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The current crisis has exposed both fiscal and macroeconomic imbalances caused by a lack of reforms in several euro zone countries as well as structural problems in the institutional set-up of Europe's economic and monetary union. But in the eye of the storm, we strengthened the foundations of our currency and improved the sustainability of our economies.

Not everything is in its right place yet, and the necessary adjustment is bringing serious social challenges, notably in the form of unacceptably high unemployment. These challenges have to be addressed with determination.

Yet the evidence is clear that our response to the crisis is supporting the rebalancing of the euro zone economy and has ensured the integrity of the euro.

Europe has followed a consistent strategy based on five major building blocks.

First, coordinated by the European Commission and the "eurogroup," the euro zone finance ministers and all euro zone countries are undertaking major adjustments to consolidate national budgets and improve competitiveness, which are crucial for sustainable growth in the European Union.

Second, to ensure a lasting correction of imbalances and sound public finances, we agreed on new economic policy rules to strengthen the foundations of the economic and monetary union. We are now in a much better position to detect and address imbalances such as excessive credit growth or housing price bubbles, which fueled the crisis in some countries. In addition, 25 E.U. countries signed a fiscal treaty committing them to proactively coordinate budgetary policies and maintain structurally balanced budgets.

T**hird**, the European Central Bank (E.C.B.) has taken successful actions to address the fragmentation of financial markets. For example, the decision to carry out purchases in secondary sovereign-bond markets, subject to a macroeconomic adjustment program with strict and effective conditionality, has contributed to restore market confidence.

Fourth, Europe has created effective financial backstops that can be deployed to support countries under intense market pressure. The European Financial Stability Facility (E.F.S.F.) and the European Stability Mechanism (E.S.M.) are the euro zone's crisis resolution funds, with a combined firepower of €700 billion.

In partnership with the International Monetary Fund, they provide conditional loans to countries to facilitate swift correction of policy mistakes and return back to normal. Currently, Ireland, Portugal and Greece are benefiting from these backstops as they carry out broad reforms to enhance their competitiveness and stabilize their public finances, while Spain has received financial assistance to recapitalize its banks. Cyprus, too, is set to receive significant financial assistance from the E.S.M. to help the country move forward and put its economy back on a sustainable path.

Lastly, to provide the investment that is crucial for restarting growth and creating jobs, the European Investment Bank (E.I.B.), the E.U.'s public bank, will significantly increase its lending activities.

All E.U. countries participated in a €10 billion capital increase, which will mobilize additional investments by the E.I.B. of about €60 billion, prompting subsequent public and private investments of up to €180 billion over the next three years. As a result the E.I.B. will step up its annual lending by more than 40 percent, to around €70 billion. Furthermore, member states agreed to use half of the E.U.'s budget resources up to 2020 to support growth and competitiveness.

Our task is far from being complete. Europe is working toward a banking union to further strengthen euro zone bank supervision and provide genuinely integrated tools for crisis resolution. The E.C.B. has been entrusted with the responsibility for bank supervision.

This single supervisory mechanism will significantly contribute to safeguarding financial stability in the monetary union, thereby reinforcing confidence. Further work will provide a single mechanism to unwind failing banks, funded by levies on the sector itself, and in parallel, rules for direct bank recapitalization by the E.S.M.

This response to the crisis has delivered results. Countries under assistance are improving their fiscal situation and regaining competitiveness.

Markets are rewarding this effort. Both Ireland and Portugal are on track to sustainably regain market access within the next 12 months. The European Commission estimates that by the end of this year, the euro zone as a whole will have an overall budget deficit below 3 percent of G.D.P. Smaller deficits mean less debt and more scope to invest for growth.

With this approach, the euro zone has shown a degree of resilience and problemsolving capacity that many observers and policy makers would not have predicted even a year ago.

Europe has responded to adversity by moving closer together and deepening integration. As a result of our determination and our common strategy, a difficult but necessary adjustment is taking place, from which a stronger euro zone is set to emerge.

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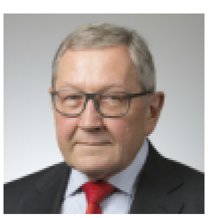

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