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CONTROVERSIES OF FINANCIAL FUNCTIONING AND THE "CONTACTUALLY" EU ECONOMY

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Abstract: *The current financial crisis pointed to the importance of establishing a Union Banking Union, which would allow for a response to financial problems through regional banking supervision. The basic results of this research will show in a synthetic way that the formation of the banking union in the formal sense contributes to the strengthening of the integration of the economies of the member states, the promotion of confidence in the EU and the stability of the banking sector, but with the key shortcomings in the functional scope of such a concept. Mechanisms for bank supervision and bank rehabilitation in this context do not provide a financial stability management lever because the decision-making process is too long to provide an adequate and quick response in the event of a financial collapse. The treatment of only large banks and quotas of banking sectors of member states that do not belong to the European monetary union further aggravate the problem. Financial challenges in terms of "maintenance of the life" of the common currency euro - the so-called. The euro paradox, the inefficiency of the ECB's monetary policy with a strong focus on price stability and insistence on monetary easing (QE), negative interest rates that in the long run generate greater risk of placement and contaminate capital flows, retrograde ECB moves in the form of using the so called. "Helicopter money" to encourage the consumption of companies and individuals in over-indebted member countries, only further demonstrates that the financial stability that the EU, and which is designated as a guarantor and sustainability of the EU project, and which strives to strive within its financial and banking management, Numerous sites that are essentially endangering. This is a confirmation that the EU's integration consistency will be possible only*

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through an agreement that it has essentially created. An EU-led peace project from the 1950s and ways to overcome the EU crisis 2008-2017 is therefore an "agreement" or a consensus that goes beyond any economic and financial legality.

***Keywords**: EU crisis, the financial policy of the EU, EU financial regulations.*

1. Introduction - Global monetary crisis and financial flows, the neoliberal paradigm

The monetary crisis in the world, resulting from a combination of unsustainable global macroeconomic imbalances and weaknesses in the structure of functioning of the financial system in the context of theexcessive "loose" monetary policy, abundant liquidity and cheap money, rising asset prices and growth of financial innovation and globalization, with certainly weak regulatory framework and weak, almost non existing control of the financial sector, especially the capital market (Kilibarda et al, 2011a). Problems on theasset side of banks were bad securities that could not be sold because their value was completely unknown and balance sheet problematic. New financial products such as derivatives, are designed to beadapted to the circumstances of timeand the markets where they are traded. Strategies that primarily use these financial products were to constitutean effective mechanism for redistribution of risk, certainly in an effort to circumvent the regulation and find "holes" in the law. The new "financial concept" had important implications for the financial markets, it manifests itself in the form of various benefits for issuers, borrowers, investors and the general financial system.The development of such innovations, coupled with weak regulatory framework, led to theefficient allocation of resources and entrapment in huge risks.And as you know, the financial innovations contribute to increasing risk diversification but may seriously impair financial stability. The financial crisis stimulates interest rate risk and exchange rate risk, by which the seventies of the last century were well known, after a period of so-called "oil" shocks (Petrovic, 2015a).

The banking industry has thus spawned a crisis that we now pay dearly. The industry has long been based on trust, mutual responsibility and sufficient transparency. But in the years preceding the crisis, our traditional bankers have drastically changed, aggressively expanding its activity changes on other activities, including activities historically associated with investment banking (Stiglitz, 2015).

Historically, the dominant financial theory has been developed from the theory of efficient markets. The conclusion of this theory is that financial markets areefficient mechanism for determining prices of financial assets but with theassumption of a stableand developed institutional and legal framework that will enableaccess to all relevant information for the proper valuation of assets (Causevic, 2015a).

The causes of the crisis, which has grown into a global financial crisis, originating from the period of expansive growth in the 2003-2007 period. During this period, developing countries have recorded surpluses in current account balance, received higher savings rate from investments, which created the possibility of placing surplus domestic savings in developed countries. China, as one of the fastest growing developing countries, has invested the bulk of savings in the US, a similar thing happened with oil-producing

countries that have surpluses of oil exports placed through the investment funds. In addition, in developing countries there was a low level of financial intermediation.Depositors from developing countries had an aversion to risk and were willing to invest in safer businesses with lower yields.As a result, these countries were deciding to invest primarily in the United States that are considered to be less risky (Kilibarda, 2011b). The financial shocks that from capital market topped to the real sector, non-conformity of assessment of changes in the balance sheets and changes in asset prices, and overall awareness of the dangers of creating and bursting "financial bubble" were sufficient to induce financial crisis.

The official balance of the five largest investment banks in the United States on the 15/09/2008 has shown that that all was well capitalized and their average capital relative to risk-weighted assets were 6.2%. In the following days when almost all money market funds haveactivated guarantees for the payment of commercial paper investment banks that are held in their portfolios, banks were forced automatically to transfer all its obligations under issued guarantees from off-balance sheet items to its balance sheet (Causevic, 2015b).

Belated response of central banks to changes in asset prices, their coverage of pulses with the real estate market in the price indices, financial market deregulation derivative instruments with, based on the Basel II enabled the system of internal models for determining the rating of internationally active banks as well as the determination of the minimum required capital of banks, arealso some of the myriad of problems that have led to the financial collapse. It is common that the first line of defenseagainst recession in the US and theEU is made up of central banks, which immediately reduce interest rates in theevent of economic downturn. However, short-term interest rates were close to zero without any possibility of further lowering; Government response was, nevertheless reduced to the fiscal stimulus in the form of a temporary increase in public spending and / or tax cuts to encourage overall spending and job creation. The then US president intervened in an emergency procedure, with fiscal rescue package for the financial sector in theamount of 700 billion dollars, while the FED increased the money supply for approximately 125%, which is from the time of Great crises, in 1929 and has not been recorded(Causevic, 2015c).

Due to the specific legislation in theEU and the member states of theeuro-zoneat the beginning of the financial crisis, theECB has been quite limited in the speed of response to new market conditions and only after a series of legal changes has been able to increase the money supply, lower interest rates and intervene in money markets and government bond markets in the countries south of theEU(Causevic, 2015d).In May of 2010, theECB used euro-dollar swap in relation to theemergence of the debt crisis in Greece.For one week theECB has indebted with FED for approximately $ 9.2 billion.All this indicates that the new financial architecture significantly increased overall risk in the global financial system but it was still distributed. Regulators haveallowed the banks to run off-balance complex securities.This has lowered the ratio equity / assets and increased risk.Hence, we can conclude that pre-composition process of creation of profits in banks represents exclusiveapplication of VAR statistical models, potentially dangerous and risky(Petrovic, 2015b).

Modern global financial crisis, as it is commonly called, and manifested, is characterized by such depth, complexity in global effects, which has not been recorded in

economic history. Often the question arises: has the crisis occurred intentionally (orchestrated in the United States) or is the result of tectonic disturbances in the functioning of neoliberal (credit and market) system. It is undisputed that until now donating neo-liberal and monetarist model reached its complete collapse, which fundamentally shook up all the pillars of neoliberal capitalism. In this context, Stiglitz and Krugman fears have come true in the moment when a shift in focus had occurred, from employment on the issue of deficit and debt. Fear of the budget deficit has produced the so called fiscal austerity and sharp reduction in public spending. So, the political discourse has also shifted from employment issues to the budget deficit, although it is not a tragedy that debt continues to riseas long as it does not grow faster than overall economic growth and rise of inflation. The global financial crises of 2007-2009 has shattered our confidence in economic theory. After more than twenty years of intense academic research in banking economics, we realize that we still do not know much. For example, economists continue to often rely on the efficient market hypothesis, and on the Modigliani Miller theorem, which we know are based on strong and unrealistic assumptions (Roses, 2015a).

2. Optimal currency area: platform monetary-fiscal controversy in theEU, the conflict in the macroeconomic policy of theEU

Financial stability plays a crucial role in the financial system and the economy as a whole, as evidenced by the current crisis. With the increasing number of financial institutions that operate in two or more countries or continents, global financial stability has become even more important.

Systemic weaknesses were woven into the functioning of EMU. One of them is to insist on neoliberal principles, at any cost, and when it comes to theEuropean Central Bank(Popovic, 2013a). Svetlana Popovic, states that the primary objective of theECB is price stability, while the objectives of growth and employment are subordinates to that. Although theaverage inflation in theeuro zone is low, inflation differentials are still present. According to author Popović, certainly one of the main reasons for the increasing divergence of performance of states is theevident process of polarization in the monetary union. On the opposite side, as a counterweight to the centralized monetary policy there is no single, unified fiscal policy. It remained at the national level and provides the possibility for governments to react to the various shocks with sets of fiscal measures. On the same pages of her dissertation, author Popović indicates that, particularly in the countries of the South, expansionary fiscal policy had been led, growth model was based on the large demand financed with cheap capital from successful "northern" member States. The consequences of this have certainly been a big balance of payments deficit, large deficit in budget as well as harder servicing of obligations on this basis(Popovic, 2013b).

The financial crisis has revealed serious weaknesses in the functioning of EMU. From the beginning it was not, or made the motion to an optimal currency area, which is essential for the successful implementation of the single monetary policy(Popovic, 2013c). The currency union is one of the forms of monetary union in which member states areadopting the common currency renouncing their own, and as such, is appointed as the full monetary union and common currency area. Full liberalization of capital movements, the integration of banking and beneficial financial markets of the Member States,

eliminating fluctuations in the movement of foreign exchange rates through the irrevocable fixing, are prerequisites for its formation(Popovic, 2013d).

Thereare both theoretical and empirical evidence that EU is having difficulties functioning in conditions of a centralized monetary policy, while thereare decentralized fiscal policies and decentralized political systems, clarifies Popovic in her PhD. Thesis.European Monetary Union countries are countries with different history, economic structure, institutional characteristics, different financial system, the process of wage formation, the role of government and other(Popovic, 2013e).Deprived of activist monetary policy, politicians are willing to engage in excessive government spending for obtaining votes in elections. The biggest risk is the government's use of funds of public finances in order to increase the level of voter support, and the burden of those operations falls on a common currency.

Monetary union is the largest degree of economic integration, which is defined as an area in which thereare no restrictions on payments, exchange rates of member states were permanently fixed while towards non-member countries a flexible floating is required. The optimum currency area is one that can achieve full employment, low inflation and balance of payments. Currency union implies the loss of autonomous monetary policy; the only remaining instrument for achieving national economic objectives - fiscal policy. In the currency, centralized budget as asymmetric shock absorber, performs automatic redistribution of income from the prosperous to theaffected countries. Decentralized budget means borrowing of deficit countries through capital markets and transferring debt to future generations.We conclude that the optimal currency area requires a centralized budget.Experience of theeighties has shown that reducing the budget deficit and public debt can not beeasily and quickly achieved; fiscal policy is not a flexible instrument as it seems in theory of OCA; until it comes to the effects of changes in policies, the economic cycle can be turned. Therefore, there must be a common concern (centralization) in terms of national budgets. And then as a prior, how Krstic and Jemovic said, the single monetary policy need a single financial stability policy.

However, in formal legal terms, the EU is moving towards a fiscal union where fiscal integration is in the phase of strengthening supranational fiscal sovereignty of the EU over the member states. New fiscal management that is applicable from 1st of January 2013, greatly limits the independent management of the fiscal policy of member states. Will the new EU regulations in the field of fiscal finance be properly applied in practiceand whether it will affect theeconomic growth of member countries, is still open question. In this context, further, we deduce that the functional dependenceof fiscal integration on monetary integration within the framework of a reformed fiscal management, will be first directed towards the stability and viability of the common European currency much more than towards the simulation of economic activities and growth(Gnjatovic, 2013).

The effectiveness of macroeconomic policies in each country depends on the level of cooperation with international financial institutions, on the one hand and the quality of its own institutions and openness of the national economy. However, it should be borne in mind that the international financial system is a dense network of national, economic and financial institutions which permanently resist changes (Petrovic, 2015c). If there are no disruptions in the fiscal sphere, the quality of monetary policy depends primarily on its profileand is reflected in the price (in) stability. Price stability has a positive impact on economic growth, which is partly true.Examples include France, Italy, Portugal, that are

stableeconomies regarding prices and at the same time, are stagnant. Monetary policy is not only affecting the stability of someeconomy, taxes also have great influence. What is a problem is how to makea difference in theeffects arising from monetary impulses or tax stimulus. Monetary activism carries the force of effects in both directions, both stabilizing and destabilizing. If monetary activism is a tendency of central bank to respond to short term disturbances in the real sphere we have to take intoaccount the obstacles that areevident these ranges, namely: what is the right monetary policy, competence of the governor and his political independence, consistency of econometric models which the central bank uses, the central bank post - fest response to internal and external changes in the economy (Prokopijevic, 2012a).

The Treaty of Maastricht established that during the preparations for the introduction of a single currency, particularly important place should beestablishing and maintenance of macroeconomic equilibrium, which will be manifested in establishing and maintaining of long-term price stability. For these purposes, a unique restrictive budgetary policy had been chosen. It is thereforea kind of budgetary philosophy at EU level. Unique restrictive budgetary policy means: budgetary discipline of member states, the use of deficit within acceptable limits as well as the automatic stabilizers in theevent of a recession. Budget stabilizer and its use is based on the possibilities of using deficit at 3% of its GDP in function in order to overcome theeconomic recession. Of course, a prerequisite for the implementation of the stabilization budgetary measures is to maintain a balance in the budget, and the budget surplus and / or budget deficit to theaforementioned level. The country that is under recession is therefore forced to allocate more for social programs and unemployment benefits. All within particular limits does not start the mechanism of punitive measures. From all this it follows that a single budgetary policy of theEU may act in stabilizing way, only in periods of mild recession amplitude of theeconomic cycle of the Member States, and that it is not prepared to adequately respond stronger to the crisis, as it is the one happening now(Vuksa, et al, 2011).

3. The crisis of public EU finances: Greece was testing Europe

"If Europe is to be saved the misery of the final collapse, we must build new trust in theEuropean family of nations and to give her a political structure in which Europe can live in peace, security and freedom. There is only one cure. We have to createa kind of United States of Europe", well known words of Winston Churchill from mid-20th century. The challenge has remained the sameeven after more than 50 years.

If we take the truth that the EU is a political project, we conclude that theEU since its inception until today is experiencing a very complex crisis. A fact is that this is a crisis of the public sector, public financeand debt but also theeffects that are thus induced in the sphere of the real economy and the social sector. TheEU is not comprehensiveand homogeneous system in theeconomic sense of theword. It consists of three rounds (three rounds of enlargement) consisting of 11 states the founders of theEU, then 4 of the second round of enlargement, in which is Greece, then 12/13 (Croatia, 2013), up to number 27/28. All Member States are basically totally different in their development performanceand macroeconomic indicators. Then, the single monetary policy led by the single currency "euro" and contrary to that, decentralized fiscal policy and fully liberalized foreign trade policy have led to major differences primarily in the rate of the tax burden, the level of

public debt and budget deficit in the Member States. Henceall Member States have long exceeded the requirements of the Maastricht Treaty which is the basis for accession and "sustainability" in theEU.

Just as a short reminder, Maastricht Treaty implies that theEU members cannot have public debt above 60% of GDP, the budget deficit does not exceed 3% of GDP, an inflation rate of no more than 1.5% compared to the three countries with the lowest rate inflation and interest rates not higher than 2% in relation to the three countries with the lowest long-term interest rates.It is necessary to note, that there is evidence of arbitrariness in the choice of these criteria (Komazec and Petrovic, 2014a). If we take the statistical data, Eurostat, the reality is striking, and confirms theabove statement that all the States have gone beyond the set requirements. As theEU economy plunged into a recession even in 2009, with apparent negative growth along with austerity policies that will causea further rise in public spending, public debt and budget deficit, high social welfareand transfer payments, and in contrast, expansive monetary policy purely virtual money, with great caution of banks and growth of financial and credit risk, systemic risk, asymmetric information and moral hazard, logical collapse into euro - skepticism and euro - pesimism. Low inflation rateat the moment, with an overall drop in demand and a high unemployment rate, is a logical result, but no guarantee that it will not be followed by the next phase of the crisis that can be characterized by the fast growing inflation, import restrictions, growth rates and even bigger increase unemployment.

In truth, the state of Greek economy before joining theEU is interesting. Was that country then able to keep pace with the challenges of Maastricht?Or the country had just temporarily fulfilled them in order to join theEU? Did the political eliteact in the interests of survival in theEU, economic competitiveness and to withstand all the flurry of transatlantic crisis of the year 2007? The crisis has only madea load of new troubles. The tendency of theautomatic growth of debt is generated by all theanti-crisis budget interventions in order to rescue banks, securities and insurance industries. We recall that the majority of Greek banking sector is owned by German banks. It is clear that the policy of austerity works in favor of creditors and not debtors.

What happened to Greece: Greece's debt before the financial crisis amounted to 90 bn euro, or 106% of GDP; In 2010 she was granted a loan of 110 bn euro from the IMF and theEU; In 2011 exploits the first trance of loans and thus repays a portion of due debts amounting to 52 bn euro; In 2012 new 130 bn euro was approved with the debt write-off of 107 bn euro; the same year the debt grows to 380 bn. Greece will pay only the interest on theexisting debt by the year 2020, 13 bn euro. It's just part of the profits that creditors-lenders pull out of theailing Greek economy. Received capital is not flowing in Greek economy that is the benefit of the Greek people, but saves American hedge funds, French or German and British banks, insurance companies, and under the guise of saving Greece from bankruptcy, actually the banking sector is being saved (having already mentioned ownership) from chain effects of the crisis and the new wave of crisis. Revival of economy and development factors is absolutely missing, as inclusive parameters of economic independence, and vitality of the Greek economy.

TheEU has no idea how and in what way to resolve the debt vortex, how and in what way to deal with potential bankruptcies of euro-zone member states.Greece in this case has the option to declare bankruptcy, exit from theeuro-zoneand return drachmaas a currency, or to continue on the path of saving and support given by European lenders. Since

the referendum said "NO" to theEuropeand IMF policy of saving, exit from theeuro-zoneand return to the drachmaas a currency is a serious intention of the Greek government. But a return to the drachma implies also devaluation what would for the Greek government present an additional challenge. Country which conducts the devaluation should keep in mind that for the success of the devaluation there is the need to meet numerous requirements, in particular that after the devaluation the following must be provided: a stable monetary situation, without inflation and price increases, stable internal economic situation (low level of unemployment), theavailability of existing and potential funding for export, real metered rate devaluation, which would lead to exchange rateequilibrium in which one can stay longer and that the devaluation is performed without prior notice. The crucial idea is that people should be able to choose in what currency, the euro or the drachma, they would denominate their future contracts: if in drachmas, they would be more competitive. The drachma need not disappear if the Greek Central Bank applies a conservative monetary policy—indeed the incentive to behave would be there if they wished to maintain their seignorage income. Thus, the optimal amount of local currency would be decided bottom-up by individuals and firms, depending on the rate of exchange (Schwartz, 2016).

For the Greek government in this context thereare many challenges ahead. The Greek financial crisis is at the same time, EU political crisis. If Greece went bankrupt, Franceand Germany would have to save their big banks, which would cost them more, and politically it would be harmful for theentireEU more than it is rescuing of the reform rogue states such as Greece (Mikerevic, 2010). It is quite clear that one cannot successfully lead the development and stabilization macroeconomic policy without coordination and synchronization of monetary and fiscal policy. TheEU regulation should add theability that in addition to accession there is also thoroughly elaborated concept of voluntary exit from theEU, and consider the possibility that the high-risk countries areallowed to leave theeuro and return to national currencies.

Given that theEU is a group of nations with very high differences in all factors of development, cause of the crisis should be sought in this, but it should also recognize that it is a signal for all future crises due to the contradiction embedded in the functioning of theEU. Onealso very important contradiction in view of the situation in theEU is Germany's insistence on a policy of austerity at any price, even for a country facing bankruptcy, while Franceadvocates a revival of consumption, investment in infrastructure, encouraging economic growth, employment growth, therefore saving and overcoming the crisis using the Keynesian model of anti-crisis policy (Komazec and Petrovic, 2014b).

The fact that theEU is just a "summation of states" in which the fiscal integration is very small, labor mobility is very low, and no one has its own currency, is neglected. TheEuropean Central Bank, therefore, has a policy of "easy money" and all that creates, promotes and deepens the crisis.Countries with high budget deficits are pushed into fierce savings and indebted euro-zone countries are paying huge interest rates on government debt.The EU is actually an unfinished project (Komazec and Petrovic, 2014c).

4. Financial sector of the EU: Understanding banking EU union and constitutional framework, vitality of EU banking sector; Is BU restoration of financial stability of the euro-zone?

The first banking directive, passed in 1997, established the principle that the country of origin (country of origin) is responsible for the supervision of their banks in another country. The second banking directive 12 years later as part of the Single Market and theabolition of capital controls; a bank that has a permit (license) to work in any EU country can establish a branch or do business abroad without local permits ("single passport"); However, there is a possibility that the host implement regulatory measures if they are in the "public interest". So: 1) control of the mother country, and 2) the responsibility of the host state. It may represent and presents the problem: Will the national regulatory authorities haveenough information to prevent the financial crisis? From the perspective of 2008, and now after seven full years, theanswer is more than clear.

The stability of financial markets, especially after the financial crisis of 2008, has becomea priority for theEuropean Union, for its conservation activities are undertaken at two levels: improving regulations governing the financial sector and strengthen theEU financial sector supervision.

The debt crisis caused by theeuro area's dependenceamong banking and financial stability of the stateand certainly the lack of fiscal union within theeuro zone, adjacent to their starting point found itself in financial fragmentation within theeuro area financial markets. Banking Union is, in this context, regulatory and institutional response from theEU after the global financial crisis (Soskic, 2015).

European history has always been characterized by a strong link between banks and states and, between banks and politics. National banking systems, therefore, have always been one of the forms of expression of sovereignty (Cuocolo, 2015a).

In response to the financial crisis that emerged in 2008, theEuropean Commission pursued a number of initiatives to createa safer and sounder financial sector for the single market. These initiatives, which include stronger prudential requirements for banks, improved depositor protection and rules for managing failing banks, form a single rulebook for all financial actors in the 28 Member States of theEuropean Union. The single rule book is the foundation on which the Banking Union sits. As the financial crisis evolved and turned into theEuro-zone debt crisis, it became clear that, for those countries which shared theeuro and wereeven more interdependent, a deeper integration of the banking system was needed. That's why, on the basis of theEuropean Commission roadmap for the creation of the Banking Union, theEU institutions agreed to establish a Single Supervisory Mechanism and a Single Resolution Mechanism for banks. Banking Union applies to countries in theeuro-area. Non-euro-area countries can also join. As a further step to a fully-fledged Banking Union, in November 2015, the Commission put forward a proposal for aEuropean Deposit Insurance Scheme (EDIS), which would providea stronger and more uniform degree of insurance cover for all retail depositors in the banking union. The Single Supervisory Mechanism (SSM) places theEuropean Central Bank (ECB) as the central prudential supervisor of financial institutions in theeuro area (including approximately 6000 banks) and in those non-euro EU countries that choose to join the SSM. TheECB directly supervises the largest banks, while the national supervisors continue to monitor the remaining banks. The main task of theECB and the national supervisors, working closely

together within an integrated system, is to check that banks comply with theEU banking rules and to tackle problems early on (European Commision, 2015).

One of the reasons for the creation of a banking union is linked to the creation of a single market for financial services and the free circulation of money: the monetary unification cannot survive without a banking union. As in the whole global financial market, in Euro-zone deleveraging is the key to increase the resilience of theEuropean Monetary Union (EMU) and avoiding future crises. TheEuropean Banking Union must continue to help strengthen the capitalization of banks. Structural reforms of EU banks will beapplied only to the largest and most complex EU banks whose business is substantially covering the trading activity. The problem of too big to fail is not new – the phrase was first used in the United States in the 1980s. It refers to any firm – usually in the financial sector – whose failure would have major negative spillover effects for the rest of the financial system and for the real (non-financial) part of theeconomy. Considering the position of the largest banks ("too big to fall") in Europe and beyond, during the crisis, recent nobel prize winner Jean Tirole indicates that all banks that have benefited from the direct support of the state should be faced with firm regulation. Therefore, the ECB will carry out a new function controller only the largest banks in the euro area and will be responsible for the stability of the banking sector. This will pose the greatest threat to its reputation. The framework of legislation should ensure that different national solutions do not create lines of discord within the banking union, or that they do not impair the functioning of the singlemarket (Djukic, 2014).

The framework of legislation should also ensure the delicate balance between financial stability and creating favorable conditions for lending to the real economy, which is particularly important for competitiveness and growth. The frames are then provided for the prohibition of trading in financial instruments and goods for their own account ie. trade for own account solely for the purpose of generating a profit for the bank and rules on economic, legal, managerial and operational ties between the separated commercial entities and the rest of the banking group are laid down (European Commision, 2015a).

Indeed, banks provide liquidity and collect deposits, and also provide financing to firms. So, the crucial technology of a bank is to transform riskless deposits into risky assets. In this respect, equity is exactly what one needs to buffer the associated possible losses, so that depositors can be sure that in any circumstance they will get their money back (Roses, 2015b).

In financial systems in thearea of EU banks are particularly important.As the banks are the underlying mechanism of external financing of companies in theEU, the banking system has been qualified as a bank-centric (Sedlarevic, 2013a).

The results of stress tests conducted by theEuropean Office for the Supervision of Banks (EBA) show that the financial market in theeuro area which was badly shaken by the debt crisis should be stabilized. Banks from 21 countries that together represent 65% of the banking sector in Europe, have been tested.With particular attention state banks in Portugal, Ireland and Greece, countries that are in the program for aid to overcome the debt crisis, have been monitored. The tests were designed as financial checks and should determine whether banks haveenough capital to withstand a scenario of difficult economic conditions. TheAgency prepared and checked state of banks through two scenarios, one that takes into account the current macroeconomic forecasts and other which assumes economic shock.

Crisis scenario predicts GDP growth of only 0.5% in theeuro zoneand theEuropean stock market decline of 15%, as well as the crisis in the real estate market. The banks, which do not hold more than 5% of the capital in relation to its other resources in forseen economic conditions will not pass the test. From the foregoing, we conclude that the test used was not strict enough.

Since the beginning of the financial crisis, theEuropean Union and its Member States areactively working on a fundamental reform of regulations in the banking sector and banking supervision. TheEU has introduced reforms in order to limit the consequences of possible bank failures and createa safer, healthier, more transparent and more responsible financial system that works for the benefit of theeconomy and society as a whole. In order to increase the resilience of banks and limit the consequences of a possible collapse of the banks, new rules on capital requirements for banks and for the recovery and resolution of banks have been adopted. Basel II standards in theEuropean Union are implemented through the Directive 2006/48 / EC and 2006/49 / EC (Capital Requirements Directive - CRD).Na prostoru EU standardi Bazela III implementirani su u Direktivi CRD IV And regardless of the presence of asymmetric information, moral hazard and potentially large strains on finanisjkom EU market, EU legislation has opted to Basel III standards are based on the principle of "one measure for all" (Sedlarevic, 2013b).

But the question is, whether the planned framework is really sufficient, if theEU banking union, conceptually designed, really is a banking integration, and whether it will still present relationship "centrally-shared" and "national sovereignty" in the financial architecture of EU, using the principles in the implementation of the Basel III agreement, "one measure for all" non-inclusion of all types of banks, conflicts of emission and the supervisory role of theECB the structural conflict in achieving the desired financial stabilization. Ignores the fact that the current crisis is a forceful reminder that bank runs are a constant threat to financial systems (De Graeve and Karas, 2014).

Theattitude of theECB inevitably confirms it: „The point here is that one cannot expect theECB to deliver the objectives that rightfully belong to other policymakers. We will meet our price stability mandate, as weare obliged to do in the Treaty. But it is up to individual countries to build on that foundation and make their economies work better; and it is up to theeuro areaas a whole to strengthen the institutional architecture of our union." (European Central Bank, 2015). In conclusion, a deeper attention on the Banking Union is needed, as, on the one hand, it could be the way to make the Europea integration re-start (even under the still vague perspective of a fiscal and political integration). On the other hand, if not fine-tuned and well balanced, it could soon proveto the beginning of the endfor the European Union (Cuocolo, 2015b).

5. Euro paradox[1]: Joseph Stiglitz said!

As the authors of this paper, we agree with the findings of Joseph Stiglitz, an eminent connoisseur of the economic and financial opportunities of the EU. So, the euro can be saved, but it will take more than a nice talk about commitment to Europe. If Germany and others are not ready to do what is necessary - if there is not enough solidarity

[1] See more: Paul Colier, *Euro septic*.

for the politics to work - then the euro may have to be sacrificed to save the European project, "says Joseph Stiglitz.

While we analyze the damage done in Europe during the year of the crisis and the recession, which, finally, seems to drag, we can boast that the Eurozone has not collapsed. But the return of growth is far from the return of prosperity. The current pace of "recovery" return to normal can only be expected in the next decade. Even Germany, which is often considered to be the most successful country, has grown from a miserly 0.63% over the last 5 years - a rate that would otherwise be considered a complete failure. The euro is not an end in itself, it should have been a means to achieve a more prosperous Europe, with a higher standard of living. On the whole, earnings in the Eurozone today are about 20% lower than it would have been for the growth trend that prevailed in years before the euro continued. Europeans were asked to make uninterrupted new casualties - lower wages, lower benefits, weakened social protection system - all in the name of saving the euro

A much more ambitious and different plan is needed: it is clear that in its current form, the euro has failed the continent. Nevertheless, allowing the currency to decay would also be extremely costly. What is, above all, a fundamental reform in the structure and policies of the Eurozone is necessary. (Joseph Stiglitz, official site: 10.08.2017)

Now it's pretty clear what it takes, as Stiglitz said:

• Real banking union, with joint supervision, joint deposit insurance and a common system of resolution; Without this, the money will continue to flow from the weakest countries to the strongest.

• Some form of joint commitment, such as euro bonds: because Europe has a niche debt and GDP ratio than the US, Eurozone could take a loan with negative real interest rates, as the US does.

• Measures in the field of industry that would allow more slower countries to reach others. Existing structures prevent such measures as an unacceptable intervention into the free market.

• A central bank that focuses not only on inflation, but also on rsat, employment and financial stability.

• Replacing a rigid policy that prevents growth from growth-promoting policies, directed at investing in people, technology and infrastructure.

• Solidarity Fund for Stabilization - as there is a solidarity fund to help new EU members.

In Stiglitz prediction, he sais: "*The structure of the euro greatly reflects the neoliberal economic doctrines prevailing at the time when the single currency was designed. It was considered that maintaining a low inflation rate is necessary and almost sufficient for growth and stabilization; That independent central banks are the only way to secure confidence in the monetary system; That low debts and deficits will ensure the economic convergence of member states; And that the free flow of money and people will ensure efficiency and stability.*

Each of these doctrines proved to be wrong. For example, partly because of the wrong focus on inflation rather than on financial fragility, partly because of the ideological

assumption that markets are always effective and that regulation should therefore be minimal, independent central banks in the US and Europe have done their worse job before the crisis than Less independent banks in some of the leading emerging markets.

Spain and Ireland had fiscal surpluses and a low debt-to-GDP ratio before the crisis. The crisis caused deficits and high indebtedness, not the other way around.

The free flow of people, as well as the free flow of money, seemed meaningful. But as money left the banks in the affected countries, lending was reduced, private sector savings measures that exacerbated such public sector measures. Similarly, migration from countries in crisis has emptied poorer economies and has left an increasing tax burden on those who have remained.

Domestic devaluation - a reduction in domestic wages and prices - is not a substitute for the flexibility of the exchange rate. In truth, there is growing concern over deflation, which increases the power and burden on debt levels that are already too high."

The extreme savings that many European countries adopted in the course of the crisis posed a nearly knockdown blow. Double recession and rising unemployment are a terrible price for a slightly better trade balance - which in most cases is better because of falling imports, not because of an increase in exports. Germany and some other northern European countries refused to help neighbors in trouble to get out of the crisis. But if they continue to insist on the current policy, they will, together with their southern neighbors, ultimately pay a much higher price than if Eurozone accepts the exit program. The euro can be saved, but it will take more than a nice talk about commitment to Europe. If Germany and others are not ready to do what is necessary - if there is not enough solidarity for politics to work - then the euro may have to be sacrificed in order to save the European project. (Joseph Stiglitz, official site: 12.07.2017)..

6. Consistency of financial integration: review of the Financial perspectiveof the EU 2014-2020

Many EU countries, notably Greece, Portugal, Spain, Ireland and Italy will have to undergo a difficult process of adjustment of government finances, mainly the level of public debt and external competitiveness, in order for position of their public debt to, onceagain, become viable. In consideration of the pressure from the financial markets it is unlikely that theadjustment program in the field of fiscal finance will be sufficient to avoid the scenario of "tightening of the belt" in terms of the necessity of external financing of public sector (Petrovic, 2015c).

Not all countries have benefited thanks to the customs union, except the original six that had had ten years to adjust. Countries that have been plagued by the competitiveness had problems due to entering the Customs Union.Greek export to theEU has stagnated during the first years of EU membership. Operation of the customs union in each country depends not only on theabove provisions of the Union, but also on what countries are doing in the field of institutional and economic reforms. Establishing of customs union was not an easy task.Abolition of non-tariff barriers did not flow linearly. Although most non-tariff barriers among member countries is abolished through the creation of a common market, theabove stated barriers are still used against third countries. Hence such intentions are source of conflict and obstacles to world trade liberalization.All

these mentioned problems cannot be solved without further liberalization but today all that is much more difficult because of theaging population, failing innovation and competitiveness of European firms. The tax system and tax policy represents one of the most important features of the national sovereignty of a country and an integral part of overall economic policy of one country. Taxation is an instrument of economic regulation which can be used to influence consumption, encouraging savings, shaping the way the company is organized, stimulating investment activities and other. The weight to be given to taxation is even greater considering that taxation affects the other segments of economic policy, employment, environment, health, and so on. In the single internal market of theEU member states should move in approximately the same direction in terms of tax policies. In this context, theEU has only a supporting role in the sense that theaim is not to standardize national tax systems but to ensure that they are compatible not only with each other but also with the objectives set in theEU Treaty. However, further harmonization of tax cooperation is not always a harmonious process. It is a process that diminishes differences in taxation in the Member States but also adapting the national tax systems in order to harmonize them with the set of common economic goals. This also means that all countries in the Union would have identical tax system, but not necessarily, but that the tax systems constitutea consistent and regular ordered whole. Given that the budget and tax policies are within the sovereign action on every new Member State, we note that thereare huge differences to the height of tax rates and tax bases, different modes of administration of the tax, various tax forms, etc., it is not possible to speak of complete tax harmonization, which still leads to asymmetry in the budgets and conflicts in the conduct of economic policy of Member State in relation to the main objective of economic viability and financial integrity of theEU.

The structures of tax systems of EU member states are significantly different.In particular, there were significant differences between old and new member states.In the old EU member states the most important taxes are social security contributions (about 28%), income taxes (about 25%), VAT (19%), special consumption taxes - excise taxes (about 10%), income profit (about 9%). Thus, countries - the old EU member states are dominated by direct taxes (including contributions) in relation to the indirect (VAT and excise taxes), in approximate comparison of 2: 1. In the new EU Member States indirect taxes are significant in relation to direct. The relationship between direct and indirect taxes in the 12 new EU member states is 1.35: 1 The greater importance of indirect taxes in the countries in transition is in accordance with giving economic advantages in relation to social objectives in these countries giving priority to economic goals (rapid growth, reduction of unemployment, etc.) maintains the intention of these countries to eliminate the backlog in the level of development in relation to old EU member states.

Among EU countries, by far the highest VAT has Hungary - 27 percent and the lowest Switzerland - 15 percent. In Denmark and Sweden, the general VAT rate is 25% in Romania, 24 percent in Greece, Poland and Portugal 23 percent, 22 percent in Latvia, and Lithuania, Italy and Belgium 21 percent. The general rate of VAT in Austria, Estonia, the Czech Republic, Slovenia, Bulgariaand Albania is 20 percent. Apart from Slovenia, a lower overall rate of VAT among European countries, is in Cyprus -17 percent, Franceand Germany with 19.6 percent, or 19 percent, Spain and Malta - where VAT is 18 percent. In the structure of tax revenues in Italy revenues from taxes on consumption account for 35% and 65% of income tax and social security contributions. In Germany, the ratio is 31/69, and in France 33/67 (ratio of VAT / Taxes on income, in %) (Eurostat, 2015).

The latest tendency of theEU Commission, the program Fiscalis 2020, with which the Commission helps Member States with their tax systems, by creating a forum for theexchange of best practices in the field of taxation of capital income, VAT, etc..(European Commision, 2015b).

Financial perspective for the period 2014-2020 of theEU relates to the structure of the budget for the period until 2020. This budget perspectiveabsolutely follows theEurope 2020 Strategy and relies on general principles of the Lisbon Strategy. What is interesting, and lasts for a long time, is that this budget perspective is qualified as a platform for reconstruction of highly competitive social market economy in Europe. Practically theearlier formulation of an open market economy is repressed. Financial perspective 2020 includes continual character in relation to the previous perspective 2007-2013 and thereare no significant changes (Prokopijevic, 2012b).

Table 1: Financial Perspective of theEU 2014-2020, in billions of euro

Obligations	2014	2015	2016	2017	2018	2019	2020	Total
Inclusive growth	64,7	66,6	68,1	70,0	71,6	73,8	76,2	490,9
Sustainable growth	42,2	56,5	55,7	54,9	53,8	52,8	51,8	382,9
Certainty	2,5	2,6	2,6	2,6	2,7	2,7	2,8	18,5
Global Europe	8,5	9,6	9,8	10,0	10,1	10,4	10,6	70,0
Administration	8,7	8,7	8,8	8,9	9,1	9,2	9,4	62,6
Total	150,4	152,6	153,4	154,7	155,7	157,4	159,1	1.025,0
Percent of GDP-a	1,13%	1,13%	1,12%	1,12%	1,11%	1,10%	1,09%	1,11%

Source: European Commision, A budget for Europe 2020

The EU budget is a very conservative institution that is laboriously and with extreme time-delay adjusting to change, especially in relation to new geo financial relations in the world. Theexistence of budget funds used by politicians and bureaucracy opens the door to fraud, corruption and other abuses. EU Enlargement 2004/2007 was immediately imposed the question of determining theability of states to control the misuse of EU funds. It is due to the frequent misuse of EU funds that special attention should be paid to the control of spending becauseany abuse calls into question the purpose of existence of theEU and further undermines confidence in theEU institutions and its functional dignity (Prokopijevic, 2012c).

Ultimately, monetary union and a single policy cannot work unless there is a single fiscal policy and banking union consolidation in foreign trade transactions. Such conflict and strategic orientation in macroeconomic policy of the EU, the cause of the current crisis, any future crises that are inevitable because they are built like a contradiction in this system (Komazec and Petrovic, 2014d). However, the question is whether it is possible to establish a fiscal union if the Member States differ in tax systems, if they have different levels of public debt, totally different heights of budget deficit, a different level of economic development and per capita income, a completely different structures of public

revenues and structures budget expenditures in all countries, different levels of fiscal loads, different tax rates, different inflation rates, and different interest rates (Komazec and Petrovic, 2014e).

7. Conclusion - Future of theEU

Despite data from 2013 about the percentage of non confidence in the survival of theEU (72%, Spain 59% Germany, 55% France, 53% Italy) and since it is in theeyes of theEuropeans EU qualified as a bastion of state intervention and the demands imposed by regulations, determines interest narrows freedom, dictates taxes, economists point out that theEuropean Union will not fall apart and will retain an important role on the world stage by 2030, but the key question is whether in the future theadvantage of all the collective strength that holds should be used, or not. Three possible scenarios for theEU are weakening, collapseand revival. It is likely that greater integration shall be needed, in order to overcome the debt crisis and solve structural problems. Truly a "step forward" in the integration would involvea large transfer of sovereignty to a central authority, with loss of autonomy, which is less popular in European public. Out of three scenarios for Europeand its international role in 2030, the collapse of theEU is the least likely. In this scenario, domestic enterprises and households to the indicators of change of currency would reply with rapid withdrawal of funds in euro from domestic financial institutions. This would translate to other members of theEU and theeuro would be the "first victim", which would result in theendangerment of the single market and freedom of movement in Europe. Slow weakening of theEU is the second scenario, according to which Europe has managed to avoid the most serious consequences of the current crisis but fails to take the necessary structural reforms. The single currency is not completely useless but extremely expensive. According to the third scenario, European leaders would agree to do "a step towards federalism", having in mind that some countries in theeuro-zone would have decided not to engage in such a project, while some would have waited to see the results. The single market, a higher degree of unity of foreign and security policy, stronger democratic elements would be the outcome of such a scenario, which would also contribute to strengthening the influence of Europeand its role on the world stage.

Solving the devastating debt crisis by rigorous savings and implementation of the budget deficit below 3% of GDP, is leading to deepening of the crisis. The constant growth of debt and budget deficit, the decline in standard, social earthquakes and riots in a number of states set requirements for deeper reforms in almost all Member States. On the basis of the statements in this paper, the interwoven contradictions in theeconomic and financial functioning of theEU, a design error and inconsistency integration range, nihilism in the sphere of relations between monetary and fiscal finances clearly indicates that theEU exists on theexistential paradox.

The myth of a return to strong EU growth quickly is not realistic unless there is a change in structural conditions as unemployment is a mainly structural problem and not one of theeconomic cycles.

Recalls that the persistent and even worsening lack of economic convergence continues to bea structural problem for a single monetary policy in theeuro area; emphasises that the impact of monetary policy differs considerably between member states in theeuro area; considers that this asymmetric impact of monetary policy is likely to

becomeeven more pronounced if theECB keeps increasing rates, given the prevalence in several member states of loans indexed to short-term interest rates; is convinced, therefore, of the need for common EU fiscal governance.

It is this possible new Europe or a popular "Europe on multiple floors" or "Europe at higher speeds", which will not be as easy or possible as quickly as possible. First of all, the European Union has emerged as a peace project, by agreeing on what will be the leverage and creation of every future concept of the future and survival.

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KONTROVERZE FINANSIJSKOG FUNKCIONISANJA I "ODGOVORNA" EKONOMIJA EU

Apstrakt: Aktuelna finansijska kriza ukazala je na značaj osnivanja Bankarske unije na nivou EU, što bi omogućilo reagovanje na finansijske probleme preko regionalnog bankarskog nadzora. Osnovni rezultati u ovom istraživanju će na sintetičan način pokazati da formiranje bankarske unije u formalnom smislu doprinosi jačanju integracija ekonomija zemalja članica, promociji poverenja u EU i stabilnosti bankarskog sektora ali sa ključnim nedostacima u funkcionalnim dometima takvog koncepta. Mehanizmi za bankarski nadzor i sanaciju banaka u tom kontekstu ne obezbedjuju polugu upravljanja finansijskom stabilnošću jer je proces odlučivanja i postupanja suviše dug da bi obezbedio adekvatan i brz odgovor u slučaju finansijskog kolapsa. Tretman samo velikih banaka i kotrola bankarskih sektora država članica koje ne pripadaju evropskoj monetarnoj uniji, dodatno usložnjavaju problem. Finansijski izazovi u pogledu "održavanja u životu" zajedničke valute evro – tzv. Evro paradox, neefikasnost monetarne politike ECB sa strogim fokusom na cenovnu stabilnost i insistiranju na monetarnim popuštanjima (QE), negativnim kamatnim stopama koje na dugi rok generišu veći rizik plasmana i kontaminiraju tokove kapitala, retrogradni hod ECB u formi korišćenja tkzv. "novca iz helikoptera" radi podsticaja potrošnje kompanija i fizičkih lica u prezaduženim zemljama članicama, samo dodatno pokazuju da finansijska stabilnost kojoj EU, i koja se odredjuje kao garant i održivosti EU projekta, i kojoj se teži teži u okviru svog finansijskog i bankarskog menadžmenta inkorporira brojna mesta koja je u suštini ugrožavaju. To je potvrda da će integracijska konzistentnost EU biti moguća jedino dogovorom kojim je ona u suštini i nastala. Mirovni projekat EU iz pedesetih godina prošlog veka i načini prevazilaženja krize EU 2008-2017, je dakle "dogovor" ili konsenzus koji prevazilazi svaku ekonomsku i finansijsku zakonomernost..

Ključne reči: kriza EU, finansijska politika EU, finansijska regulativa EU.