countries in financial difficulty, replacing the existing temporary funding programmes such as EFSF and EFSM (the European Financial Stabilization Mechanism)[10]. Since July 2013, the ESM is the sole and permanent mechanism for responding to new requests for financial assistance by Eurozone member countries. The decisions of the ESM, however, are subject to a veto power of any country member. This veto power by any country is likely to make the decision making process unworkable during crises (De Grauwe, 2013). Another criticism to ESM by several observers, including De Grauwe, is that the financial capacity of the fund to tackle the eurozone crisis is inadequate.
At the same time, the ECB, whose strategic role in the multi-level governance context of EMU has been particularly relevant, has made every effort to preserve price stability and, above all, to guarantee the sustainability of the monetary union, engaging in extraordinary monetary policies, beyond standard monetary tools[11]. Therefore, at the outset of the sovereign crisis, ECB adopted a measure, called “securities market programme” (SMP), which aimed at providing liquidity to the Eurosystem, in order to lower the spreads on sovereign bonds and, thus, to reduce the volatility in

[8] In particular, excessive housing booms have distorted prices and wages and led to the misallocation of capital in a number of EU countries (Darvas, Pisani-Ferry, Wolff, 2013).
[9] In May 2010 and, later, in February 2012, Greece was granted by EU and IMF of bailout loans. In the second case, the bailout deal included for the first time a debt restructure agreement with the private holders of Greek government bonds to "voluntarily" accept a bond swap with a 53.5% nominal write-off. The debt write-off had a size of €107 billion, and caused the Greek debt level to fall from roughly €350bn to €240bn in March 2012.
[10] In April 2013, ESM approved two Financial Assistance Facility Agreement (FAFA) programs, up till €100bn as a recapitalisation package of Spanish banks, and €9bn in disbursements for Cyprus for a sovereign debt bailout program and a financial sector recapitalization program.
[11] On the use of non-standard measures of monetary policy see Cúrdia and Woodford (2011).

the financial markets[12]. However, this program was not a great success since ECB announced that it was limited in size and time. Later, in December 2011 ECB launched a *Longer Term Refinancing Operation* (LTRO), a program of making low-interest loans with a term of 3 years (36 months) and 1 per cent interest to European banks and accepting loans from the portfolio of the banks as collateral[13]. This is an unconventional measure taken by ECB to offset the lack of liquidity that has occurred in the credit market, as during the crisis, the ECB has had to face a dysfunctional interbank market. Therefore, ECB started to act and provided massive liquidity support to the banking systems of EMU countries, just when the banks were at risk, not when sovereigns were (De Grauwe, 2013) involved. The result of LTRO was that the amounts of liquidity provided was taken up in particular by banks in countries under stress, while a large proportion of the total liquidity increase was parked in the ECB's deposit facility mainly by the northern European banks. So LTRO did not improve the credit conditions of non-financial sector. At the same time, the evidence seems to show that it did not address bank solvency problems. The LTRO, however, led to a decrease in the interest rates on government bonds of the PIIGS with an increase of the holdings of government securities in the banking systems of the PIIGS (Pisani-Ferry, Wolff, 2012).

Athough the European authorities were convinced that financial markets were able to guarantee the task of stabilizing the economies of Europe and to ensure the integration, they thought, for these reasons, of a strategy based on uniformity. So the new governance has been devised through various tools of intervention: "Six pack", "Fiscal Compact", "Two pack", all geared towards a logic of austerity. In addition, these measures together with the European Semester, through their disciplinary mechanisms and their sanctions, were aimed to relieve ECB from its fears for moral hazard risk, since liquidity provisions by the central bank tend to create moral hazard. The EU "Six-pack", in particular, was decided earlier in September 2010 and related to regulations and guidelines regarding fiscal policy and macroeconomic imbalances. The reforms contained in the "Six-pack" were based on Lisbon Treaty, perpetuating the distinction between euro countries and non-euro countries. Later in March 2011 the ECOFIN Council agreed to give content to the "Six-pack" with the agreement named 'Pact for the euro' which tried to achieve a better economic policy coordination that should lead to a higher degree of convergence. Although the 'Pact for the euro' pursues specific strategies, these are not compulsory. Yet, it follows that the choice of the specific policy actions, necessary to achieve the common objectives, remains under the responsibility of national government of member countries. Daniel Gros (2011) correctly pointed out that the 'Pact' contains a list of desirable policy goals but no means to implement them. In particular, the employment and competitiveness goals remain too vague, and are not really embedded in a framework which is clearly oriented to growth. On the contrary, it should remain a priority objective (Darvas, Pisany-Ferry and Sapir, 2011).

However, in the first two years of the Eurozone crisis (2010 and 2011), the European authorities have pursued the method of small steps following the strategy of muddling through, instead of adopting radical decisions, but the markets and many observers (economists, opinion makers, businessmen, etc.) had the feeling that the European authorities have not yet governance mechanisms capable of implementing adequate solutions. In addition, member countries seemed unwilling to act against the crisis. In fact, the virtuous members states did not want to pay for those in difficulty, while the weaker countries were not pleased with the sacrifices that Europe asked them.

[12] SMP was temporary and it was mainly active during 2 periods. The first period started after the ECB Governing Council meeting on May 14, 2010 and lasted until the week of July 9, 2010. The second period began in August 2011 and lasted until January 2012. The creation of the SMP was closely related to the Greek debt crisis, but it was also helpful for sovereign debts of Spain and Italy.

[13] This LTRO is primarily designed to provide greater bank liquidity, but it should also lower sovereign yields since euro area countries can use their own sovereign debt as collateral, which, in turn, increases demand for the bonds and lowers yields.

But on 2nd March 2012 the "Fiscal Compact", namely the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG), has been signed by member states of the European Union, except the Czech Republic and the United Kingdom. This is an intergovernmental agreement[14] and a major step in the direction of greater austerity and control of national budgets. The "Fiscal Compact" requires contracting parties to ensure convergence towards the country-specific medium-term objective (MTO), as defined in the SGP. Moreover, correction mechanisms should ensure automatic action to be undertaken in case of deviation from the MTO or the adjustment path towards it, with escape clauses for exceptional circumstances. One important aspect of the TSCG is that these budget rules shall be implemented in national law through provisions of "binding force and permanent character, preferably constitutional". Consequently democratic politics at the national level will continue to have a fundamental influence in EU affairs (Glencross, 2013). However, the TSCG also reinforces surveillance and coordination of economic policies and provides that Euro Summits take place at least twice a year: a new aspect of economic governance in the eurozone.

Another important tool of the new governance is the "Two pack", entered into force in June 2013, which is a package of rules that gives new powers to the EU Commission including the right to "impose" changes to financial laws of the Eurozone member states. Essentially, it aims at further strengthening the surveillance mechanisms in the Eurozone. Common budgetary rules at the national level shall be monitored by independent institutions. As part of a common budgetary timeline, eurozone member states shall submit their draft budgetary plan for the following year to the Commission and the Eurogroup before 15 October, along with the independent macro-economic forecast on which they are based[15]. By 30 November the Commission will analyze the draft budgetary plan and give its opinion. If it considers that states do not comply with the constraints of the Stability Pact, the Commission will ask governments to change them. The "Two pack" has strong political implications, as it becomes an additional tool for limiting the sovereignty of individual states, in the name of the implementation of procedures for convergence of fiscal and economic policies of the countries of the eurozone.

This set of tools represents a form of top-down economic management of the crisis which constitutes an historic turning point for the European integration, since EU has never been so implicated in deciding national tax and spending policies (Glencross, 2013).

In this context, ECB reinforced its role in the governance of the euro. Thus in September 2012, ECB has brought forth the innovative "Outright Monetary Transactions" (OMT) program, a non-standard measure of monetary policy under which it makes purchases in secondary sovereign bond markets, under strict conditions, of bonds issued by Eurozone member states. Under this program, the ECB would consider buying, without announcing any preset limits, government bonds with remaining maturities of between one and three years, only if the country concerned had first sought assistance from Europe's bailout fund (i.e. ESM) and had adopted an economic adjustment plan endorsed by the eurozone, and whether the ECB had judged the suitability of this plan[16]. Thus, the ECB becomes involved in the monitoring of the budgetary policies of the euro member countries. In this way it gets involved in highly political decisions which may be at odds with its role of independence. The OMT program is not temporary and makes the ECB more similar to a lender of last resort[17], since it allows to refinance the debtors in difficulty. In fact, without the lender of last resort function by the ECB, the governments of EMU countries were not able to guarantee that the cash would always be available to roll over the government debt (De Grauwe, 2013). In addition, by means of the OMT program the ECB has begun to assume a major coordinating and supervisory role, typical of a lender of last resort. This decision made by the ECB in 2012 to commit itself to

[14] An intergovernmental agreement is not EU law.
[15] This regulation, introduced in June 2013, therefore complements the preventive arm of the SGP.
[16] In other words, this condition may subject the country in financial difficulty to an additional austerity program.
[17] The notion of lender of last resort during a credit crunch is still related to Walter Bagehot's Dictum (1873) that central banks should lend early and without limits, to solvent firms, against good collateral, and at 'high rates.'

unlimited support of the government bond markets has been considered a game changer in the eurozone and with dramatic effect, according to De Grauwe and Ji (2013). Actually, the program has been widely credited with restoring calm to Eurozone sovereign debt markets, and helping to reduce borrowing costs in peripheral countries, as, for instance, Spain and Italy, by providing an effective backstop against the risk of the monetary union breaking apart. Yet, the OMT program has been heavily criticized in Germany (especially by the Bundesbank) as potentially exposing Europe's largest economy to severe financial risks without its electorate having any say. However, the set of standard and non-standard measures by ECB, including the expansion of its balance sheet over 2.5 trillion euros, led ECB to expand its mandate to include the preservation of the stability of financial system.
Last but not least, ECB, together with Ecofin, is trying to create the single supervisory mechanism (SSM), a financial supervision, which comprises the ECB and the national competent authorities. The participating countries are the euro member countries and also those countries who have decided to enter into close cooperation with the single supervisory mechanism. The main aims of SSM will be to ensure the safety and soundness of the European banking system and to increase financial integration and stability in Europe. It is expected that the ECB will assume its new banking supervision responsibilities in autumn 2014, a year after the regulations approval, which occurred on 15 October 2013. But this new task of ECB requires policy efforts in the short term which should focus on the combination of balance sheet assessment led by the ECB and restructuring of weaker banks that is needed for a successful handover of supervisory authority in 2014 (Vernon, 2013).
Notwithstanding this special role of lender of last resort by the ECB in time of market panic has been very important, the problems regarding the fundamentals of peripheral Eurozone countries remain unresolved, especially the problem of growth. I share the view[18] that the recipe of fiscal austerity plus internal devaluation in the periphery won't work because there is no offsetting demand stimulus from the Eurozone or the rest of the world and because it assumes that the economic infrastructure of the euro is basically adequate and doesn't require any changes. Thus, the crisis in the Eurozone remains a political crisis. The OMT program has perhaps saved the euro reducing national borrowing costs, but has not solved the fundamental issues of European Monetary Union and its survival.

Conclusions.

In this work I have highlighted the significant changes in the Eurozone governance, stressing the increasing role of ECB. I have also examined the remedies put in place by the European authorities to overcome the crisis and their flaws. One central aspect of my analysis is that the impact of the crisis revealed that member states have not taken into account sufficiently the negative spillover from the economic sphere of the EMU to its monetary part. At the same time, the crisis has highlighted that a monetary union sets additional demands on the economic sphere in order to be sustainable. In addition, at the time of its inception EMU and its governance were considered independent from the process of European political integration. The crisis highlighted that EMU cannot survive without a political union since the Eurozone has not enough compensation mechanisms, in fact it is characterized for instance by no automatic fiscal transfers, lower labour mobility and wage flexibility, and less integrated financial markets.
However, the crisis in the Eurozone is still present. For over three years European authorities and political leaders have promised to do whatever it is needed to save the monetary union and its currency, but many problems remain unsolved. The Eurozone is therefore characterized by strong imbalances, unemployment and anemic growth of southern countries; in particular these countries suffer of low productivity, lack of competitiveness, protracted deleveraging, weak banking sector.

[18] See Darvas, Pisani-Ferri and Wolff (2013), De Grauwe (2013), Ubide (2013).

On the other hand, Eurozone governance, although recently more effective, appears still inadequate to address these imbalances and to stimulate growth. The experience of the present crisis, where each member state fights alone against its disequilibrium in sovereign debt, current account balance, unemployment, competitiveness or credit conditions, without taken sufficiently into account the spillover effects and the interdependence between the Eurozone countries, demonstrates the failure of this policy strategy. Moreover, the sovereign debt crisis of the eurozone highlights not only problems of democratic legitimacy for introducing reforms, but also strong critical points in economic and political solidarity. So the European crisis seems to be a collateral damage from political disagreements over the real purpose of EMU and European integration (Hughes Hallett, Martinez Oliva, 2013, p.3).
A true and effective change of governance demands a greater European integration, where not only the European Central Bank needs to become lender of last resort, as the latest monetary policy tools seem to delineate, but it is necessary a central fiscal entity at European level which requires a transfer of sovereignty from the individual member states. In addition, there should be a different relationship between the member countries of the Eurozone that give to the Commission the role of coordinator and of third party. Lastly, the European Parliament should get its centrality and the European citizens with their vote should weigh more on the decisions taken in Brussels.
A more stable and comprehensive solution for the governance of the monetary union should require as well a deep change at institutional level, where the European institutions must become capable of implementing the economic policy for the whole Eurozone.
This deep changes in the governance at institutional level should be established in a medium term on robust legal basis with a change in the European treaties. This is a possible way out to the crisis, even if not simple to reach and to implement because of the heterogeneity of the member states and of their strong divergent economic and political interests. Such a solution would be a step forward compared to the situation of hybrid and asymmetrical current institutional architecture of EMU.
However, it is just following this complex stategy, that requires a more cooperative and solidarity behavior bewteen member states that it is possible to restore credibility in the Eurozone, create a stable macroeconomic environment, stimulate economic growth in the peripheral countries so to overcome this structural and lasting crisis.

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