

INSTITUCIONALNA KRIZA I NOVA FINANSIJSKA ARHITEKTURA EVROZONE
INSTITUTIONAL CRISIS AND NEW FINANCIAL ARCHITECTURE OF EUROZONE

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Abstract

Prelivanje efekata finansijske krize iz SAD na ekonomsko i finansijsko funkcionisanje EU afirmisalo je preispitivanje konfliktno uspostavljenog odnosa monetarne i fiskalne politike, postignuća u oblasti fiskalne koordinacije i poreske harmonizacije, celovitosti optimalnog valutnog područja, efekte korišćenja jedinstvene valute te posledice gubljenja monetarnog suvereniteta država članica. Bankarska unija kao graduelistički pokušaj veće integracije na nivou EU, nova regulativa u oblasti nadzora tržišta kapitala, nova koncepcija budžetskog i fondovskog finansiranja EU, redefinisani uslovi fiskalne koordinacije mogu biti faktori finansijske stabilnosti u EU ali ne i garant održivosti integracije u odnosu na narastajući evroskepticizam i evropesimizam. Strukturni konflikt ili utkane suprotnosti u makroekonomskoj politici EU, konstrukcijska greška u politici proširenja, neefikasnost monetarne politike EU na konkurentnost privrede EU, ekonomski ispit EU u formi „grčke krize“ samo su dodatni izazov daljim proširenjima i strukturnim prilagodjavanjima kao i platforma nastupajućih podela u okviru EU.

Cljučne reči: kriza EU, ekonomska politika EU, finansijska regulativa EU.

Abstract

The spillover of effects of the financial crisis in the US on economic and financial functioning of the EU asserted review of conflict established relationship between monetary and fiscal policy, achievements in the field of fiscal coordination and tax harmonization, the integrity of optimum currency area, the effects of using the single currency and the consequences of loss of monetary sovereignty of member states. Banking union as graduelistic attempt of greater integration at EU level, a new regulation in the area of supervision of capital markets, a new concept of budget and fund financing of EU, redefined terms of fiscal coordination can be factors of financial stability in the EU but not the guarantor of the sustainability of integration in relation to the growing eu-skepticism and eu-pessimism. Structural conflict or contradiction embedded in the macroeconomic policy of the EU, structural fault in the enlargement policy, inefficiency of EU monetary policy on competitiveness of the EU economy, economic examination of the EU in the form of "greek crisis" are just an additional challenge for further extensions and structural adjustments as well as the platform of subsequent divisions within EU.

Key words: EU crisis, the economic policy of the EU, EU financial regulations.

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 the excessive "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 the asset side of banks were bad securities that could not be sold because their value was completely unknown and balance sheet problematic. New

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financial products such as derivatives, are designed to be adapted to the circumstances of time and the markets where they are traded. Strategies that primarily use these financial products were to constitute an 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 the efficient 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 are efficient mechanism for determining prices of financial assets but with the assumption of a stable and developed institutional and legal framework that will enable access 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 have activated 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, are also some of the myriad of problems that have led to the financial collapse. It is common that the first line of defense against recession in the US and the EU is made up of central banks, which immediately

reduce interest rates in the event 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 the amount 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 the EU and the member states of the euro-zone at the beginning of the financial crisis, the ECB 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 the EU(Causevic, 2015d). In May of 2010, the ECB used euro-dollar swap in relation to the emergence of the debt crisis in Greece. For one week the ECB 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 have allowed 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 exclusive application 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 rise as 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).

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

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 the European Central Bank(Popovic, 2013a). Svetlana Popovic, states that the primary objective of the ECB is price stability, while the objectives of growth and employment are subordinates to that. Although the average inflation in the euro 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 the evident 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 are adopting 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).

There are both theoretical and empirical evidence that EU is having difficulties functioning in conditions of a centralized monetary policy, while there are 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 there are 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 the affected 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 the eighties has shown that reducing the budget deficit and public debt can not be easily 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.

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 practice and whether it will affect the economic growth of member countries, is still open question. In this context, further, we deduce that the functional dependence

of 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 stimulation 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 profile and 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 stable economies regarding prices and at the same time, are stagnant. Monetary policy is not only affecting the stability of some economy, taxes also have great influence. What is a problem is how to make a difference in the effects 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 into account the obstacles that are evident 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 be establishing 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 therefore a 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 the event 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 the economic 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 the aforementioned 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 the EU may act in stabilizing way, only in periods of mild recession amplitude of the economic 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).

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 the abolition 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 have enough information to prevent the financial crisis? From the perspective of 2008, and now after seven full years, the answer is more than clear.

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

The debt crisis caused by the euro area's dependence among banking and financial stability of the state and certainly the lack of fiscal union within the euro zone, adjacent to their starting point found itself in financial fragmentation within the euro area financial markets. Banking Union is, in this context, regulatory and institutional response from the EU 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, the European Commission pursued a number of initiatives to create a 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 the European Union. The single rule book is the foundation on which the Banking Union sits. As the financial crisis evolved and turned into the Euro-zone debt crisis, it became clear that, for those countries which shared the euro and were even more interdependent, a deeper integration of the banking system was needed. That's why, on the basis of the European Commission roadmap for the creation of the Banking Union, the EU institutions agreed to establish a Single Supervisory Mechanism and a Single Resolution Mechanism for banks. Banking Union applies to countries in the euro-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 a European Deposit Insurance Scheme (EDIS), which would provide a stronger and more uniform degree of insurance cover for all retail depositors in the banking union. The Single Supervisory Mechanism (SSM) places the European Central Bank (ECB) as the central prudential supervisor of financial institutions in the euro area (including approximately 6000 banks) and in those non-euro EU countries that choose to join the SSM. The ECB directly supervises the largest banks, while the national supervisors continue to monitor the remaining banks. The main task of the ECB and the national supervisors, working closely together within an integrated system, is to check that banks comply with the EU banking rules and to tackle problems early on (European Commission, 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 the European Monetary Union (EMU) and avoiding future crises. The European Banking Union must continue to help strengthen the capitalization of banks. Structural reforms of EU banks will be applied 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 the economy. 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 single market (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 Commission, 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 the area of EU banks are particularly important. As the banks are the underlying mechanism of external financing of companies in the EU, the banking system has been qualified as a bank-centric (Sedlarevic, 2013a).

The results of stress tests conducted by the European Office for the Supervision of Banks (EBA) show that the financial market in the euro 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 have enough capital to withstand a scenario of difficult economic conditions. The Agency 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 the euro zone and the European 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 foreseen 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, the European Union and its Member States are actively working on a fundamental reform of regulations in the banking sector and banking supervision. The EU has introduced reforms in order to limit the consequences of possible bank failures and create a safer, healthier, more transparent and more responsible financial system that works for the benefit of the economy 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 the European 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 finansijkom 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 the EU 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 the ECB 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).

The attitude of the ECB inevitably confirms it: „The point here is that one cannot expect the ECB to deliver the objectives that rightfully belong to other policymakers. We will meet our price stability mandate, as we are 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 the euro area as 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).

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, once again, become viable. In consideration of the pressure from the financial markets it is unlikely that the adjustment 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 the EU has stagnated during the first years of EU membership. Operation of the customs union in each country depends not only on the above 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, the above 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 the aging 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 the EU member states should move in approximately the same direction in terms of tax policies. In this context, the EU has only a supporting role in the sense that the aim 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 the EU 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 constitute a 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 there are 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 the EU.

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, Bulgaria and Albania is 20 percent. Apart from Slovenia, a lower overall rate of VAT among European countries, is in Cyprus -17 percent, France and 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 the EU Commission, the program Fiscalis 2020, with which the Commission helps Member States with their tax systems, by creating a forum for the exchange of best practices in the field of taxation of capital income, VAT, etc..(European Commission, 2015b).

Financial perspective for the period 2014-2020 of the EU relates to the structure of the budget for the period until 2020. This budget perspective absolutely follows the Europe 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 the earlier formulation of an open market economy is repressed. Financial perspective 2020 includes continual character in relation to the previous perspective 2007-2013 and there are no significant changes (Prokopijevic, 2012b).

Table 1: Financial Perspective of the EU 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 Commission, 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. The existence 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 the ability 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 because any abuse calls into question the purpose of existence of the EU and further undermines confidence in the EU 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).

Concluding remarks: Future of the EU

Despite data from 2013 about the percentage of non confidence in the survival of the EU (72%, Spain 59% Germany, 55% France, 53% Italy) and since it is in the eyes of the Europeans EU qualified as a bastion of state intervention and the demands imposed by regulations, determines interest narrows freedom, dictates taxes, economists point out that the European 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 the advantage of all the collective strength that holds should be used, or not. Three possible scenarios for the EU are weakening, collapse and 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 involve a large transfer of sovereignty to a central authority, with loss of autonomy, which is less popular in European public. Out of three scenarios for Europe and its international role in 2030, the collapse of the EU 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 the EU and the euro would be the "first victim", which would result in the endangerment of the single market and freedom of movement in Europe. Slow weakening of the EU 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 the euro-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 Europe and 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 the economic and financial functioning of the EU, a design error and inconsistency integration range, nihilism in the sphere of relations between monetary and fiscal finances clearly indicates that the EU exists on the existential 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 the economic cycles.

Recalls that the persistent and even worsening lack of economic convergence continues to be a structural problem for a single monetary policy in the euro area; emphasises that the impact of monetary policy differs considerably between member states in the euro area; considers that this asymmetric impact of monetary policy is likely to become even more pronounced if the ECB 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.

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