



**D.A. TSENOV ACADEMY OF ECONOMICS- SVISHTOV**  
**DEPARTMENT OF INTERNATIONAL ECONOMIC RELATIONS**

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**EVOLUTION AND DEVELOPMENT OPPORTUNITIES**  
**OF THE EUROPEAN UNION FINANCIAL**  
**INSTITUTIONS**

**ABSTRACT**

of a dissertation for awarding the educational and scientific degree

"Doctor" in the doctoral programme

"World Economy and International Economic Relations"

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The dissertation was discussed and proposed for defence, pursuant to the Law on the Development of Academic Staff in the Republic of Bulgaria, by the Department of International Economic Relations at the D. A. Tsenov Academy of Economics - Svishtov.

The author is a PhD student in a part-time form of study at the Department of International Economic Relations at the D. A. Tsenov Academy of Economics - Svishtov.

The dissertation is in the volume of 218 standard pages. Structurally, it consists of an introduction, an exposition in three chapters, a conclusion, and a list of references - a total of 205 sources. In support of the text, 14 tables and 24 figures are included. There is one appendix in a volume of 7 pages.

The defence of the dissertation will take place on 17.09.2021 at 10:00 am in the Rectorate Conference Hall at the D. A. Tsenov Academy of Economics - Svishtov.

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# **I. GENERAL CHARACTERISTICS OF THE DISSERTATION**

## **1. Research relevance**

The early 1990s research on the economic development and the European integration provides for evidence in support of both a positive and a catastrophic perspective as regards the introduction of a single currency within the European Monetary Union as an emanation of the European integration (Radkov & Zahariev, 2016). Thirty years later, the euro area is a stable structure that has not only withstood the negative directions of the economic cycle, but has also provided key support to Member States in overcoming problems in servicing their sovereign debts (e.g., the group of Southern Europe countries - Portugal, Italy, Greece, etc.). In the opinion of some authors, part of the challenges the European Union and the euro area face are determined by the contradictions and conflicts between the economy, the state and the civil society in the conditions of deepening integration (Gorcheva, 2005). In this line of thought, we can wonder whether the reason is not in the attempt to unite such very different nations, absorbing part of their national sovereignty. On the other hand, some authors find that the problem lies in just the opposite. There is a very "soft" approach of the centripetal forces in the Union and a reluctance to impose a more categorical and overt supranational power, which can happen, for example, through the transformation from the current EU confederation structure into a federal one (Drounau, 2021). This creates a situation in which for some problems there seems to be a lack of sufficient centralization, and in other cases it is felt that there is still a strong central political will, but it is not so obvious. By acting through indirect "channels", this central government not only creates conflict situations, but according to some authors exacerbates some problems in certain Member States, which the Union should try to solve by helping, not by "disciplining" and edification (Braun, B., & Hoffmann-Axthelm, L., 2017).

Perhaps the economic and the political dimension of the Union, where the processes of integration and centralization are most advanced, is the financial and monetary system, consisting of the European financial institutions and, above all, the European Central Bank. It is in this system, however, that the problems described above are most evident. A number of authors speak of a lack of coordination between key EU economic policies (Beetsma, R. & Bovenberg, L., 2001), (Catenaro, 1999). As the challenges, the financial and economic crises and the problems facing the Union are

getting more and more complex and serious, it is namely this system that is extremely important to study, which justifies the relevance of the dissertation.

## **2. Object and subject of the study**

*The object of the study* is the financial institutions of the European Union and the Monetary Union of the EU. As far as their activities are an integral part of the general policy and functioning of the Union, other institutions with which they are related are also partially considered. The functioning of global financial institutions is also reviewed to provide a basis for comparative analysis.

*The subject of the study* is the evolution of the financial institutions in the European Union and the monetary integration in terms of regulatory framework, policies, actions, as well as new perspectives and opportunities for future development.

## **3. Research thesis**

*The main research thesis of the dissertation is:* in the performance of their functions, the EU financial institutions, with the leading role of the ECB, achieve indisputable success, but also face a number of problems and obstructions caused by their historical development and their current functional and managerial structure.

## **4. Aim and tasks of the dissertation**

*The research aim of the dissertation is by exploration of the evolutionary and functional and organizational aspects of the financial institutions of the European Union with the leading role of the ECB to reveal the possible sources and reasons for probable suboptimal outcomes of their activities. It can be decomposed in the following directions:*

*1) to outline recommendations for the future development and improvement of the financial institutions of the European Union;*

*2) to propose approaches to improve the operational and strategic functioning of the Union with an emphasis on creating a sound financial and economic basis, that provides for the prevention of economic disruptions, maintaining price stability and protecting the euro against exchange rate fluctuations and fulfilling its functions of world reserve currency.*

To achieve this goal, several **research tasks** are set in the following areas:

First. To conceptualize the origin, nature and development of the international financial institutions, the principles of their functioning and their role for the development of the international economic relations.

Second. To explore the effective international financial institutions, their main characteristics and functions as a basis for comparison, analysis and evaluation of the functioning and the efficiency of the European financial institutions.

Third. To study the evolution of the European financial institutions both in functional and systematic and organizational aspect.

Fourth. To assess the European financial institutions as an instrument for the development of the integration processes in the EU.

Fifth. To examine the relationship between the political structure of the EU and the need for financial institutions for the achievement of the operational and strategic objectives of the Union.

Sixth. To analyze and evaluate the model of governing the operative interaction of the ECB, the ESCB and the Eurosystem.

Seventh. To study the reaction of the EU financial institutions to the global COVID-19 pandemic.

Eighth. To do an operational analysis of the dynamics in the balance sheet positions of the ECB. Such an analysis is necessary to illustrate the range of activity of the EU financial institutions and the ECB in particular.

Ninth. To test the coordination between the fiscal and the monetary policy in the EU by presenting arguments that the ECB should follow the principles of transparency and accountability.

## **5. Research methodology**

In methodological aspect, the research is based on the methods of analysis and synthesis, induction and deduction; comparative analysis, graphical presentation of the considered phenomena and processes, statistical and econometric methods for data analysis, etc.

## **6. Limitations of the study**

The enlargement of the euro area and the accession of new countries, incl. Bulgaria do not fall in the research area.

## **II. STRUCTURE AND CONTENTS OF THE DISSERTATION**

*Structurally*, the dissertation consists of an introduction (5 pages), an exposition in three chapters (178 pages), a conclusion (4 pages), and a list of references (16 pages) and an appendix (7 pages).

**The contents of the dissertation is structured as follows:**

### **INTRODUCTION**

#### **CHAPTER ONE**

##### ***THEORETICAL FRAMEWORK OF THE ORIGIN AND THE DEVELOPMENT OF THE INTERNATIONAL FINANCIAL INSTITUTIONS***

##### ***1. Definitive aspects of the concepts of international institution and international organization***

###### ***1.1. The institutional system***

###### ***1.2. Differences between an international institution and an international organization***

###### ***1.3. Intergovernmental and non-governmental international organizations***

###### ***1.4. International financial organizations***

##### ***2. Role of the international financial institutions for the development of the international economic relations***

###### ***2.1. Establishment and development of the International Monetary Fund***

###### ***2.1.1. Establishment and main functions of the International Monetary Fund***

###### ***2.1.2. Management structure of the IMF***

###### ***2.1.3. Financial policy instruments of the IMF***

###### ***2.2. The role of the World Bank Group for the economic development of countries***

###### ***2.3. Regional international financial institutions***

###### ***2.4. The role of the Bank for International Settlements***

##### ***3. European financial institutions of international importance - characteristics and evolution***

###### ***3.1. European Investment Bank (EIB)***

###### ***3.2. European Investment Fund (EIF)***

###### ***3.3. European Bank for Reconstruction and Development***

*Main conclusions from Chapter One*

#### **CHAPTER TWO**

##### ***EUROPEAN FINANCIAL INSTITUTIONS - INSTITUTIONAL EXPRESSION OF EUROPEAN INTEGRATION***

##### ***1. European integration processes and institutional capacity***

###### ***1.1. European integration and institutional capacity until 1993***

###### ***1.2. European integration and institutional capacity since 1993***

###### ***1.3. Economic and monetary union and the euro as a world reserve currency***

##### ***2. Models of interaction between the financial institutions in the EU and other governance structures in the Union***

###### ***3. Interconnection between the ECB, the ESCB and the Eurosystem***

##### ***4. The European Central Bank as the central financial institution of the euro area***

###### ***4.1. ECB decision - making bodies***

###### ***4.2. The monetary policy of the ECB***

###### ***4.2.1. Objectives and channels for the impact of the ECB's monetary policy***

*4.2.2. Monetary policy implementation: tools and methods*

*4.3. ECB external operations*

*Main conclusions from Chapter Two*

## **ГЛАВА ТРЕТА**

### **MODERN CHALLENGES TO THE EUROPEAN FINANCIAL INSTITUTIONS**

*1. The activity of the financial institutions of the European Union in the conditions of COVID-19*

*1.1. Economic and fiscal measures of the European institutions*

*1.2. ECB measures to support member economies*

*2. Operational analysis of the dynamics in the balance sheet positions of the ECB*

*3. Opportunities for improving the activity of the ECB*

*3.1. Analysis of the coordination between the monetary and the fiscal policy in the European Union*

*3.1.1. Methodology for checking the coordination between the fiscal and the monetary policy*

*3.1.2. Findings*

*3.2. Applicability of the principles of transparency and accountability at the ECB*

*Main conclusions from Chapter Three*

## **CONCLUSION**

*Appendix 1. Monthly stock exchange data for the currency pair USD / EUR for the period May 2000 - April 2021 (240 observations)*

*List of sources used*

*List of publications on the topic of the dissertation*

*Declaration of originality*



### **III. SYNTHESIZED PRESENTATION OF THE DISSERTATION**

#### **Introduction**

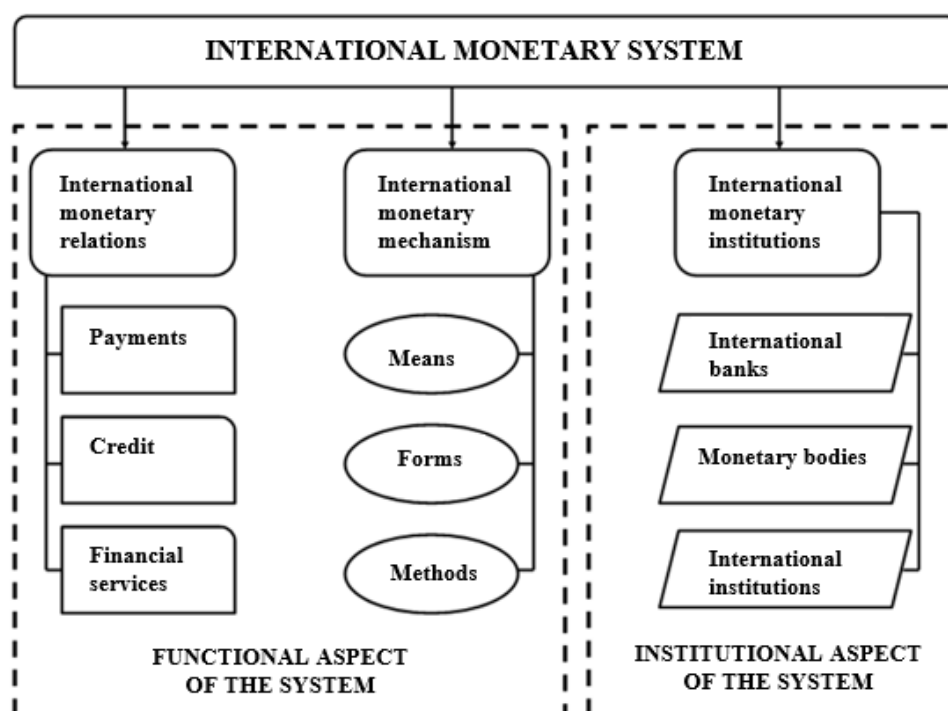
The introduction presents the relevance of the problem developed in the dissertation, the importance of the topic and the grounds for research of the financial institutions of the European Union and the Monetary Union of the EU. It describes the object, the subject, the main research thesis, the aim, the tasks and the set of used research methods, as well as the limitations of the study.

#### **Chapter One**

#### **THEORETICAL FRAMEWORK OF THE ORIGIN AND THE DEVELOPMENT OF THE INTERNATIONAL FINANCIAL INSTITUTIONS**

The focus in Chapter One is on international financial institutions as an important element of the global economic system. *The first paragraph* begins with elucidating the definitive aspects of two of the most important concepts in the paper: "international institution" and "international organization". A review of the literature on the content of the term "institution" shows that it is not always used with the same meaning and is often reconnected with other similar concepts. For example, according to institutional theory, the concept of "institution" is defined as a set of principles that have been formed and proven in a certain way over time, while in the philosophical sense the emphasis is on the fact that as a network of rules institutions have the ability to influence on groups, societies and individuals. On the other hand, the notion of "organization" from an institutional point of view is analyzed as a purposefully bound structure of social significance. It can be found, that the term is used to denote a public or a state establishment of given tasks and powers. Therefore, any establishment that is an instrument of public authority under certain conditions can become an "institution".

The paragraph proceeds with a presentation of the different types of international organizations, classified on the basis of several criteria. Special attention is paid to international financial institutions as a structural part of the international monetary system (see Fig. 1-1).



Source: (Radkov & Zahariev, 2016, p. 427)

**Figure 1-1. Structure of the international monetary system**

International institutions have a key role in the conduct of the monetary and fiscal policy of the member countries in the international financial (currency) system, as well as in setting standards for the regulation of their banking systems. They execute large in volume and detailed in content consulting, information, publishing and mediation work.

The *second paragraph* examines the most important for international economic cooperation and stability international financial institutions. These include the International Monetary Fund (IMF) and the five multilateral banks - the World Bank Group (WBG), the Inter-American Development Bank, the African Development Bank, the Asian Development Bank and the European Bank for Reconstruction and Development<sup>1</sup>.

The preconditions for the establishment of the International Monetary Fund date back to the period before the Second World War. The major economic crisis of the 1930s, which contributed to the chaos of the world's financial markets called for the

<sup>1</sup> There are also other international institutions, e.g. the Bank for International Settlements, the Financial Stability Forum and the Basel Committee of a significant role in the international financial system, but they do not deal with lending.

creation of a system which could facilitate international trade and strengthen the financial system. Thus, in 1944, at a conference in Bretton Woods, New Hampshire, world powers gathered to discuss the post-war monetary system, later known as the Bretton Woods monetary system (Бучев, 2019). It envisaged breaking of restrictions on international trade, providing for currency convertibility, maintaining stable exchange rates (Савов, 1995). The International Monetary Fund was established on July 22, 1944 by 44 countries with the signing of the Bretton Woods Agreements. The governance structure of the international financial institution includes a Board of Governors an Executive Board and a Managing Director.

In general, the IMF provides temporary financial assistance to member countries to resolve balance of payments problems. This is done through the use of a wide range of tools to assist Member States. The assistance it provides to those in need is conditional. This conditionality is expressed in the need for the borrowing country to assume certain obligations for the implementation of objective measures aimed at eliminating real and financial instability in its economy for a given period (Vasileva, 2012). Member States can obtain various forms of IMF financing:

- Reserve tranches to achieve financial stabilization;
- Credit tranches;
- Situational financing.

The IMF develops a number of financial programs to support and stabilize emerging economies. Such programs are:

1) IMF Support for Low-Income Countries - Currently, preferential support can be provided through the Poverty Reduction and Growth Trust (PRGT), through the following concessional lending instruments:

- Extended Credit Facility (ECF);
  - Stand-by Credit Facility (SCF);
  - Rapid Credit Facility (RCF);
- 2) "Stand-by" agreements (SBA);
- 3) Extended Fund Facility (EFF);
- 4) Flexible Credit Line (FCL);
- 5) Precautionary and Liquidity Line (PLL);
- 6) Rapid Financing Instrument (RFI).

***The IMF provides, at the request of member countries, for financial support to tackle balance of payments difficulties. Unlike development banks, the IMF does not finance specific projects.***

Since its inception, the IMF has undergone changes both in terms of the number of members and in terms of decision-making technology and impact tools. Today, it focuses on promoting international financial stability and monetary cooperation, facilitating international trade, promoting employment and sustainable economic growth, and helping to reduce global poverty (see Figure 1-2). The IMF is managed and accountable to its 190 member countries (IMF, 2021).

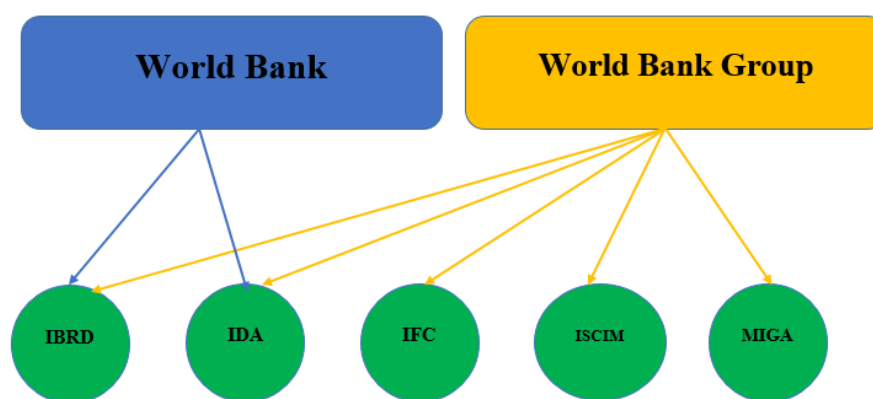


***Figure 1-2. Aims of the IMF***

The other international institution of a global nature, founded together with the IMF following the Bretton Woods Conference, is the World Bank<sup>2</sup>. Its original task was to help countries affected by World War II. The World Bank differs from the World Bank Group in that it comprises only two institutions - the International Bank for Reconstruction and Development and the International Development Association (see Figure 1-3). The World Bank operates on a daily basis under the direction of the President, management and senior officials, as well as Vice Presidents responsible for global practices, areas, regions and decision functions. (Световна банка, 2019).

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<sup>2</sup> The World Bank (International Bank for Reconstruction and Development) was founded on December 27, 1945, with headquarters in Washington, DC and has been headed by an American since its inception.



**Legend:** *IBRD* – The International Bank for Reconstruction and Development; *IDA* – The International Development Association; *IFC* – The International Financial Corporation; *ICSID* - The International Centre for Settlement of Investment Disputes *MIGA* - The Multilateral Investment Guarantee Agency

Source: developed by the author

**Figure 1-3. Graphical presentation of the World Bank and the World Bank Group institutions**

The World Bank and the International Monetary Fund are closely linked. Both were established at the Bretton Woods Conference of the United Nations in 1944 by the same countries. With their foundation, the IMF has been given control over the system of fixed exchange rates linking world currencies to the US dollar, which was pegged to gold, as well as the responsibility for issuing short-term loans to countries with balance of payments difficulties (Schulze, 2017). The IMF and the World Bank have complementary missions. The World Bank Group works with developing countries to reduce poverty and promote development. It provides funding, policy advice and technical assistance to governments, and also focuses on strengthening the private sector in developing countries. On the other hand, the International Monetary Fund serves to stabilize the international monetary system and acts as a monitor of the world's currencies. It monitors the global economy and the economies of the member countries, lends to countries with balance of payments difficulties and provides practical assistance to members. As a rule, countries must first join the IMF in order to be eligible to join the World Bank Group (The World Bank, 2021).

The crisis in the Bretton Woods system proves the inability of the world's leading monetary and financial institutions to meet the growing financial needs of individual regions and continents. In addition, the differences in the pace of economic development of the leading and developing countries (mainly from Latin America) lead to an additional conflict between the interests of larger and smaller shareholders the IMF and the World Bank. This has created the need of new, flexible international credit institutions with a more concentrated (regional) range of action (Захариев & Адамов,

2014). What makes an impression regarding these institutions is that their activities were initially aimed at reducing poverty and promoting economic development. Over time, the range of their activities has expanded.

Among the international financial institutions, the Bank for International Settlements, established in 1930, stands out. In fact, it is the oldest financial organization in the world. BIS played an important role in the functioning of the Bretton Woods system by extending its life through coordinated action. The main mission of the BIS is to support the activities of central banks to achieve financial and monetary stability, to promote international cooperation in these areas and to serve as a bank of the central banks.

*The third paragraph* is devoted to the European financial institutions of international importance. It can be said that they are the result of the ongoing integration processes in Europe. European financial institutions are established at different times, have different governance structures and play different roles in the development of the European Union and the involvement of member states. Among those of international importance are the European Investment Bank, the European Investment Fund and the European Bank for Reconstruction and Development.

The EIB (set up in 1958) has the mission to finance investment projects to further the goals of the EU Member States, in particular regional development, the trans-European transport network, telecommunications and energy, research, improvements and innovation, the improvement and preservation of the environment, health and education. Outside the Union, it adheres to the European cooperation policy set out in a number of treaties and agreements with many countries in Central, Southern and Eastern Europe, the Mediterranean, Africa, Asia, Latin America, the Caribbean and the Pacific.

The EIF was set up (1994) to support the development of small and medium-sized enterprises (SMEs), which are considered to be the backbone of the European economy. Its activities focus mainly on financing these enterprises by developing and offering targeted financial products to intermediaries, such as banks, guarantee and leasing companies, microcredit providers and equity funds. Apart from SMEs, the Bank's clients are also enterprises and institutions from the public and private sector.

The EBRD was established (1991) to help build a new post-Cold War era in Central and Eastern Europe. Over time, it has evolved and today has become a financial institution that uses investment as a market economy tool in 40 countries from Central

Europe to Central Asia and the Southern and Eastern Mediterranean, plus the West Bank and Gaza.

By introducing comprehensive standards of democratic legitimacy, transparency, accountability and integrity, European financial institutions seek to improve policy coherence and coordination of institutions of international importance. The significance of the European financial institutions calls for developing methodology for their research.

From all said in Chapter One we can arrive at the conclusion that international financial institutions emerge and evolve with the development of international economic relations and the international financial system. This evolution is observed both in terms of their structure and instruments, and in the range of issues they deal with. Nowadays, international financial institutions are seen as a solution to emerging problems of various importance and nature - global, regional, national, economic, social and other. Despite the fact that they deal with global economic problems, each has its own unique areas of responsibility and specialization.

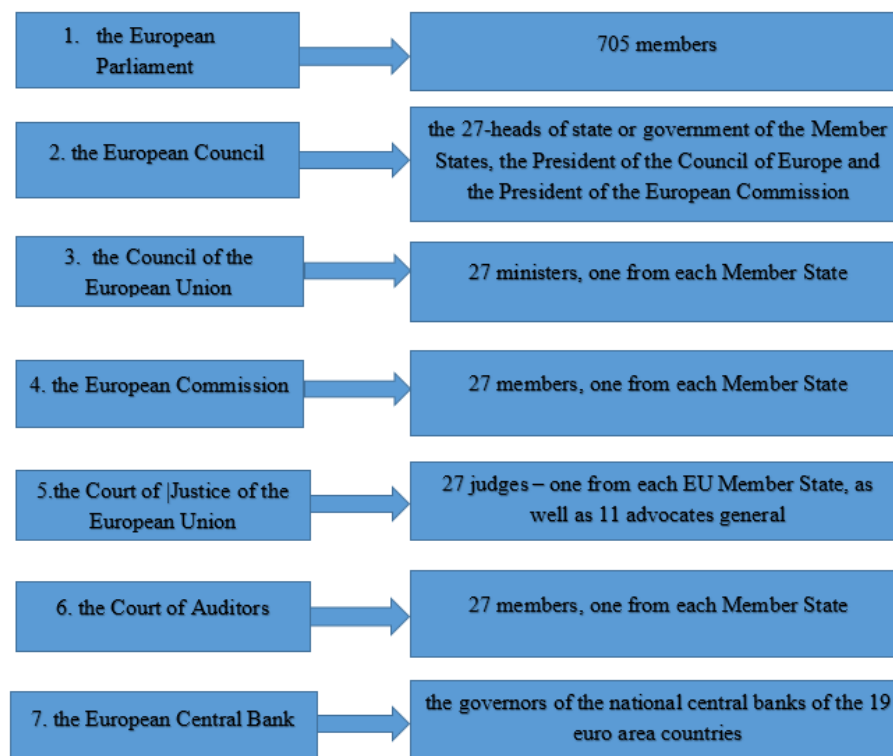
## **Chapter Two**

### **EUROPEAN FINANCIAL INSTITUTIONS - INSTITUTIONAL EXPRESSION OF EUROPEAN INTEGRATION**

The focus in Chapter Two is on the integrational development and the institutional capacity for this process, the positioning of the European financial institutions in the common institutional system and their policies in support of European integration.

European financial institutions are an integral part of the European Union's institutional security. Although separate units, they are linked to the other institutions in a system that ensures the functioning of the Union and the achievement of its political, economic and social objectives. As part of this system, they have specific functions and tasks according to their defined area of competence. On the other hand, the implementation of their delegated functions and tasks is ensured structurally and instrumentally. This allows them to be considered in several aspects: *their place in the system of EU institutions; their system and functional structure and the tools for achieving their goals.*

The first aspect is presented in *paragraph one*, which considers the European integration processes and institutional capacity. History evidences that the road to the EU has been long and full of events. Its foundations, as it can be seen from the previous chapter, are rooted in the period after the Second World War. Since then, European integration has been accompanied by a number of changes, which have been legalized in a number of treaties and materialized in the founded bodies and institutions. These changes are presented in the dissertation within two periods: before 1993 and after 1993. With the signing of the Lisbon Treaty the modern image of the EU institutions is formed, including: the European Parliament, the European Council, the Council of the European Union, the European Commission, the Court of Justice of the European Union, the European Central Bank and the Court of Auditors (see Figure 2-1).



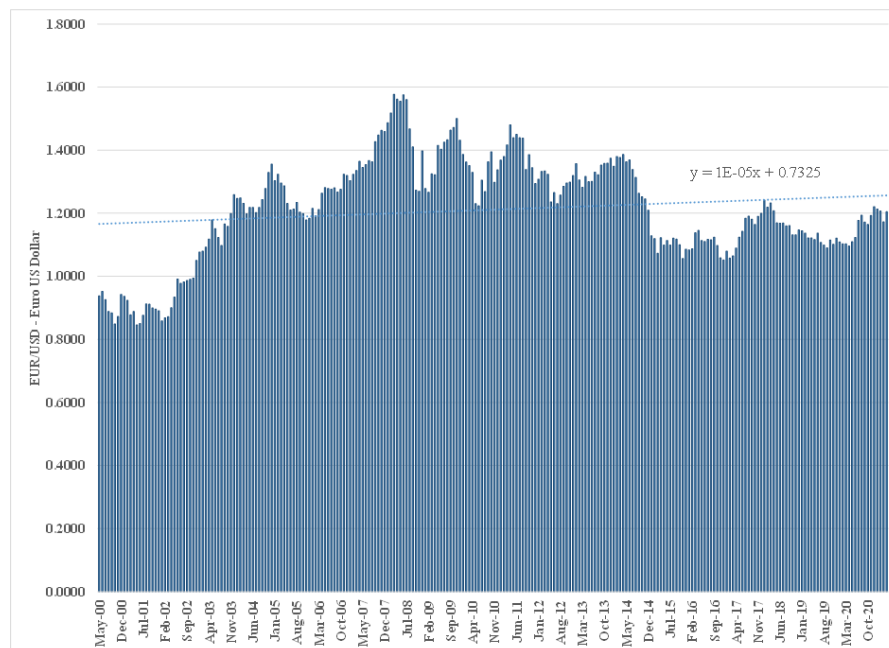
***Figure 2-1. Institutional system of the European Union***

It is concluded that the EU institutions have been evolving with the change in its goals and policies, acting as tools for their implementation. Over time, they increase not only in number but also in expanding the scope of their activities and functions. Until 1993, only the European Investment Bank was established by the European financial institutions. More serious changes have been observed since the Maastricht Treaty (for the European Union), in which period the ECB and the ESCB were set up.



At the same time, the areas of integration between the member states have been expanding.

One area that dates back to the 1960s is monetary integration, which is discussed in the third subparagraph. It traces economic and monetary union and the euro as the world's reserve currency. The establishment of the Economic and Monetary Union (EMU) is one of the achievements of European integration - perhaps even the most important of all until present. The introduction of the euro has strengthened the integration of the economies of the euro area countries. To maximize the benefits of the single currency, the economic integration has been managed in the due way through the development of monetary and economic policies. A historical review of the movement of the USD exchange rate against the EUR proves that the economic power of the Member States, their GDP, population, role in the world trade and especially the benefit from the integration have made the common currency a world payment and reserve instrument of an average monthly value over a 20-year period (May 2000-April 2021) of 1.2113 (see Appendix 1 and Figure 2-2) thus having categorically overcome the initial exchange rate fluctuations. For the period under review, the standard deviation of the exchange rate from the average is 16.14 USD cents with a coefficient of variation of 13.33% and positive alpha in the single regression line of the trend ( $y = 1E-05x + 0.7325$ ).



**Figure 2-2. Monthly values of the currency pair USD/EUR for the period May 2000 – April 2021 (240 observations)**

The conclusion reached is that monetary integration in the EU has reached a level that contributes to strengthening the European monetary system, ensuring stability in the EU and the Eurozone and increasing the use of the euro as a payment and reserve currency internationally. The setting up of the Monetary and Economic Union is accompanied both by relevant regulatory changes, reflected in the many Regulations and other documents at EU level, and by the institutional provision ensured by the ECB and the ESCB. The latter are both interconnected and cooperate with each other, as well as in certain relationships with the other EU institutions.

*The second paragraph* examines the patterns of interaction between the financial institutions in the EU and other governance structures in the Union. At the beginning of the 21st century, the EU and its institutions were part of the most democratic economic and political system in the world (Николов, Димитров, Сивов, & Стоилова, 2005). The Treaty of Lisbon<sup>3</sup> has established an institutional framework of the EU that can function more effectively and smoothly and aims to meet the interests of the EU, its Member States and its citizens.

Each institution shall take action within the limits of the powers conferred on it by the Treaties, in conjunction with the procedures, conditions and objectives set out therein. The institutions cooperate loyally with each other.

The interaction between the European institutions that make up the financial system of the EU can be considered in several intersecting planes and from several points of view:

**1) General political and functional.** Figure 2-3 represents **the main** functional focus of each of the institutions and for which of the EU policies it is responsible. Thus presented structure of the European institutions shows the complexity of the system. It can be complemented by some asymmetries in the functions and the scope of powers of each institution. For example, the European Commission and the Council of the EU are the most important institutions with broad executive and legislative powers. The European Parliament approves, controls (monitors) and votes on acts which, however, are initiated by the Council or the Commission.

The main link with financial institutions is that Parliament discusses and adopts the EU budget together with the Council. The budget, in turn, reflects the EU's financial

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<sup>3</sup> The Treaty of Lisbon was signed on 13.12.2007 and has been effective as of 1.12.2009. With it, the Treaty establishing the European Community was renamed the "Treaty on the Functioning of the European Union" (TFEU) and the term "community" has been replaced by the term "union".

and economic agenda. However, this financial and economic program cannot be implemented without the assistance of the ECB.

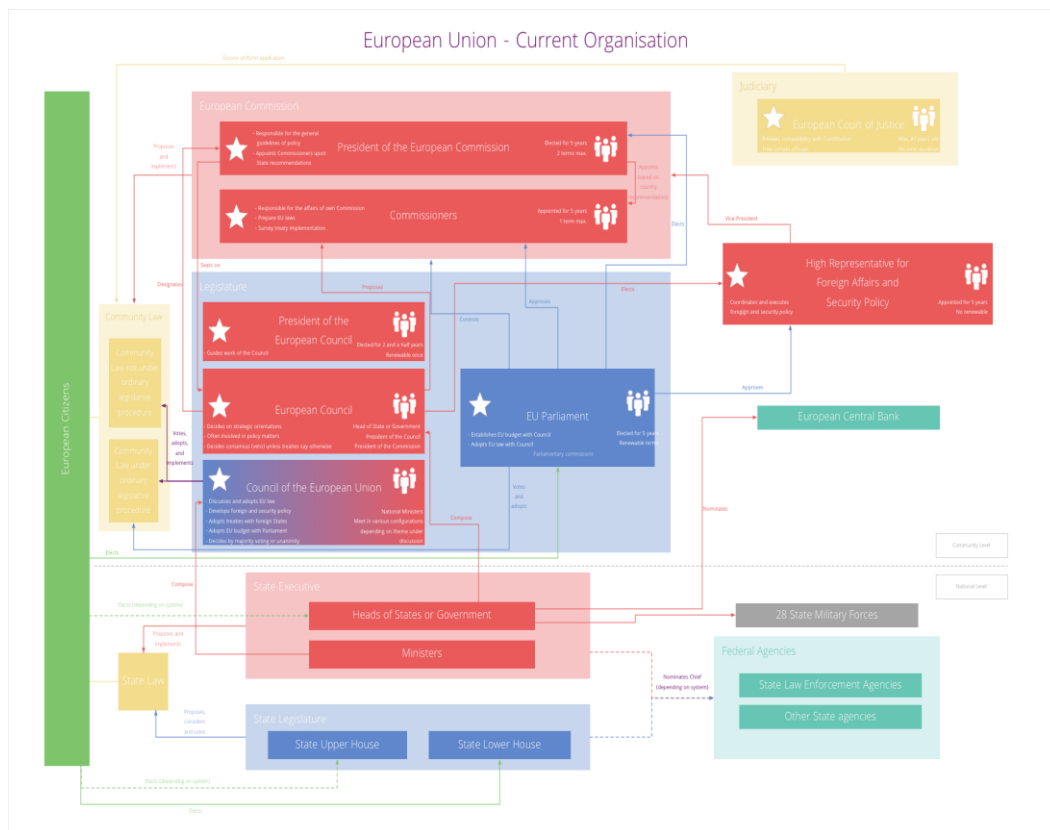


*Adapted from: Giacomo Fassina (HOW TO NAVIGATE EU INSTITUTIONS, 2021)*

**Figure 2-3. Functional and political structure of the EU institutions**

## 2) System and institutional, presented in Figure 2-4.

The presented structure infers that the EU is rather a confederation (Drounau, 2021). A number of authors are of the opinion that it would be better for the EU to transform into a federation, which would mean the transfer of more sovereignty from the national Member States to the institutions of the Union on certain political, economic and military issues. The remaining problems can be solved entirely at the national level. In this way, duplication of functions will be avoided in the first place, and in the second place - the decision-making process will be accelerated, etc. It is believed that there are situations in which the Union must react in a timely manner, which is very difficult in its present structure. This thesis is partly proved by the current situation caused by the COVID-19 crisis and the economic and fiscal measures to overcome it.



Adapted from: (Drounau, 2021)

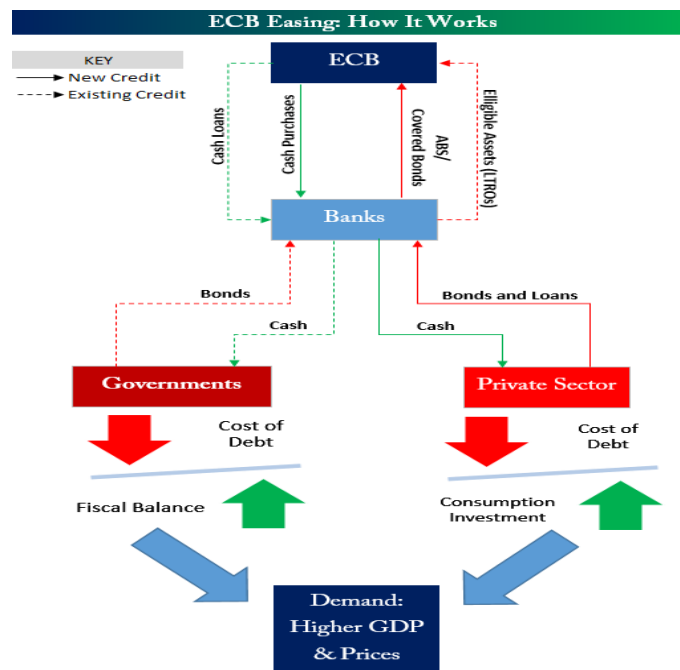
**Figure 2-4. Organizational and institutional structure of the EU**

### 3) Functional interaction

When we talk about functional interaction, we should consider the interaction in the context of certain functions of the system. Since the greatest interest from the perspective of the dissertation are the economic and financial functions of the Union, we can outline several functional lines of interaction, which are again logically connected with the integration processes (see Figure 2-5).

#### - Interaction in relation to monetary functions

Figure 2-5 shows the flow of liquidity that the ECB infuses into the economy through various stimulus programs and policies, both related to the crisis and beyond it. It can be seen that the bank interacts with commercial and central banks through the capital markets, and via these banks - with governments and the private sector.

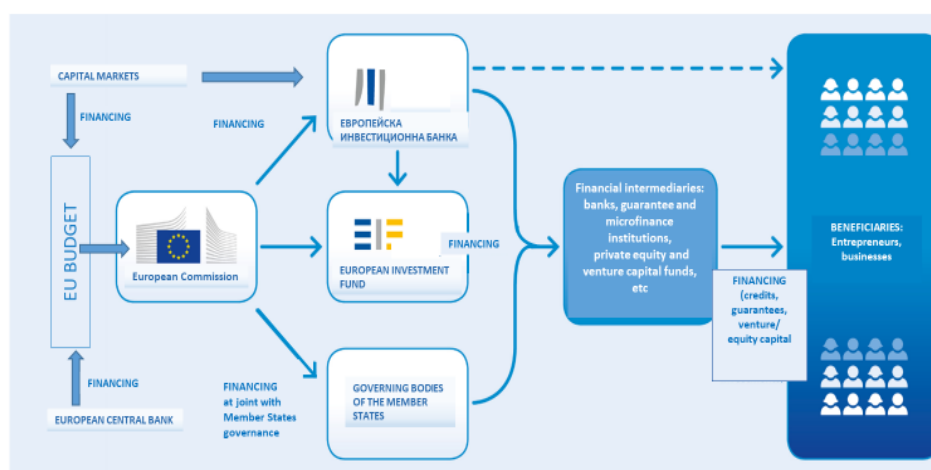


Adapted from: (Ritholz, 2014)

**Figure 2-5. Verbal and graphical model of interaction in relation to the monetary functions of the ECB**

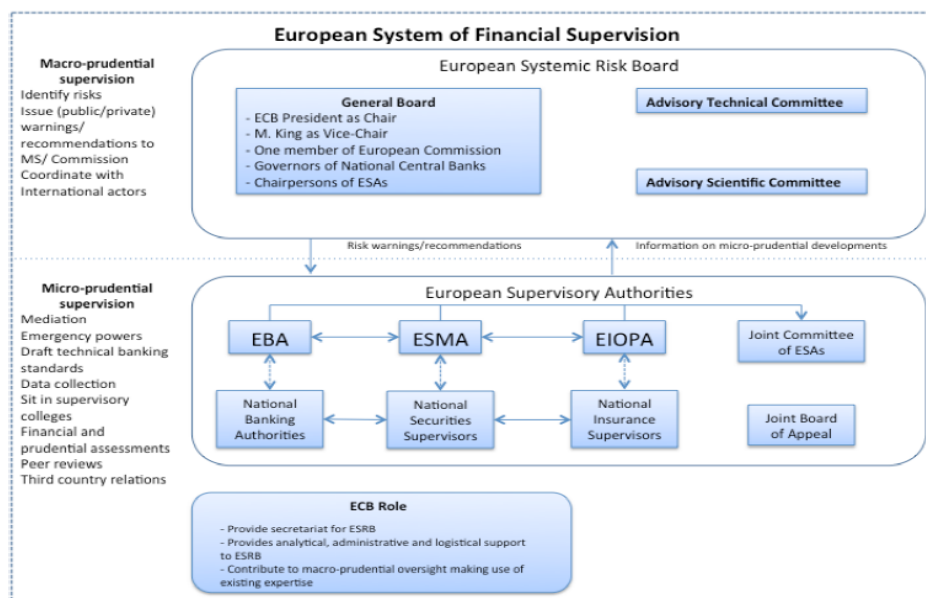
**- Interaction in relation to the economic, anti-crisis and stabilization function**

Although a fiscal union has not been established in the EU yet, the European Commission is allocating significant funds to its economic policy. The European Commission subsidizes various sectors of the economy of the member states of the Union both in times of economic stability and during and after the crisis (Fig. 2-6). In the context of the former, the EU strives for sustainability, stability and prosperity combined with environmentally responsible growth. In the context of the latter, the EU supports overcoming the crisis through measures designed to reach SMEs and the citizens most affected.



**Figure 2-6. Verbal and graphical model of interaction in relation to the economic policies of the EU**

**- Interaction in relation to supervisory functions**



Source: Smith, D. (International financial regulation: a role for the eurozone?, 2012)

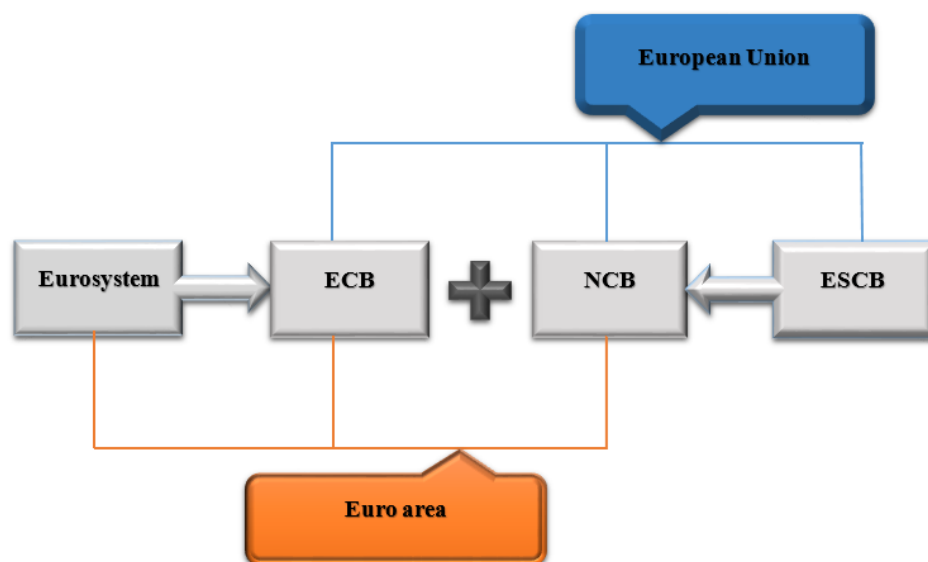
**Figure 2-7. Verbal and graphical model of interaction in relation to the monetary supervisory functions**

In the EU, the financial sector has a strict regulatory and supervisory framework designed to promote financial stability and protect users of financial services. For this purpose, the European System of Financial Supervision has been established, operating on two parallel and interconnected levels - macroprudential and microprudential. At the

micro level, supervisors work closely with national supervisors, with the ECB playing an important role in this system (Figure 2-7).

Based on what is stated in the paragraph and the interactions considered in this way, it is concluded that the economic policy of one member state has external influences on the other member states. To avoid adverse economic development, these external influences must be transformed into internal ones through three main approaches - coordination, harmonization and unification of policies. Otherwise, the three most important instruments of national economic policy would be affected - exchange rate policy, fiscal policy and monetary policy.

*The third paragraph* addresses the relationship between the ECB, the ESCB and the Eurosystem. The beginning of the establishment of the ECB was marked by a number of challenges, with which it must unquestionably confirm its reliability and justify the confidence of the public and the financial markets. As a new institution, it builds a framework for effective synergies with the euro area NCBs forming the Eurosystem and the NCBs from the EU forming the ESCB as a whole. The Eurosystem and the ESCB will coexist as long as there are countries outside the euro area. Figure 2-8 presents a verbal and graphical model of the relationship between the ECB and the NCBs.



**Figure 2-8. Verbal and graphical model of the relationship between ECB and the NCBs**

*The fourth paragraph* presents the European Central Bank as the central financial institution of the euro area. It consists of two sub-paragraphs, the first of which deals

with the monetary policy of the ECB. In order to achieve the main objective of maintaining price stability, the Governing Council of the ECB bases its decisions on a two-pillar monetary policy strategy. It implements them by applying standard and non-standard measures in the field of monetary policy. Among the instruments of the ECB's standard monetary policy are open market operations, liquidity facilities with permanent access and maintenance of minimum reserves. We can say that these are the most important tools for conducting monetary policy. In response to the 2007 financial crisis, the ECB changed its communication strategy by providing guidelines for the future development of the ECB's interest rate policy, depending on the prospects for price stability. In addition to the standard measures, it took a number of non-standard ones in the field of monetary policy, including purchases of assets and government bonds on the secondary market in order to maintain price stability and the efficiency of the monetary policy transmission mechanism. (The monetary policy of the ECB, 2011).

*The second subparagraph* addresses the external operations of the ECB. The external operations of the Eurosystem entitle the ECB and the NCBs to form relationships with central banks, financial institutions in other countries or international organizations; to own and transfer "spot" and "forward" transactions in euros against foreign currency and precious metals; to manage the assets they hold in foreign currency; to conduct banking transactions in their relations with third countries and international organizations, as well as lending and borrowing operations.

The ECB is an institution with a leading position in international economic and financial relations. It is one of the largest banking supervisors in the world as it is at the heart of the European banking supervision. It is the central bank of the world's second largest economy - the euro area - and the issuer of the second most used international currency - the euro. The euro area is highly integrated into the world economy. It is no coincidence that its rise also depends on the international situation. A good relationship between the world economy and the international monetary and financial system is essential for the formation of monetary policy and ensuring financial stability in the euro area, because economic trends and policies in the euro area can affect third countries. The ECB monitors and analyses global economic and financial trends, the international financial architecture and the international role of the euro. It participates in international institutions and forums that discuss economic, financial and monetary issues, e.g. the International Monetary Fund (IMF) and the Organization for Economic



Co-operation and Development (OECD). The ECB maintains relations with central banks outside the EU in order to exchange views and expertise and clarify its policy (Международни въпроси, 2019).

Based on the above, we can summarize that the ECB has emerged as a European financial institution with an ambivalent role in the EU institutional system. On the one hand, it is the centre of the Eurosystem and, on the other, a major financial institution for all Member States, a role that will be maintained until full economic and monetary integration. However, it can be considered one of the most important institutions in the economic history of Europe - a common central bank with a common responsibility for a stable currency in the euro area. As a supranational institution that integrates NCBs into the European Central Banking System, it is an indicator of the transfer of central banking in Europe to a supranational level, acting in the interests of developing financial integration and pursuing a single European monetary policy in the EU as a whole. The ECB is evidence of prevention and support of Member States in crisis situations at the level of national financial systems (Zaharieva et al., 2017), but the development of financial institutions in the EU faces certain challenges such as COVID-19.

### **Chapter Three**

#### **MODERN CHALLENGES TO EUROPEAN FINANCIAL INSTITUTIONS**

Chapter Three presents relevant analyses and assessments, as well as author's empirical research on the development of the financial institutions in the EU and the current challenges facing them, incl. under COVID-19.

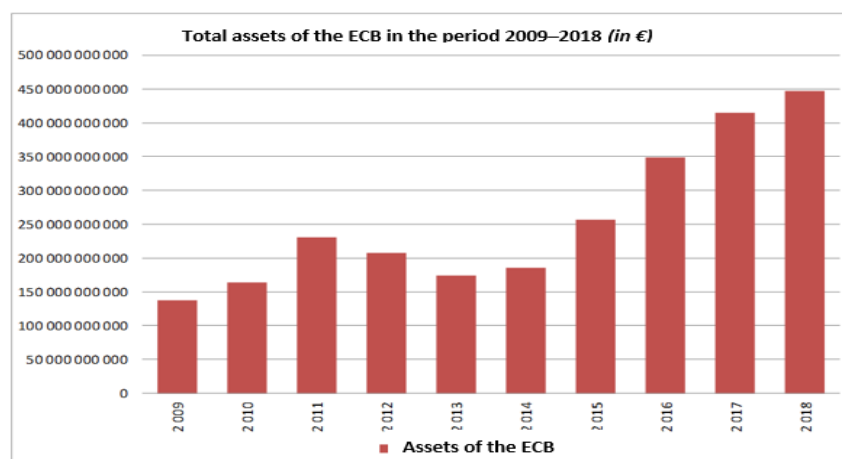
*The first paragraph* examines the work of the European Union's financial institutions in the context of COVID-19, with *the first subparagraph* presenting the economic and fiscal measures of the European institutions. COVID-19 has put everyone in uncertainty and extreme stress. In a short period of time, a health problem has transformed into a global crisis of historical proportions. The rapid development of the crisis also provoked a rapid response from the EU to deal with the emergency situation. In early April 2020, for the first time, an agreement was reached on a common European fiscal package of three safety nets - the instrument for temporary support to mitigate the risks of unemployment in an emergency (SURE), the European Stability Mechanism for Stability (ESM) and the EIB Pan-European Guarantee Fund (EGF) to

provide targeted support for lending to governments through the European Commission. The cost of funding is over 540 billion euros to protect governments, businesses and workers against the effects of the coronavirus.

*The second subparagraph* presents the measures of the ECB to support the economies of the Member States. The European Central Bank groups its measures to address the effects of the Covid pandemic into the following categories with appropriate measures (Our response to the coronavirus pandemic, 2021):

1. Helping the economy to absorb the shock of the current crisis;
2. Keeping borrowing affordable;
3. Supporting access to credit for firms and households;
4. Ensuring short-term concerns do not prevent lending;
5. Increasing bank's lending capacity;
6. Preserving financial stability through international cooperation.

*The second paragraph* presents an operational analysis of the dynamics in the balance sheet positions of the ECB for the period 2009–2018. This part of the paper (Проданова, 2019) analyzes the dynamics in the balance sheet positions of the ECB for the period 2009–2018 focusing on their commitment to the evolution of the policies and the instruments in support of the euro area and the EU Member States. The dynamics of the amount of assets and liabilities managed by the ECB is examined sequentially (see Figure 3-1). Over a period of 10 years, the ECB's assets increased from EUR 138 billion to EUR 447 billion.



Source Developed by the author based on calculations using data from the ECB's annual accounts for the period 2009-2018.

**Figure 3-1. Dynamics of the assets of the ECB in 2009-2018 (in €)**

Having conducted a study of the relationship between the change in the assets of the ECB and the GDP of EU28 on a chain basis for the period 2009–2018 we found that the dynamics of changes in assets was much higher than the dynamics of changes in GDP at current prices (see Table 3-1), resp. 13.06% versus 2.83%.

**Table 3-1**

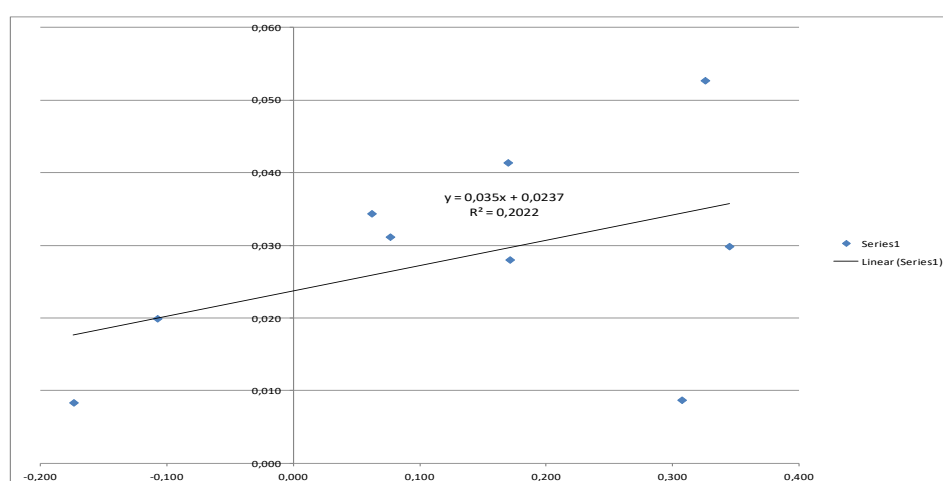
**Rate of change in the assets of the ECB and the GDP of the EU28 on a chain basis for the period 2009-2018**

	2010/2009	2011/2010	2012/2011	2013/2012	2014/2013	2015/2014	2016/2015	2017/2016	2018/2017	Average
<b>LN ECB assets</b>	<b>0,170</b>	<b>0,345</b>	<b>-0,108</b>	<b>-0,174</b>	<b>0,062</b>	<b>0,326</b>	<b>0,307</b>	<b>0,171</b>	<b>0,076</b>	<b>13,06%</b>
<b>LN GDP of EU28</b>	<b>0,041</b>	<b>0,030</b>	<b>0,020</b>	<b>0,008</b>	<b>0,034</b>	<b>0,053</b>	<b>0,009</b>	<b>0,028</b>	<b>0,031</b>	<b>2,83%</b>

*Source Developed by the author based on calculations using data from the ECB's annual accounts for the period 2009-2018*

Figure 3-2 presents the dependence of the dynamics of the assets of the ECB on the dynamics of the GDP of the EU28 at current prices, calculated on chain basis using decimal logarithm for consecutive years). A regression equation of second order of the form  $y = 0.035x + 0.0237$  is derived, and in Figure 3-2 a relatively low value of the coefficient of determination ( $R^2$ ) of 20.22% is reported.

This is due to the cyclical change in the assets of the ECB, which does not correspond to a similar one in the dynamics of GDP.

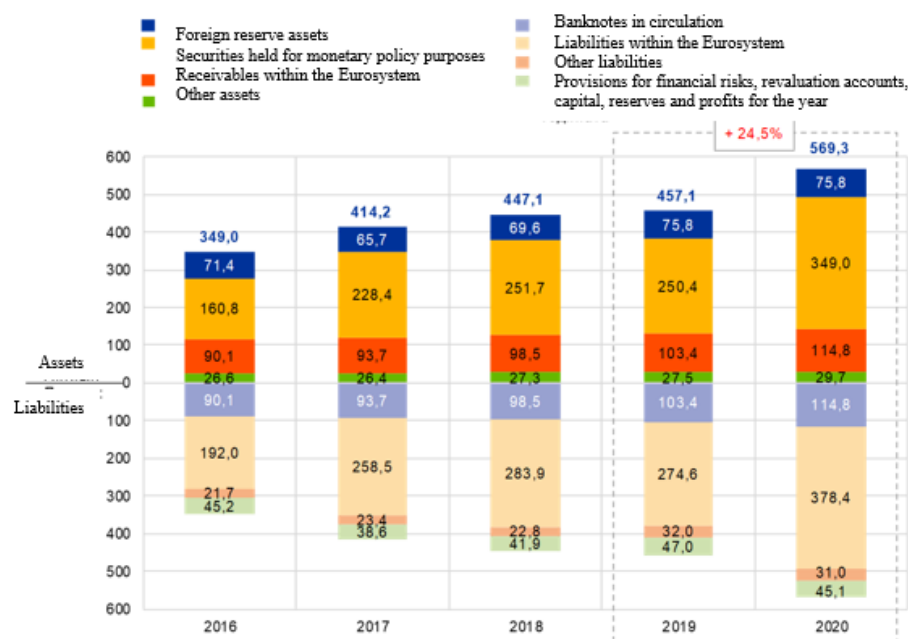


*Source Developed by the author based on calculations using data from the ECB's annual accounts for the period 2009-2018.*

**Figure 3-2. Correlogram of the dependence of the dynamics of the assets of the ECB on the dynamics of the GDP of the EU28 at current prices, calculated on chain basis using decimal logarithm for the period 2009-2018**

The econometric analysis of the balance sheet positions of the ECB for the period 2009-2018, shows that the most significant deviations are the position “Securities held for monetary policy purposes” in the assets and the corresponding position in the liabilities “Other liabilities within the Eurosystem (net)”.

The established levels and the growing dynamics in the balance sheet positions are due to the policy of the Governing Council of the ECB on quantitative facilitation and redemption of government securities of Member States, as well as its active policy to counter the consequences of financial and economic crises and in particular the effects of Covid pandemic. In 2020, because of monetary policy measures against the effects of the coronavirus pandemic (COVID-19), the balance sheet total also changed (see Figure 3-3).



Source: (ECB, 2021)

**Figure 3-3. Main components of the ECB's balance sheet**

Based on the analysis of the statistics on the balance sheet positions, it is concluded that with the progress of integration, as well as the emergence of crisis situations, the operations related to the maintenance of the monetary system increase.

*The third paragraph* sets out opportunities for improving the performance of the ECB, with *the first subparagraph* analysing the coordination between monetary and fiscal policy in the European Union. If we assume that the economic policy of each

country consists primarily of *monetary* and *fiscal policy*, then interesting features of the EU will be revealed. Since it is not a state, but a group of states that have a greater degree of sovereignty than common policies, two main interrelated problems arise. The first one is *the institutional problem*. As the EU countries function to some extent as independent units, and to some extent as part of a whole, the institutions that conduct the Union's economic policy are partly national and partly supranational. A typical example here is the European Central Bank and the central banks of the Member States. The ECB, the main factor in the Union's economic policy, which is in a very special situation. Its institutional status is enshrined in the Maastricht Treaty and in the Statute of the European System of Central Banks and of the European Central Bank (<https://eur-lex.europa.eu/>, 2020). It was established as a politically highly independent central bank, charged with clearly defined and very narrow functions - above all to conduct a monetary policy. Within this narrow mandate, according to the Maastricht Treaty, its priority is to provide for price stability. However, it has to perform functions for which it has no "mandate", and above all, appropriate responsibility, accountability to society and to the EU's political institutions. The strong political independence of the ECB is interpreted by some authors as lack of political accountability and responsibility. Here, a parallel can be drawn between the ECB and other similar central banks, such as the Federal Reserve, which is "independent within the government" (Lokdam, 2019). According to some studies, this discrepancy between the functions performed and the institutional set-up of the ECB, manifested in its accountability to democratic institutions, leads to a second major problem. It is *a lack of coordination* between monetary, fiscal and economic policies. It can be assumed that this may be due in part to the problems of the euro area and the European Economic Area, in particular in dealing with the various crises. The latter is especially relevant in the context of the Covid pandemic in order to overcome its economic consequences. This paragraph tests the coordination between monetary and fiscal policy in Europe, and more specifically in the euro area, assuming that sooner or later monetary union will extend to countries that have not yet adopted the single currency.

We have followed the methodology proposed by Arby and Hanif (Arby, M. & Hanif, M., 2010). They examine the coordination between the monetary and the fiscal policy in Pakistan for the period 1965-2009, citing earlier studies on the same subject concerning Europe (Beetsma, R. & Bovenberg, L., 2001) (Catenaro, 1999). The research methodology includes three interrelated stages:

- 1) Testing the cointegration between indicators representing monetary policy and fiscal policy. The indicators used here are the ratio between the volume of money supply in circulation (base money, M0) to gross domestic product and the volume of the budget deficit to GDP, respectively.
- 2) Testing the two-way interdependence between the above indicators using the Granger causality test.
- 3) Testing the correspondence between monetary and fiscal policy by calculating the shocks in economic growth and inflation by years, on the one hand, and their corresponding impulses of monetary and fiscal policy - on the other.

**Stage 1:** Unit root check in 1\_M0\_to\_GDP

**Null hypothesis for unit root: a = 1**

Empirical value of criterion: -0,739287

Asymptotic **p-value 0,835**

**Stage 2:** Unit root check in 1\_Budget\_deficit\_to\_GDP

**Null hypothesis for unit root: a = 1**

Empirical value of criterion: tau\_c (1) = -1,42904

Asymptotic **p-value 0,5696**

**Stage 3:** Cointegration regression

	Coefficient	Standard error	t-criterion	p-value
Const	-2,88090	0,412795	-6,979	8,98e-07***
1_Budget_deficit~	-0,0605830	0,103995	-0,5826	0,5667

**Stage 4:** Check for unit root in uhat

**Null hypothesis for unit root: a = 1**

Empirical value of criterion: tau\_c(2) = -1,03351

**p-value 0,8966**

**Figure 3-4. Results from the co-integration test**

Figure 3-4 graphically presents the behaviour of the two time series, characterising the fiscal and monetary policy of the euro area for the period 1999–2019 in quantity terms. Although in a rather an indicative plan, this chart gives certain evidence of poor coordination between the two types of economic policy. The findings can be confirmed by the standard Pearson correlation coefficient, whose value in this case is 0.004918. However, as this value is calculated from time series, which cover periods with large deviations, there are anomalies in the data. So, to isolate potential non-stationarity in the rows, it is appropriate to test the cointegration between the two

indicators in stage 1 of the methodological plan. According to the approach of Engle and Granger (Engle, R., Granger, C., 1987), when two time-series are individually non-stationary but give stationary residues when in a simple regression equation, they are co-integrated. Here the assumption was tested using software, which automatically first tests the two time-series for a unit root individually, and then performs another unit root test of the regression residues (Figure 3-4). As it can be seen from the results, the null hypothesis for a unit root (no stationarity) of the two time-series cannot be rejected, which is also valid for the hypothesis of no stationarity in the residual elements (Step 4, p-value 0.8966). Therefore, we do not find co-integration, i.e, we can assume that there is no coordination between the two types of policy.

Next, pursuant to stage item 2) of the methodology we have applied the Granger test of causality with the purpose to further check whether each of the two policies is not leading to the other thus resulting in subsequent changes in it. Table 3-2 summarizes the results of the procedure. The results in the table show that the null hypothesis of lack of Granger-causality cannot be rejected. Therefore, it can be argued that neither of the two policies affects the other, i.e. the two policies are not coordinated.

**Table 3-2**

***Granger causality test***

*Sample: 1999-2019*

*Number of observations: 18, lags: 1*

<b>Null hypothesis:</b>	<b>F-criterion</b>	<b>P-value</b>
The money supply is not Granger-causal to the budget deficit	1.1575	0.2962
The budget deficit is not Granger-causal to the money supply	0.4577	0.5073

*Source: own calculations following the methodology of Arby and Hanif (Arby, M. & Hanif, M., 2010)*

As the above checks are of a more pronounced econometric nature, it is appropriate to verify their results by checking the correspondence between macro shocks and regulatory impulses in a more economic context specifically (Stage e from the methodology). Tables 3-3 and 3-4 present the results of this check. In each quadrant of the matrices there are years in which there is a corresponding coincidence between a type of macroeconomic shock or a political impulse.

**Table 3-3****Macroeconomic environment matrix – empirical type**

GDP growth "deviation from the average"		Inflation (deviation from the average)	
		Positive	Negative
	Positive	2000, 2001, 2004, 2006, 2007, 2018	1999, 2014, 2015, 2016, 2017, 2019
	Negative	2002, 2003, 2005, 2008, 2011, 2012	2009, 2010, 2013

Equation (1) can be applied by sequentially calculating the following ratios and subsequently averaging their results:

$$(1) \quad n(PP \cap CC)/n(PP) = 1/6 = 0.167$$

$$n(PN \cap CE)/n(PN) = 4/6 = 0.667$$

$$n(NP \cap EC)/n(NP) = 0/6 = 0$$

$$n(NN \cap EE)/n(NN) = 2/3 = 0.667,$$

**Table 3-4****Matrix of reciprocal impacts in economic policy - empirical type**

Fiscal policy (deviation from values)		Monetary policy (deviations of M0 to GDP relative to the average)	
		Restrictive	Expansive
	Restrictive	2000, 2017	1999, 2004, 2005, 2006, 2007, 2011, 2012, 2013, 2014, 2015, 2016, 2018
	Expansive	2001	2002, 2003, 2008, 2009, 2010, 2019

In (2)  $n(PP \cap CC)$  is the number of coinciding years between the upper left quadrant of the first matrix (years with positive shock in growth and inflation  $\Rightarrow PP$ ) and the upper left quadrant of the second matrix (years with restrictive momentum in the fiscal and the monetary policy  $\Rightarrow CC$ ). There is only one such year here - the year 2000. This number is divided by the total number of years in the "PP" quadrant of the first matrix (7). Thus a value of 0.166667 is obtained. For others, we proceeded in a



similar manner. After averaging, we obtained a correlation value of 0.357, which according to Figure 3-4 is again an indication of a low degree of coordination between the two policies.

Similar results we can find in previous studies (Von Hagen, J., & Mundschenk, S., 2002), which evidence that coordination is less important in the long run, which is the focus of the efforts of the European Monetary Union. Short-term coordination is needed both between monetary and fiscal policies and between the fiscal policies of individual Member States. In a national economy, coordination is achieved because both the fiscal and the monetary policies are largely a function of the general government policy (despite the independence of the Central Bank). In the EU, which is a collection of individual nation states, the fiscal policy is less coherent and more a collection of fiscal policies of individual countries. At the same time, the ECB is common to all euro area countries (as well as to countries whose currencies are pegged to the euro).

This also creates a contradiction between the policy targeting aggregate supply (the monetary policy of the ECB aimed at price stability) and the fiscal policy that affects demand. In order to "avoid" the need for short-term coordination in the European Monetary Union, it is proposed that the countries do not pursue an active fiscal policy, but to rely on the so-called "Automatic regulators" (progressive tax rates, inversely progressive unemployment benefit programs, etc.). According to Von Hagen & Mundschenk, however, this would only work if the "built-in" automatic regulators were the same in all Member States. Otherwise, it only worsens the situation. We can also add that the automatic regulators operate in the conditions of some normal level of deviation of the business cycle. At an above-the-normal level (as in the current Covid crisis), they need to be complemented by some specific fiscal measures (Ryan, 2018).

*The second subparagraph* is devoted to the applicability of the principles of transparency and accountability in the ECB. According to a number of studies and publications, one of the main sources of problems in the activities of the ECB is its special institutional status. As stated above, the Maastricht Treaty, the Statute of the European System of Central Banks and the Statute of the European Central Bank itself (<https://eur-lex.europa.eu/>, 2020) give it unprecedented institutional autonomy. An in-depth analysis required by the ECON Committee of the European Parliament (WHELAN, 2020) compares the independence and accountability of the US Federal Reserve and the ECB, noting that "while the ECB makes significant efforts to be

accountable for its actions there are several improvements that could be made to the European institutions to improve its independence and transparency. These include reforming the process of appointing the ECB Executive Board members, improving the transparency of ECB decision-making”, etc. In particular, this analysis makes the following recommendations:

1) Regarding the role of the European Council - to improve the transparency of the procedure for appointing the members of the Executive Board of the ECB. The current procedure, being non-transparent, does not always lead to the selection of the best candidate. To this end, it is recommended to allow for a wider dialogue with the European Parliament in this process. Also, in the spirit of the need to keep the ECB free from political control, to avoid nominating candidates who are coming directly from a political or ministerial role.

2) in the ECB itself:

- Improve transparency through greater participation of the President in press conferences and meetings of the European Parliament.
- Revise the ELA mechanism for providing emergency liquidity assistance. There are several cases in which this mechanism has provided funds to very unreliable banks. There are also cases in which the granting of liquidity assistance to some countries has been linked to the progress of these countries in certain political processes. This has seriously damaged the image of the ECB in these countries (here we can mention the joint actions of the European troika - the ECB, the EC and the IMF). Braun and Hoffmann (Braun, B., & Hoffmann-Axthelm, L., 2017) also mention cases of clear misuse of the powers of the ECB by making clear political demands to the governments of Spain, Ireland and Italy in 2010-2011. which were also placed through secret letters to their finance ministers.
- With regard to voting - to ensure objective voting of all important decisions through the bodies of the bank.
- Meeting reports - they reveal some oddities and possibly one-man interventions of the President in the decision-making process.

3) Regarding the European Parliament - to strengthen its role in the Monetary Dialogue meetings. For this purpose, it is recommended to take an example from the hearings of the Federal Reserve by the US Congress.

The above-cited study by Braun and Hoffmann (Braun, B., & Hoffmann-Axthelm, L., 2017) offers even more comprehensive recommendations:

**Regarding independence:**

- ✓ Any decision of the ECB which is subject to a requirement for political change in the country affected by that decision, should be co-signed by the President of the Eurogroup and the European Parliament. In addition, such communication should be public.
  - ✓ The same applies to actions that are beyond the powers of the bank, but can be useful to avoid or overcome a crisis.
  - ✓ The ECB should no longer play a substantive role in the Troika and should have no formal role in the negotiation and monitoring of the conditions for receiving 'bailout' funds. This is at odds with its narrow mandate and the fact that it is responsible for the monetary policy of the country under surveillance.
  - ✓ The ECB should not shy away from publicly countering politically motivated statements that are factually wrong or misleading. Exaggerating the extent to which the ECB's work is 'purely technical' stands in the way of engaging in public debates
- ✓ **Regarding transparency:**
- The bank should improve its publicity regarding its recommendations, opinion about processes, decision-making, etc.
  - No unregulated meetings between the bank's executives and individuals who may be affected by its policy should be allowed. To introduce a requirement for interested representatives to register in the EU's Joint Transparency Register and to be proven to be suitable, to participate in the meetings mentioned. The ECB must become part of this register.
  - The regime for access to ECB documents needs to be updated.
  - Regarding its monetary policy, the bank should strive to provide information and arguments not only to specialists, but also to representatives of 'the real economy' and the general public.
  - To disclose more information about the supervisory functions of the bank.
- ✓ **Regarding accountability and responsibility:**

- The banks accountability framework should be reviewed by a high-level commission comprising EU finance ministers and the European Parliament, as well as representatives of civil society affected by ECB policies.
- The European Parliament should be given confirmation power in the appointment process for Executive Board members.
- The ECB should report to the European Parliament on any positions its representatives take in meetings of international bodies, such as, e.g. the Basel Committee on Banking Supervision.
- The ECB should create a public version of the tool it uses to provide an overview of its supervision
- The ECB should be the official “lender of last resort” to significant banks under its supervision, taking over this role from national central banks.

✓ **Regarding integrity and reputation:**

- The ECB should overhaul its whistleblowing framework, adopting a clearly identifiable and public whistleblowing policy, which sets out in detail how reports will be investigated as well as to encourage prospective whistleblowers to come forward.
- Members of the ECB Governing Council and senior ECB officials should be subject to a cooling-off period of two years (in relation to the next position they may hold inside or outside the bank). For the purpose, a formal and transparent procedure should be instituted to assess their post-office employment.
- Members of the Governing Council should file public declarations of interests and assets.
- The five-member Audit Committee currently consists exclusively of former or current central bank governors and (vice) presidents. It is recommended to bring in at least one outside member.

To these recommendations we can add another very important one: to improve the order of rotation of the members of the Governing Council and the distribution of votes. At present, the votes of members other than the 6 votes of the Executive Board may not exceed 15. As the EU countries, and the respective governors of their CBs, are significantly more, they are grouped on a rotating basis, reflecting the weight of the respective GDP of the respective country in the total GDP of the Union, so that the total

number of votes does not exceed 15. In practice, this means that some countries have fewer than 1 vote and these are usually the small countries in the EU. This will help the equality of the countries in the Union.

## **CONCLUSION**

**The conclusion** of the dissertation presents the results of the theoretical and applied study of the current problems related to the possibilities for development of the financial institutions of the European Union. It also discusses the extent to which the presentation and conclusions testify to the fulfilment of the set goals and objectives, as well as to the support of the research thesis is analysed. Guidelines for future research on the topic of the dissertation are formulated.

#### **IV. REPORT ON THE CONTRIBUTIONS OF THE DISSERTATION**

The main contributions of scientific and applied nature of the dissertation can be presented as follows:

- 1) Systematization and analysis of extant research on the emergence, nature and development of the global financial organizations and institutions, on the one hand, and the European, on the other, the involvement of the ECB, which allows the construction of a multifaceted theoretical foundation to clarify their functioning and role in the current international financial and economic order.
- 2) Based on a comparative analysis of the development and functions of global and European financial institutions, the dissertation proposes a framework, which contributes to analysing the evolution of the European financial institutions in both functional and systematic and organizational aspect and identifies the challenges to the European financial institutions, and in particular to the ECB. These challenges allow us to make a number of recommendations, the key ones of which are strengthening the accountability of the ECB to the European Parliament and its sanction powers over the bank; extension of the official mandate of the bank with specific monetary functions, which it currently performs with no mandate while increasing its responsibility and accountability at the same time; strengthening the transparency of the bank's actions and curbing certain practices, such as conditionality (similar to the IMF) in the application of liquidity-providing instruments; democratization of some of the rules for representation of small Member States in the governing bodies of the ECB, etc.
- 3) Revealing the shortcomings in some structural, normative and functional aspects of the activity of the European financial institutions by the use of two methods - author's original empirical research and by summarizing the results of other research on the topic. On this basis checking the coordination between the monetary policy of the bank and the EU's fiscal policy.

4) An operational analysis performed to illustrate the scope of activity of the EU financial institutions and the ECB in particular, on the basis of which significant and to some extent asymmetric dynamics in the balance sheet positions of the ECB and low correlation with GDP movements shown.

## **V. LIST OF PUBLICATIONS RELATED TO THE DISSERTATION**

### **A. Studies**

Проданова, Р. (2019). Европейската централна банка-анализ на институцията и позицията ѝ в счетоводния баланс / Росица Проданова. // Годишен алманах. Научни изследвания на докторанти на СА Д. А. Ценов - Свищов, с. 488-506. ISSN: 1313-6542.

### **B. Articles**

Проданова, Р. (2018). Европейският механизъм за стабилност и гръцката дългова криза / Росица Проданова. // Годишен алманах. Научни изследвания на докторанти на СА Д. А. Ценов - Свищов, с. 192-204. ISSN: 1313-6542.

### **C. Conference reports:**

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## **VI. DECLARATION OF ORIGINALITY AND RELIABILITY OF THE DISSERTATION**

By Rositsa Atanasova Prodanova

In connection with the procedure for awarding of educational and scientific degree “Doctor” in the doctoral program "World Economy and International Economic Relations" I declare that the dissertation is authentic and represents the author’s own scientific production. It uses author’s ideas, texts and presentation with graphics, diagrams, tables and formulas by complying with all requirements of the Copyright Act and all related rights by duly quoting and referring to foreign copyright, as well as data, including:

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