NEOLIBERAL INSTITUTIONALISM OF THE EUROPEAN CENTRAL BANK: AN ANALYSIS OF BANKING SUPERVISION REGULATION

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Abstract: The contemporary world financial crisis is characterized by complexity in global effects, which has not been recorded in economic history so far. The crisis originated in the financial sphere, but it spread to the entire real sector and the world economy as a whole. The question is often asked: was the crisis orchestrated or the result of tectonic disturbances in the functioning of the modern neoliberal credit-market system. Entering into the analysis of the world crisis, it is indisputable that the imposed neoliberal and monetarist model experienced its complete collapse, which fundamentally shook the pillars of neoliberal capitalism. Neoliberalism "opened up" national economies and made them vulnerable to the penetration of Western capital, and unprecedented exploitation through the virtual clapboard and dollar, as national and world money without a real basis and cover. With worthless paper, everything was bought around the world and broke the "disobedient. Basically, it is about the creation of "peripheral states and economies in the interest of large financial capital.

In the paper, we analyze the scope of financial regulations, primarily banking supervision, with the aim of assessing possible limitations and effects as well as implications for the financial systems of countries on the way to European integration.

Keywords: European Central Bank, banking supervision, financial stability.

JEL Classification: F58

1. INTRODUCTORY CONSIDERATIONS:
The political economy of the European Union

The conceptual rupture of the Franco-German economy, as the axis of the EU, minimal economic growth, record unemployment, a flood of refugees, an unclear course of recovery for the economies of the member countries, a strengthened US dollar and increased control of US banks over all banking transactions around the world (to prevent tax evasion) are "global" reasons why investors avoid Europe and why "international business moves" to the East. The European Union is a textbook example of a universal monarchy dominated by the rule of the euro, the destruction of the national economies of European countries and the growth of a specific class of Eurocracy bears all the global and structural features of integral management without sovereign states, peoples and individuals The crisis of public finances and the crisis of the euro common currency
have been threatening the pillars of economic and financial sovereignty of the EU for years, which slows down, defairms and renders further expansion and accession of new member states meaningless. The financial crisis of the first decade of the 21st century revealed many limitations and shortcomings in the management and management of financial institutions on both sides of the Atlantic. For today’s European Union, we can say that it is a mess - eurocracy - literally the power of the euro - appears as a combination of the monetary and social rule of the bureaucracy and technocracy of the EU. Eurocracy is a new form of political and economic authority and power, whose management techniques derive from the acceptance and spread of US neoliberalism, as the essential imperial model

Since all European bankers are in a banking conflict with each other, the European Central Bank (ECB) takes over the supervision of all the most important banks in Europe. As the “bank of banks” and the mother of European banking, the ECB manages the common currency, controls inflation, issues euro money in circulation, supervises the operations of banks and governments, influences bank balance sheets, determines monetary policy and determines economic growth in the eurozone (regardless of the banking stress in the business banking of Europe and the repositioning of the reputation in the European banking sector). As the world’s second largest economic power, the ECB determines the monetary policy of the thirteen most powerful countries with more than 15% of the world’s gross domestic product.

The euro has enabled Germany to develop unimaginably, which is based on global and unlimited exports. In this way, Germany exports more than half of the national product, with the aim of suffocating weaker EU members. With such a euro, monetary and fiscal policy are mutually distant and opposed: monetary authority is at the level of the EU, while fiscal policy is at the level of the member states, and this is where all the troubles related to the euro end.

The basic idea of the ECB is to allocate money to the central banks of the member states so that they can pass it on to commercial banks that would place loans to the population and the economy under more favorable conditions. But the bureaucracies of Brussels and Frankurt have supported an intricate system of conditions and restrictions, since the program is not a classic money printing system like the FED. Therefore, the ECB provides money for the purchase of government bonds from the balance of payments banks to the central banks of the eurozone members, which means that the total amount of money does not change. Banks only replace government debt bonds with cash, i.e. liquid funds, in order to increase lending capacity. By using complex financial operations using the so-called financial innovations (financial derivatives, for example), huge sums of money are invested in speculations that do not lead to evident changes in the real sector, because by concluding various options and futures, stock exchange commodities are traded, which do not exist in given quantities in the real world, but therefore bring a profit that is much higher than what is realized by investing in the real economy (and the expected changes in commodity prices are solved by insurance) (Ristić, et al., 2019). The insured mass of money is invested no more in the real economy than in the virtual economy, where the highest salaries, profits and dividends are.

The anti-crisis measures in the EU, which have been implemented so far, were reduced, as a rule, to state interventions, with which huge budget funds were allocated to save large financial and manufacturing companies from bankruptcy. In this way, the losses of private companies were financed with the taxpayers’ funds, which led to the global crisis precisely because of their irresponsible speculations that previously brought huge profits, which went to pay huge dividends to capital owners and leading intemperate company managers. Through the redistribution of budget funds, the loss of large private capacities is socialized and the incomes of all citizens, as taxpayers, are privatized. After the EU’s entry into deflation, the ECB immediately loosened its
monetary policy and aggressively launched a program of monetary easing, which included the purchase of government bonds with negative interest rates. The euro fell sharply, yields on government bonds fell to record lows. Thus, the stock markets began to rise strongly, which was supposed to accelerate economic recovery and stop deflationary pressures. But even ECB creations keep lending at a low level. The share of economic and public debt in the social product of peripheral countries in the eurozone is still very high. Fiscal policy is a counter-discipline, to reject the application of short-term instrument measures, as opposed to austerity measures and stimulating reforms (Ristić, Živković, 2019).

In almost all the EU countries that joined it, the increase in the national product per capita was accompanied by enormous costs in the form of growing public debt, which increased faster than the national product. Cyprus, the Czech Republic, Estonia, Hungary, Romania, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia and Croatia are actually the so-called European countries, who live on a credit card (Stiglic, 2012). The external public debt of these countries almost doubled by the very act of joining the EU. Therefore, all economic successes are actually financed by borrowing at the expense of future generations, who don't even ask themselves whether they agree with the “Bećar” borrowing (because they have to pay it back at the expense of the still unrealized income). This, therefore, unequivocally exposes the fact that EU membership is by definition linked to an accelerated increase in the public debt of foreign ballast, which tends to grow with an automatic increase in interest rates. Those same over-indebted countries are now forced to call for help from the famous IMF, which is introducing harsh austerity measures while not being able to access the capital market in order to get favorable loans to refinance their financial obligations, especially investing in future economic growth. In this context, the EU must change in the direction of reaffirming the social market economy. The EU should go further in the direction of federalization, i.e. monetary, fiscal and banking union, and in the direction of transfer union, i.e. redistribution of part of the social product in favor of poor members, if it wants to build a consistent economic system.

Today’s Europe is essentially a Jacobin creation, which gradually deprives nations and regions of their sovereignty. The erroneous EU concept of building a kind of empire on anti-imperial grounds is in contrast to the practice of the traditional imperial state, which is organized as a supranational federal union. Therefore, it is necessary to create a decentralized federation or confederation based on the principle of subsidiarity and significant regional autonomy with local and regional structures due to today’s unrealistic European state. That is why European unity should no longer be seen through the prism of the free market and the flow of capital, but exclusively through the prism of cultural, spiritual and traditional identity. In addition, it is necessary to reverse the process of decentralization of power in the EU, which was initiated under the guise of fighting the economic crisis and recession, in order to transfer powers from the regions and member states to the Brussels administration and the omnipresent European Commission. The Washington Consensus and the triumph of the neoliberal concept overturned the welfare state in order for macroeconomic policy to be shaped in the offices of the IMF and for investment funds to cause economic devastation on an unprecedented scale.

The multi-decade increase in external debt to foreign creditors - a mechanism regulated by the IMF - was profiled by the Washington economic actor, which increases wealth - welfare through loans and the misery of the population. This new investor management system for managing crisis slavery is a new stage in economic globalism, as a new form of transformation of economic systems. America has left the printing of its currency unchecked to a consortium of private bankers from whom it normally borrows the necessary money to function. In essence, the IMF is a very profitable financial institution, which as a joint-stock company works exclusively in the interest of
the majority capital owners and global profiteers. The profit is a “profitable combination” of shareholders based on the rigorous placement of financial resources according to the concept of shock therapy of rigid savings, reduction of salaries and pensions, reduction of the public sector “in length and breadth”, abolition of subsidies, privatization of state enterprises and public resources, reduction of administration, liberalization foreign trade and prices, and exchange rates and interest rates, but with mandatory structural reforms and principles of neoliberal doctrine. This basically insists on macroeconomic stabilization with mandatory neglect of development. The IMF prefers the fight against inflation, not the fight against recession and unemployment.

The terrifying capitalist economy runs on debts owed to private banks. Even now, decisions about easy money are made by a consortium of private bankers through the FED, who caused the financial crisis by financing the financial derivatives market. In getting out of the crisis, the FED has already “invested” 3.1 trillion dollars. The constant pumping of new dollars resulted in only 3 cents of economic growth, while the rest of 97% went to speculative purposes, so the consequences of the financialization of the American economy were brought to an extreme. Easy money comes from the banking sector as debt and returns to the banking sector again, as a means of financial speculation. That is why the banking sector has developed 30 times) than the real economy of American society in which the “poverty index” (as the sum of the unemployment rate and the real inflation rate) reached up to 32.89. In essence, “easy money” creates “fake securities” in the financial derivatives market, which has reached a staggering figure of $710 trillion, which is almost 10 times more than the world’s gross domestic product.

This is how the US government operates on constant borrowing by selling treasury bonds, which leads to economic collapse. Now the FED is using tricks here as well. Namely, a mysterious and fictitious buyer from Belgium appeared for unsold bonds in the amount of hundreds of billions of dollars. The Fed found a buyer and the trade amount was electronically credited to the positive side of the Fed’s balance. And who can now verify the veracity of this unilateral operation, especially in the conditions of an invisible and unpublished financial war. Fundamental American values represent a complex system dominated by personal success, free enterprise, wealth, money, competition, reliance on one’s own strength, success at any cost and liberal-democratic order, as an institutional framework for proclaiming universal values. In this context, the ideology of liberalism is an ideal support for the market economy, which does not incorporate the adjustment of economic policies in global processes (Stiglic, 2015). The emphasis of IMF reforms is always on savings, as an unavoidable format applied as shock therapy. Otherwise, this international financial cartel needs a financially viable nation, such as, for example. Serbia, which for more than 15 years, has been intravenously connected to IMF and World Bank loans without an alternative.

The economic ratio of the market ideology is maintained in a space without borders, which produces an anonymous globalocracy, a creation without territory and without a state, whose economy has been freed from regulatory interventions. Economization introduced administrative management of the social sphere and biopolitical management of life. Deregulation and a minimal state represent the code of an autonomous economy. The root of globalist and mondialist rule springs from the universal conception of neoliberalism and postmodernism, as all-pervading forms of control and domination of modern capitalism that absorb the entire public and private space.

The totalitarian character of this rule stems from the financial power of capital and the permanent increase in profits. That global system of governance has woven a web of de-sovereignization by states and crypto-elite capital, which turn knowledge into a commodity and exchange value on the market. The utilitarian view of the world has collapsed, in this way, education, science, health and culture. Therefore,
the chosen development strategy does not go in the direction of building the consistency of economic systems in the conditions of globalization, because multinational companies rule and suffocate everything in their way, by creating monopolies and exclusive production rights, credit lines, trade flows, developed barriers, tax privileges, infrastructural privileges, and generally stifling market competition. The globalist competition of today’s economic fanaticism is based on the transfer of capital, the relocation of work and the drastic reduction of labor costs. This is now elegantly followed by the legitimate deterritorialization of people, which is structurally promoted by capital through emigration, including almost all restrictions on particular domination.

2. ECONOMIC AND FINANCIAL STABILITY OF THE EUROPEAN UNION

In the Eurozone, the slow growth of economic activity and inflation that is far below the target of 2% represents additional pressure on the ECB to introduce additional alternative measures. So far, the ECB has taken radical steps in the form of lowering the interest rate on deposits to -0.2% and buying assets worth over half a billion euros in secondary markets (mostly in the form of government bonds and bonds of public sector companies), giving an impetus to investment growth, the creation of new jobs and economic recovery. This kind of math on the old continent brought the euro to its lowest value against the dollar. Therefore, investors in the US buy, come and sell government bonds, while Europe buys bonds and sells euros. Along with the reduction of the EU rating, the Swedish model of the welfare economy was resurrected by favoring a policy of general welfare: export orientation of the manufacturing sector, favoring science and education, application of new technologies, ecology, social rights of citizens, and raising the world record of 80% of employed generations from 25 to At the age of 64, having successfully crossed the road from “social to minimal state”. Productivity grew in direct proportion to the reduction in the number of working hours. And the key lesson of the Governor of the Swedish Central Bank for the currency crisis was: the deficit is not a problem if it serves to finance research and employment, which is a clear negation of the validity of neoliberal fiscal policies in the EU.

Countries that offer multinational companies preferential tax treatment in the form of favorable tax solutions or agreements actually give those companies illegal subsidies (Gregory, Stuart, 2015). Tax rulings that set the conditions for taxation of international companies in advance have been given the informal name of “letters of support”. That is why today those decisions are under public scrutiny, since tax benefits have become an established practice in business, which is used by 1,000 companies without “benefit” for the national economy. France Spain and Italy are the only three countries in the Eurozone that are “doing well” in breaking the rigorous budget rules they voted for during the crisis to improve the rules of sustainable public finances. But an expansionary budget is a perfectly “appropriate” way to achieve this. The ECB program was launched in order to ensure the long-term financing of Eurozone banks, but it did not produce the desired results (Stiglic, 2015).

Targeted long-term refinancing operations (in order to improve the financial stability of European banks) did not strengthen the process of lending to an economy with stagnant growth, that is, mired in zero growth. In the European Union, however, there is a possibility that recession and growth recognition reduce the extended effect because they lead people to invest less and thus reduce future production growth, or because during periods of economic efficiency decline, people lose skills or capital becomes obsolete. It is unthinkable today to have a single currency. Euro with so many independent economic policies, because there cannot be a unified policy without a sufficiently strong mechanism for the needs of the combination, which would curb the monetary and financial spillovers that inevitably occur within the community, which is combined by economic policy at the cost of a radical negation.
of national sovereignty without establishing a “national” European sovereignty. And would Germany, in that context, accept that all the economic and monetary dispositions carved in stone of the existing institutional agreements are put on the agenda of standard parliamentary deliberization, for example, regarding the independence of the central bank, allowing monetary financing of the public deficit, abolishing the limit of 3% of budget deficit in relation to GDP, reduction of the gap between public debt and GDP. Is a demonstrative bankruptcy in the EU imminent in the conditions of the functioning of the so-called anti-democratic Europe, “austerity” and the so-called EU “union” with multiple currencies.

However, the Bundesbank opposes quantitative easing and negative interest rates. Germany’s austerity concept is also opposed to the burden of taxes in order to subsidize certain members from the periphery of the eurozone. In such an environment, the only salvation is a full economic, banking and fiscal union, the establishment of which requires a monetary union even though the core countries of the Eurozone resist further risk policies, greater solidarity and rapid integration. The ECB pumps 60 billion euros into the eurozone economy every month, in order to curb inflation and stimulate stronger economic growth. And since the results were missing, Mario Draghi announces that he will further relax the monetary policy and tighten the program, which is (not very scientifically) called quantitative easing.

Neoliberal globalization basically reflects denationalization, which aggressively raises the question of the national state, sovereignty and identity, and in particular, the problem of creating a new transnational statehood, which is subordinated to the interests of transnational companies in achieving “forecasted” profits, which the neoliberal discourse imposes on citizens - consumers of the mass culture economy. The European Union has become increasingly selfish, pushing economic topics into the background. The policy of “easy money” did not stand in front of the specter of depression, which is circulating in Europe. In this context, central banks are conducting a policy of cheap money, keeping the interest rate around zero for almost a full decade.

Thus, big investors, speculators, brokers, financial funds, bankers and oligarchs could choose the freedom to “keep money wherever they want”, which in reality amounts to a “quantitative expropriation” of European money by the USA: most of European money is used for purchases US government bonds. In such transactions, the euro is exchanged for dollars, which, due to the increase in supply, lowers its value. Global oligarchs use it to socialize losses. Unrealized oligarchic socialism, since the money obtained from central banks has its own purpose, now they have the task of “hiding everything” and to see the increase in the enrichment of bankers through complex financial contracts, i.e. derivatives. The global financial markets of these instruments have accumulated almost 650 trillion dollars, which is eight times more than the total world GDP. Thus, a parallel financial universe of derivatives was created in which financial obligations arise from an arbitrarily written value that merged with the real environment in an unreal whole. The European Union was conceived as an alliance based on prosperity and individual freedoms, with the renunciation of heritage traditions, archetypal values and, especially, identity.

Europe without ideological, religious and identity benchmarks cannot respect intercultural dialogue, as it is considered a relic of foreign purposes, unnecessary for global societies. This, however, leads to a crisis of multinationality in Europe, which invests in all national interests and protectionism. This again exposes the fact that in Europe there is only a mechanism for the distribution of benefits (funds, common market), but there are no mechanisms for sharing the burden, nor for sharing risks (Eurobonds, banking union, fiscal union). Today, the European Union is going through an “existential crisis” with the method of “programmed chaos” of the
Brussels framework of glamorous, traumatic, supranational regulation.

Therefore, prof. John Friedman already states that the EU is a “failed project” and that he sees the European Union “becoming irrelevant”. EU institutions in Brussels are increasingly being described as “museums,” which you can “just visit.” Geopolitically, Europe today is an Atlanticist entity. To the question of what the EU has done for its individual members, the answer is in the form of an enumeration: it has ensured a single market, freedom of movement of people and capital, a common security policy, a single currency (euro), a complete system of human rights protection, a common monetary policy. But for many it is no longer enough. Namely, the force of colonization, which the EU implements through its legal standards, is imperceptibly but surely carried out by parliamentary democracy in its desire to control every object of economic, social and political life on its territory. Namely, the EU is becoming more and more centralized and alienated from citizens. The “strategy of leaving the EU” appears on the scene, which refers to Great Britain, Gibraltar, Northern Ireland and Greenland (Đzeletović, Šubara, 2017). European freedom turned into a contradiction of its own existence. Europe is its own prisoner of its own failed integration policy. The crisis has become an everyday thing, which accumulates discontent, which did not force the Euroleaders to concrete reforms.

The EU built the values on which it was constructed, and with an identity crisis, the weakening of the institutions of the Brussels bureaucracy is to be expected, resulting from “creative destruction” and weak structural geopolitical changes. The EU is no longer something people fight for. People are afraid of increasing risks, starting with Brexit (the exit of Great Britain from the EU) and ending with Grexit (the exit of Greece from the EU); and the rescue plan is no longer sustainable, because in 2016 the EU is already incapable of reacting to a new crisis and the cancellation of the Schengen agreement. At the current moment, European banks are refraining from lending, while state authorities are constrained by budget restrictions. And in order to regulate the European financial system, the European Commission has already turned to the Capital Market Union (CMU), which should create a new possibility for a long-term return to growth and job creation, as well as improving access to finance, especially for small and medium-sized enterprises. By using the new approach, banks could sell their loans on capital markets with minimal risk. At the same time, banks were enabled to turn to the European Central Bank, which decided to accept securitized loans as collateral in exchange for new funds, which should stimulate lending to the real economy, and therefore also shadow banking. In addition, measures have been taken to make it easier for investors to buy the debts of companies owned by banks, as well as fiscally encouraging institutional investors to necessarily take over the debts of companies that are not listed on the stock exchanges (which is a riskier investment than traditional government bonds). But the Libor-fixing scandals, the withdrawal of IBS from the bond market and the revolt of Deutsche’s shareholders bankrolled the banking sector (after the collapse of Lemon Brothers), which means that European banking faces a scary future.

Namely, the eight largest European banks have already fired 100,000 employees, paid $63 billion in fines and lost $420 billion in market value. At the very beginning of 2016, European banks were drastically affected by the so-called zero interest rates, which practically meant that banking is going through a metamorphosis that requires a fundamental and radical change in the basic models of existence. That’s why the smallest member of the Federal Reserve, as the former creator of the bailout of the financial industry, is quite right to ask lawmakers to rein in banks and protect bonds in particular, which in turn implies passing laws that would allow the largest banks to be broken up to avoid financial “bailouts.” “by the state. Even the enacted set of Franny-Dodd laws did not go very far: the biggest banks are still too big to fail. And therefore, they represent a serious
risk to a free economy. For these reasons, it is necessary to break up large banks into smaller banks, into smaller connected chains and into less important financial organizations. At the very beginning of 2016, the ECB announced that it would continue with even more aggressive monetary easing in order to promote weak growth and weak inflation, although the OECD doubted the effectiveness of the unconventional monetary policy and the eventual recapitulation of the European banking crisis (due to zero interest rates, the necessary liquidation of worthless assets, countless uncollectible attempts and forced debt write-off).

In 2016, the ECB lowered the basic interest rate, a new part of the package of measures to start the Eurozone economy, and increased the “pumping” of money from 60 to 80 billion euros per month, and in addition to government bonds, corporate securities were also included in the purchase.

At the very start of 2016, global securities markets suffered losses. The turbulent trend has now stopped, but investor risk has increased due to debt saturation in the Chinese economy, as a brake on growth, and the potential devaluation of the yuan may cause a deflationary tsunami in all markets around the world and among all participants in the world currency war. However, the modern world suffers from the problem of “too much supply” and “too little consumption” (Rubibi), as well as the belt-tightening policy of the global Troika (IMF, ECB and European Commission). Even the American patented program of “quantitative easing” and the so-called the monetary facilities of the European Central Bank (of 60 billion euros per month) are not enough to stimulate inflation and start economic growth. Government bonds were considered a “safe house” for financial resources in uncertain business times. However, ten-year bonds with a negative yield are already exposing investors’ fear of the long duration of uncertain times, which classically demonstrate the fragility of the current financial order, in which the world’s stock markets “knock down” banks whose shares are in free fall. That is why the policy of low, almost zero, reference interest rates of the world’s leading central banks is to blame. And this was done in an attempt to break the vicious spiral of deflation to fuel the world economy with cheap creditors. However, this still reduces the possibility of making a profit in banks, which forces them more and more into more and more risky placements. Because of calculated profits, the sale of shares brings the entire financial sector, and even the entire global economy, into a tailspin. As a result, even the grandiose Deutsche Bank recorded losses of 6.8 billion euros in its operations. And the total exposure of all German banks to financial derivatives amounted to an incredible 64 thousand billion US dollars, which is 16 times more than the GDP of Germany and 5 times more than the GDP of the entire Eurozone.

The unusual measures of the ECB stuck the Eurozone in a prolonged period of high inflation, which “generates” minimal economic profit. And, that, because it leads to the failure of the European quantitative easing of negative interest rates, which again follows the credibility of the ECB. Therefore, now a new option in the form of the so-called of helicopter money, which would be distributed directly to households in the eurozone, and that in a special way by the ECB for debt repayment. From the debtor’s point of view, this would mean a reduction in indebtedness, an increase in purchasing power and consumption, and confidence in the future of creditors. Such a turnaround should increase investment in European infrastructure projects, which would provide long-term returns and increased macroeconomic impact on investments. The chances of the return of the global recession all over again are increasing in a complicated manner, given that economic growth (in the period from 2008-2015) is still at an unreliable point.

The structural cyclical slowdown in the world economy is unsustainable, and the crisis in politics is a drastic tightening of financial conditions, primarily in developed countries and advanced economies, due to an unsustainable foreign exchange regime, excessive
public debts, overemphasized fiscal deficits, overemphasized monetary doping, too low interest rates, unattainable inflation targets, weakening of competition and impossible growth of employment. And to avoid a new global recession and a new slowdown in potential GDP growth, a new global recession is imperative. "Abenomics plus", which according to the methodology of the American investment bank Citigroup, reflects (signifies) “loose monetary policy combined with fiscal incentives and structural reforms”. The EU is already looking at Japan, because the Japanese “Abenomy” is the only one in the Western world that has led to a reversal through its arrows: monetary, fiscal and structural. The monetary arrow helped the economy to get out of deflation by “pushing” inflation and inevitable GDP growth. The fiscal arrow enabled, first of all, firm control over the budget, and then elegant use of the budget for fiscal stimulation. The increase in consumption taxes slowed consumption growth, so the structure of the tax levy shifted the burden to wealthy older residents and to tax breaks to help the young in hopes of increasing employment and productivity. (Aikman, et al., 2019)

The “depoliticization” of the economy carried out is contained in the EU, however, as a Eurocratic warehouse for the modern rule of capital, since it is united solely on the foundations of the European Central Bank (which orders states, deprived of sovereignty, to adopt appropriate measures - a political ultimatum). The euro, as a single currency, is the second pillar of absolute capitalism, through which Eurocracy, as a new form of economic power, governs and spreads neoliberalism, as the European imperial model. As a project, whose fundamental value is profit, it enables the EU to exclude the “demos” from the governing structure in order to build an unrealistic myth about the EU, as the future paradise of a super state, which establishes the dominance of the religion of money. It is, in fact, a financial coup d’état in which transnational financial institutions have assumed the right to dictate financial rules without comment. At the heart of the financialization of the old continent, the euro, as an element of capital dynamics, it became a precise method of government in the policy of public debts and ba interest rates in order to establish real debt slavery, which is cunningly managed by the EU and its so-called Fiscal compact, which rests on the sacred dogmas of a balanced budget balance and debt reduction (Živković, Lakić, et al., 2019). That is why, as a unique European currency, it enabled economists “specialists without intelligence” and agents of financial fanaticism from the speculative phase to take over power so that the dynamics of capitalist globalization would enable market monetarism and materialized reductionism, and the implementation of the ideas of one, world state. Banks use exclusively other people’s money and, as a rule, they are naturally criminalized. The global crisis was created in the banking sector, because the banking system functions without regulatory frameworks. The weakening of the common EU currency increases the volume of export orders sent to companies, which can be seen by the Purchasing Managers’ Index (PMI), in the zone of single currency, which indicates an increase in economic activity. But despite the cocktail of low oil and raw material prices, the weakening of the euro and the radical monetary easing (QE) measures implemented by the European Central Bank, the so-called preliminary growth of the gross domestic product indicates that the economic recovery of the euro zone has lost momentum and that inflation is far below the target jne inflation of 2%. (Ampudia, et al., 2018)

3. FINANCIAL REGULATORY FRAMEWORK IN THE EUROPEAN UNION

The debt crisis in the European Union is known to have been caused by the interdependence of banking and state financial stability, and together with the absence of a fiscal union, it took on the existential dimensions of the EU project itself. Under the auspices of financial fragmentation within the financial markets of the Eurozone and from the perspective of the
outbreak of the crisis, the EU member states resorted to national interventions, thus closing the national banking and financial markets, which ultimately resulted in the deepening and stronger structural foundation of the crisis and its economic and financial consequences.

In this context, the banking union is the regulatory and institutional response of the EU after the global financial crisis, the first proposals of which have found a place in institutional polemics since 2012. In addition to the key moment and motive for the establishment of such an institutional regulatory arrangement, the reason is to create a union that is connected to the creation of a single market for financial services and free circulation of money, certainly with the tendency of more complete monetary integration. However, the question was raised, which are still current, and that is whether the frameworks, mechanisms and procedures that have been outlined and now instrumentalized and established are really sufficient, whether the EU banking union, conceptually designed, really represents banking integration, and that will the “centralized-common” and “sovereign-national” relationship still present in the financial architecture of the EU, the use of the principle in the implementation of the Basel III agreement “one measure for all”, then the non-inclusion of all types of banks, the conflict between the emission and supervisory roles of the ECB (European Central Bank), be a structural conflict in achieving the desired financial stability, which is the ultimate goal. Financial stability in the wider context of the functioning of the EU can be interpreted as a factor in the survival of the common currency and the European Union itself, regardless of interwoven contradictions and constitutional conflict. (Hills, et al., 2019)

The first banking directive, which was adopted way back in 1997, established the principle that the home country (country of origin) is responsible for the supervision and control of its bank in another country where it operates. A little more than ten years later, the second banking directive was adopted, which relied on the more liberal conditions of bank operations at the global level, which provided that a bank that has a permit (license) to operate in any EU country can establish a branch or operate abroad. Without the need to obtain any permits issued by local regulatory bodies, central banks. In that period of time, that principle was called the principle of “unique passport”. However, despite this, the possibility was left that the host bank from another country could implement regulatory measures if they relate to issues of “public interest”, which in the essential and formal sense meant that the control was carried out from the “mother” and the state was fully responsible host. Given that such an institutionalized solution was problematic, the financial crisis itself, which occurred on the global level in 2008 in the USA, caused the stability of financial markets to become a priority of the European Union.

In the years during the crisis and immediately after its outbreak and spillover into the EU, regulatory bodies undertook activities to preserve financial stability at the level of improving regulations governing the financial sector of the EU and strengthening the supervision of the financial sector. In the initial years of the crisis, governments provided huge funds to save their banking sectors. Bank creditors, unlike taxpayers, did not have to bear the cost of this bailout. (Ristic, Živković, 2019)

Over time, the crisis took on the appearance of a vicious circle in which member state governments were less and less able to help their banks. The deepening of the problem was represented by the existence of major consequences caused by the banking sector for the member states. The state of general insecurity and certainly the increase in financing costs was precisely the result of reaching out to the funds of bank creditors. Given the bank-centricity of the market, the monetary union and the single market faced a serious problem. (Malish, 2014)

Looking at the position of the biggest banks (“too big to fall”) in Europe and beyond, during the crisis, recent Nobel laureate Jean Tirole pointed out that all banks that benefited from direct state support should be faced
with firm regulation. (Ristić, Živković, 2018) Therefore, the European Central Bank performed the new function of the sole controller of the largest banks in the Eurozone and is responsible for the stability of the banking sector and thus for financial stability in general. However, it represented and still represents the biggest threat to its reputation. (Djukic, 2014)

Each banking sector, generally speaking, has a specific role in the economy of a country. Within the dynamic relationship between instruments, institutions and the market itself, the banking sector performs functions that are of essential importance for the economic activity of the country, which functionally creates a context for economic growth and development. (http/www.nbs.rs/regulative, accessed 20.04.2020) This refers primarily to payment services, savings, insurance, loans, risk protection and the like, where problems in performing these functions have a negative impact on the stability of the financial system and real sector.

This dynamic interaction of institutions, instruments, users of services, markets and information creates a complex context that must be regulated by certain regulations that will have the primary goal of ensuring the stability of the system in the long term. If we think about financial stability in the spirit of this work, we would refer to the claims of Mirjana Jemović, who says in her doctoral dissertation: “In order to preserve and strengthen financial stability, the regulatory framework should be set throughout the life of financial institutions. As such, it includes not only ex-ante components, regulation and supervision, aimed at preventing bank failures; but also ex-post components – the function of last resort, deposit insurance and restructuring policy. Although they are important in different periods of bank operations, it is only through the synergistic effect of all components together that it is possible to achieve preservation and strengthening of financial stability.” (Jemović, 2016, p. 107)

If in general this is the backbone of this work, then we point out that the world financial crisis on a global level showed that countries around the world were unprepared for the impact of the crisis and that they did not have an appropriate legal framework for solving problem banks and their operations. Therefore, the rescue of the banks was submitted by the taxpayers of the countries of the world. The only available option was to choose between the implementation of the bankruptcy procedure, which carries a high risk of causing systemic disturbances, and saving the banks using budgetary or other public funds. (http/www.nbs.rs/regulative, accessed 20.04.2020)

The question of the ethics of such ventures is a question that was asked by economic policymakers, citizens and institutions and related to whether banks that perform important functions in terms of economy and growth and considering that they generate profits in times of market prosperity for themselves and their shareholders, while in conditions of crisis and eventual losses, they turn to financial support from the budget. (http/www.nbs.rs/regulative, accessed 04/20/2022)

As banks are otherwise the basic mechanism of external financing of companies in the EU and that the banking system is qualified as bank-centric, which we have already discussed, during the crisis Sedlarević stated (2014) it was fragile and not resistant to financial shocks.

In support of this, we can refer to the results of endurance tests conducted by the European Banking Supervision Service (EBA), which showed that the financial market of the Eurozone, which was shaken by the debt crisis, should be stabilized.

Ristić K. and Živković A. (2019) indicate that at that time banks from 21 countries were tested, which together represented 65% of the banking sector in Europe. The tests were designed as a financial check and were supposed to determine whether banks have enough capital to withstand a scenario of difficult economic conditions. Two scenarios were used, one that took into account current macroeconomic forecasts and the other that assumed an economic shock. The crisis scenario predicted GDP growth of only 0.5% in the euro zone and...
a 15% drop in the European stock market, as well as a crisis in the real estate market, with those banks that would not have more than 5% of the core capital compared to their other means in “imaginary” economic conditions will not acquire the conditions to pass the test. (Ristić, Živković, 2018) The results of the tests, although not such a strict test, show exactly what resulted in the need for stricter supervision of banks in the Eurozone, which is a high sensitivity to shocks.

Generally speaking and referring to the Oxford Handbook on Banking, translated and published by the Association of Serbian Banks from 2015, we find a fact that has been permanently confirmed for years, namely that financial systems require developed legal and informational infrastructures in order to function well. Timely availability of quality information is equally important, as it helps to reduce information asymmetries between credit users and creditors. In this sense, empirical results also show that the volume of bank credit is significantly higher in countries where the flow of information is greater. (Demirgus-Kunt, 2015)

According to Demirgus-Kunt (2015), since there have been banks, there have been states that regulate them. Although most economists believe that the role of the state in the regulation and supervision of financial systems is important, the degree of such involvement is an issue that is actively debated. Jemović M. (2016, p. 107-108) claims that the regulatory role of the state contributes to the smooth functioning and development of the overall financial market, and in this sense, banks are subject to special regulation that “preserves” solvency, limits risky behavior, protects clients and enables control of money flows and in that sense fair distribution of financial resources.

Demirgus-Kunt (2015) argues that supervisors are expected to ensure the stability of the financial system and to guide banks in their business decisions through regulation and supervision. However, given the generally limited knowledge and expertise of officials for making business decisions and the tendency to succumb to political and regulatory traps, this approach may not be effective. We can look for the reasons for the weak regulation of banks in the time before the crisis in these attitudes. However, the crisis showed the weaknesses of the functioning of the unsupervised EU banking market, whereby the European Central Bank in the years that followed took the next steps in establishing the so-called Banking unions and which can be systematized as follows: New rules were adopted on capital requirements for banks as well as for the recovery and resolution of bank problems. Stronger prudential requirements for banks, improved protection of depositors and management rules for troubled banks have been provided.

A single rulebook was created for all financial participants in the member states of the European Union. Thus, the crises pointed to the lack of a regulatory framework for the rehabilitation of banks at integration levels. That is why the regulatory reform in this area, especially in the Eurozone, had a double goal: to heal the consequences of the crisis and to create a sustainable political framework in the banking of the European Union or the Banking Union in the long term. (Petrović, P., Ristić, K., 2018)

According to Petrović P. and Ristić K. (2018), the legal basis for the formation of the Banking Union is based on Article 127 paragraph 6 of the Treaty on the Functioning of the European Union, according to which the Council of the EU can, and in this connection in accordance with a special legislative procedure, after consultation with the European Parliament and the European Central Bank, entrusted special tasks to the European Central Bank related to the adoption and implementation of policies related to the prudent control of credit institutions. (Leaven, Valencia, 2018)

The Regulation on uniform rules and a uniform procedure for the recovery and rehabilitation of banks specified the provisions of the Directive in application to the member states of the Unified Supervisory Mechanism, forming the Unified Rehabilitation Mechanism, whereby the member states of the Eurozone, but also other member states of the Banking Union, accepted uniform rules and procedures for the...
rehabilitation of banks as a centralized remediation mechanism managed by the formed Single Remediation Committee. The board consists of elected members and representatives of national rehabilitation regulators, and is financed from the centralized fund for rehabilitation. Such a conception determined the existence of a unique mechanism of supervision and rehabilitation where key roles are entrusted to the institutions of the Eurozone and the European Central Bank. (Petrović, Ristić, 2018)

The economic note of the evident need to strengthen the infrastructural capacity of the banking union leads to the conclusion that a deeper focus on banking is necessary in the European Union. This would further mean that it enables the further strengthening of European economic and financial integration regardless of further reviews of fiscal and political integration. There is a question that we will talk about in the next chapter, and that is the scope of such regulation, because if it is not “finely” adjusted and well balanced, it could mean the beginning of new problems of the financial functioning of the European Union and questioning its further survival. (Ristić, Živković, 2019, Živković, et al., 2019)

Controversy about bank supervision also refers to debates about systemic risk, which to date is mainly reduced to the consideration of sudden exogenous disturbances, whereby systemic disturbances can have their source in both the domestic and international environment. The concept of stability of the financial system is directly and proportionally related to the concept of systemic risk, and in that sense, systemic risk refers to the probability of the occurrence of certain negative events at the level of the entire financial system. (Drvedžija, 2015) It is of crucial importance to point out the aforementioned because it makes a clear demarcation in relation to the multitude of (micro) risks that can affect a certain financial institution. Systemic risk also “lies” in the fact that the repetitive and procyclical behavior of financial institutions can lead to visible changes in credit activity and indebtedness of economic agents over time, and that they are beyond the control of individual institutions and regulators. According to Drvedžija (2015), the crisis, as well as the preceding period, is an excellent illustration of excessive cyclical fluctuations in the financial market.

The existing institutionalized mechanisms in the conditions of the global financial crisis, but certainly in the time period after, proved to be insufficient and inappropriate for solving the problems of banks that faced serious difficulties in their operations. Given that they did not provide opportunities for sufficiently quick and efficient intervention, nor did they optimally provide conditions for maintaining critical functions in the banks’ operations, the concrete key is that there was no framework, draft or plan to preserve the financial stability of the system as a whole. (http/www.nbs.rs, accessed on April 20, 2022)

Because of all this, the awareness of the necessity of having clearly defined rules and mechanisms to act in crisis situations has matured at the international level as well. At the level of the European Union, in May 2014, this finally resulted in the adoption of the Directive on establishing a framework for recovery and restructuring of credit institutions and investment firms (Directive 2014/59/EU on establishing a framework for recovery and resolution of credit institutions and investment firms). This Directive began to be applied in all member states of the European Union on January 1, 2015. (http/www.nbs.rs, accessed on April 20, 2022)

However, a special problem was posed by banks and banking groups in difficulties that operated in several member states of the Eurozone, due to the fragmentation of regulations in national frameworks, which required coordinated action by several member states. Undeniably, the prolonged financial crisis has slowed down the monetary integration of the European Union. “It directly and deeply affected the financial market of the EU, and its combined effect with the public debt crisis affected the banking system of the Eurozone, as the central mechanism for the implementation of a unified monetary policy”. (Petrović, Ristić, 2018)
The main characteristics of the conception and institutionalization of the Banking Union in the EU are to raise regulations related to the supervision of bank operations at the level of the Eurozone, namely:

1. supervision, prudential control,
2. rehabilitation and its financing,
3. bank deposit insurance.
4. breaking the connection - the “vicious circle” - between banks and the national public debt,
5. basis of a single mechanism for the liquidation of banks.

In the constitutional sense and in accordance with the stated goals of the Banking Union, we will only mention the key places in the architecture of the union, namely the formation of the Single Sanitation Fund for the member states of the Banking Union. Then the establishment of the European Deposit Insurance Scheme (Eurepan Deposit Scheme - EDIS), which will be valid for the member states of the Banking Union, and is mandatory for the euro zone states. The Bank Recovery and Resolution Directive (BRRD), which is valid throughout the territory of the European Union, the Single Resolution Regulation (SRR), which includes a single bank resolution fund (Single Resolution Fund - SRF) and represents the concretization of the aforementioned directive for the Eurozone and other member states of the Single Supervisory Mechanism. (EuroCommission, 2013; 2014; 2015; Petrović, P., Ristić, K. 2018) We base the reason for not further elaborating the mentioned mechanisms on the fact that they were the subject of earlier research by the academic public, and our goal is primarily to discuss the topic of evaluation and assessment of the effectiveness of the framework Banking Union from the aspect of its functionality, capacity and scope, which follows in the following text.

4. ASSESSMENT OF THE SCOPE OF THE FRAMEWORK FOR BANKING SUPERVISION

The complex system of monetary and fiscal policy coordination, as well as the institutional deficit of integration, influenced the slowness of the adaptation of the banking system to the circumstances of the crisis. The regulations at the national level were not adequate to the developments in the banking and financial markets, which deepened the crisis even more, with the effect of “bank raids” usually manifested in financial crises not being recorded. It was the reaction of the states to the first signs of the crisis by strengthening the “safety net” of depositors, i.e. by raising the deposit insurance limit, that led to the effect of not igniting the crisis in the sense of withdrawing deposits from banks.

Bejatović (2008, pp. 891-902) indicates that state intervention through recapitalization and bank rescue had all the characteristics of negative selection. Faced with non-performing loans and their write-offs, as well as regulatory requirements for the amount of capital, banks resorted to a more rigorous approach to the credit requirements of healthy clients. Due to the aforementioned circumstances, international practice is moving towards the adoption of regulatory standards for different segments of the world financial market. Regulatory standards mean that rules formulated within international organizations are accepted and applied as part of internal law based on the decisions of competent national regulatory authorities. (Schoenaker, 2018)

The problems that arise even at the time of the establishment of the banking union, and even today, are the euro currency itself, which a certain number of countries have the option of not accepting. The logical unit of the Banking Union is the Eurozone, due to the single currency, centralized monetary policy and integrated banking system. That is why it is only possible to constitute supervision over banks in the area of business supervision, rehabilitation and a unified deposit insurance system. However, a problem can arise when, at the request of the regulatory authorities, in the event that they make provisions for real and potential losses from their income, and to that extent reduce their capital base and do not have adequate capital to cover losses, banks become
insolvent and cannot maintain the stability of their operations in the long term. (Petrović, Ristić, 2018, pp. 234-249)

The Economic and Monetary Union needs a Banking Union in order to ensure the effective transmission of a unified monetary policy, better risk diversification across member states and adequate financing of the economy. Therefore, the completion and further strengthening of the Banking Union will strengthen financial stability by restoring confidence in the banking sector through a combination of measures aimed at sharing and reducing risk. (Shubara, Dželetović, 2017)

Quaitatively, the regulatory framework can be assessed as having been established to ensure different national solutions, not to create lines of discord within the banking union, that is, not to disrupt the functioning of the single market. The framework also provides for prohibitions on trading in financial instruments and goods for one’s own account, i.e. trading for one’s own account exclusively with the aim of generating profit for the bank and established rules on economic, legal, management and operational connections between separate trading entities and the rest of the banking groups. (Ristić, Živković, 2019)

In deciding on the scope of the Banking Union, the prevailing view was that it must include the member states of the Eurozone due to the mentioned advantages, but that it should also be open to other member states of the European Union, which declare their consent for membership in it, as well as other states after the end of the accession process. Bank supervision, even the most comprehensive, cannot prevent the bank from finding itself in difficulties at some point in time. Risk-taking and profit motivation, the two basic levers of banking investment, despite modern technical means, professional procedures and modern forecasting and assessment models, cannot always match the market flows in which the bank finds itself. (Shubara, Dželetović, 2017)

Bankarska unija se od samog početka suočava sa sumnjama, strahovima i problemima. The biggest obstacle in the past and at the present moment is the insufficient cooperation of national regulatory bodies, especially when it comes to politically sensitive institutions. Although the ECB has significant control capabilities, it still faces limitations in practice. Given that the ECB as a unique supervisor warns of the necessary restructuring of individual banks, the states will not and will not be able to ignore it, because in this way they lose the discretionary rights they had until now. (Mališ, 2014) According to Mališ (2014), in order to give it up, mutual funds must be more than tempting. The fear that is spreading is that the problems of the banking sector are significantly greater than the ability of mutual funds to solve the problems, and that it will not be easy to convince national leaderships to easily agree to such a transfer of sovereignty. And when that happens, it is inevitable that there will be a conflict between the ECB, which will have to prove its authority in its new role, and the national regulators. (Malish, 2014)

5. CONCLUDING CONSIDERATIONS

It is already obvious that there are a number of problems in the conceptual and systemic functioning of the Banking Union. Such a complex decision-making system indicates a potential slowness in decision-making. Then the evidently inextricable link between national regulators and their banks and that small banks do not fall directly proportionally indicates the existence of a conflict of interest between the monetary role of the ECB and the supervisory role. In this sense, in the event that the ECB does not have sufficient capacities, primarily institutional and financial, it can opt for selective reporting on the real state of banks that would be subject to restructuring.

Events of the world financial crisis from 2007-2009. showed the weaknesses of deposit insurance as a stability instrument, in addition to the supervision of banks, and in this sense there is a fear that even a well-designed deposit insurance will not always prevent the occurrence of a crisis and that it is an important issue to look at the functioning of the deposit insurance scheme at a time when there is
no crisis. Non-financial institutions can be as significant as commercial banks and sources of systemic risk and can seek access to parts of the safety net even in normal times. Deposit insurance in its conceptual sense can cause both moral hazard and bad agency behavior of the regulator. In this sense, if insurance agencies do not value and administer deposit insurance correctly, it can have the effect of encouraging the behavior of banks to take greater risks and choose riskier portfolios than they would otherwise do in the absence of insurance.

Since, in addition to all of the above, the decision on the formation of the Banking Union is an essential and certainly long-term decision, and that in this sense it also represents the backbone of strengthening monetary integration, we ask the question whether giving such great powers, which were given to the ECB, is the right way to build it continues to establish and strengthen the already shaken consistency and sustainability of EU integration, especially when the question of the legitimacy of the joint bodies of the Union, its leadership, the capacity of institutions and the crisis of the common currency is raised.

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