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EUROPE, WHERE TO?**Valeriu Ioan-Franc^{*1}, Napoleon Pop² and Andrei Marius Diamescu³**¹⁾²⁾³⁾ *National Institute of Economic Research "Costin C. Kirişescu"*
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Abstract

The authors review the challenges that the Romanian economy and society had to face in the European and global geoeconomic context. Starting from the perspectives advanced by the international economic fora, the risks the European economy will have to answer through counteracting and general resuscitation measures and means are analysed with the rigour due to academic research. In this context, a series of aspects of major interest for Romania are comprised, which we both under the pressure of its objectives registered in PNRR as well as the ones developed as risks in the proximity of the Russian-Ukrainian war, as part of NATO and the EU.

Keywords: economic growth, economic crisis, energy crisis, public debt, taxation, geopolitics, geoeconomics, inflation, monetary policy.

JEL Classification: E3, E4, E5, E6, F1, F3, F4, F5, G1, O10.

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Introduction

The end of 2022 abounds in analyses and comments of economists and politicians regarding what is to come from 2023 onward, strengthening the perception that 2022 was a “hump” year in economic and geopolitical evolution, thus giving a signal about the inflexion to come: a *sui generis* inflexion with no good signs in any dimension of the eco-global fields.

The hope of better days must be postponed once again. The European economic recovery is doubted even though there are feeble signs of optimism appearing (let us take, for example, the daily commentary on Germany, which is either recovering, on the verge of recession, or about to overcome the threat; objectively, however, the subject of the crisis of the most powerful European economy is worryingly certain). Regarding the inflation prospects, some state that it has already reached a plateau, a maximum, and is now in the withdrawal phase. This is utterly false, when it is only now that it has managed to convince everybody by its persistence and stubbornness in lowering sustainability towards the level of quantitative price stability. In parallel, we are witnessing the rise of public debts in most of the European states and, obviously, the dispersion of interest rates, depending on how economies are evaluated by the rating companies and the interests of investors. These are hard times, but not lacking opportunities, the dominant hue reflecting, however, the uncertainty that hangs over all government or business environment decision-makers.

The entire economic environment is under the influence of continental and global geopolitics, with European considerations and constraints reverberating in all corners of the planet, making it a kind of hot bed of balance-seeking in new alliance structures determined by the configuration of new interests. The consequences, far from being known, of the war in Ukraine remain at the heart of the matter. Economic destructuring, determined by the step towards a green economy, complemented by the boomerang effects of the Russia sanctions decisions, as well as the ways the latter seeks to save its economic future still based on revenues from energy exports, but weighed down by the serious loss of European clientele, all these have increased the economic and financial instability, have accentuated the fragmentation imposed by the pandemic in international trade. At the same time, the supply of key products for modern industries (green, generating new energies, environmental protection, climate change prevention, natural disaster management, etc.) has not been able to keep up with the intermediary and final consumption demand, and the distribution chains have not recovered while the central banks' interests, after the huge quantitative easing generated by the mobilisation of savings and / or liquidity provision to support consumption, prioritise inflation management and, less and less, the fear of slowing economic growth pace. All these aspects raise the issue of normalisation intentions the governors and central bank managers speak about, i.e., whether they can still have an inertial effect as in the past (in terms of economic theories, the constraining regulations such as the Stability and Growth Pact, the Washington Consensus, etc.). It is easy to notice that the medication that we have used since the international order after WWII is no longer effective or even counterproductive.

The Economist (2022) headlines that “Europe faces an enduring crisis of energy and geopolitics”. This will weaken it and threaten its global position, materialising that dark side of expectations: (1) financial vulnerabilities that reinforce the dilemma of central banks between inflation and supporting economic growth which has become anaemic, feeble, lacking vigour (insisting too much on monetary policy interests has already created the opinion that the weak MS of the Euro area can be destabilised, as it is the case of Italy, one of the most indebted countries in the EU); (2) effects of the war in Ukraine, among which a ferocious energy crisis

unravelling the vulnerabilities of the European business model; (3) the dependence of many important companies to European economies on inputs from autocracies (Russia, cheap energy in abundance; China as a market or source of imports of rare or/and complementary raw materials); (4) resuscitation of the war of subsidies and protectionism that brought Europe in conflict with the US; (5) the reduction of production capacities or new investment on the national territory, according to the Inflation reduction Act of the US (The Internal Revenue Service, 2022), with the temptation of offering nationally “made” products, etc. Normalisation is said to be accepted as a new normal connected to the changing realities since the pandemic on, dynamics, or orientation, which can no longer mean “business as usual” or tradition.

As researchers, we believe that many of the current failures and the ones to come, even beginning with 2023, are due to inertial thinking and acting, as well as the application of solutions that were efficient up to the 2008 financial crisis. Nothing that was thought at the time to ease the resorption of the crisis (mainly famous austerity) did not work, but it caused worrying long-term vulnerabilities and deficiencies. The magnitude of economies, their interdependencies within the framework of globalisation regardless of its stage, and the meaning of political governance, a new version of liberalism, have been lost from sight. It is true that 2022 revealed a European unity for the resistance of Ukraine against Russia, taking on huge costs, but what is terribly alarming is the pressure on the European economic contraction. The most important test of Europe for 2023 and after is the way in which the combined management of the challenges of multiple crises and geopolitical developments will be achieved (The Economist, 2022).

The state of Europe is seen not only through the emotions about how Ukraine can be helped to resist Russia’s aggression, but also through the impact of the restructuring of the global energetic system, the American economic populism, China’s change from harsh “zero COVID” measures to “living with the virus” relaxation, the geopolitical changes that alert the continent’s future of competitiveness in the long term and, according to other opinions, the transatlantic alliance also. Attention is directed, with priority, to the great macroeconomic imbalances, budget deficits (with the fiscal space reduction), and public and private debt (increasing with the costs of its financing) – without the restoration of which, either as a political recommendation from the international financial organisations or as assumed governance, the prospects on a medium and long term remain unclear.

1. On public and private debt, impact on economic growth

We know that both the IMF and the World Bank expressed on many occasions their discomfort regarding the raise of public debts to unsustainable levels, especially in the emerging economies, classified rather as belonging to poor countries in the current circumstances. The difficult issue is not the principal of the debt, which has seen a significant increase in the last three years, but the fact that debt servicing is already incurring a one-third increase in costs, as Wheatley (2022) mentions.

The inflation management situation with interest rates in developed countries rising at record rates is putting a great pressure on the economies of these countries through the devaluation of national currencies and the flight of capital (from early-stage and speculative investments) to higher-yield areas, especially the US. It is obvious that the situation of these countries will influence global economy through the contracting of import markets, in a context in which the economies of the developed countries are also on the undecided, in optimistic

commentaries, verge of their own economic crises. According to the World Bank director, David Malpass (World Bank Group, 2022), “the increased liquidity pressures in poor countries go hand in hand with solvency challenges, causing a debt overhang that is unsustainable for dozens of countries, ... with the 2022 growth outlook cut in half, interest rates much higher, and many currencies depreciating, the burden of debt is likely to increase further”.

The most pertinent analysis of the public debt situation is provided by Nouriel Roubini (2021), who points out that unlike the 1970s, when there were two stagflation shocks with simultaneous inflation and recession, and the share of public and private debt in the GDP of developed countries was 100%, today we are talking about a debt-to-GDP ratio of 350% globally and a debt ratio of 420% in developed countries. Roubini (2022) presents many details in the interview given on the occasion of the release of the book “Mega Threats: Ten Dangerous Trends Imperil Our Future, and How to Survive Them”, a book which Martin Wolf, a Financial Times commentator, recommends “we read carefully”. According to Wolf, Roubini is the author of the best ideas on economic crises. He presents new arguments, stating that we are inexorably heading towards the economic catastrophe of our lives, unless we manage to protect ourselves from the 10 terrifying dangers: from the greatest public debt crises ever known, to too much money pumped by governments in economy, borders blocked by workers, immigrants and ships that cannot transport goods, climate changes, to the rise of new superpowers in global competition, that between China and the US being the most relevant. The global economic situation is combined with too fluid geopolitics whose end is far from being “deforested” given the lack of perspective on the end of the effects of the War in Ukraine, whether it ends or not.

The public and private debt management strategy, virtually through austerity measures (tax increase and reduction of public spending in the face of galloping inflation), started to influence the social animosity that has gripped the entire continent. Europe is in the face of new elections, either presidential, parliamentary, or mixed, which, in the short term, will shape the policies of the continent in ways yet unknown. We are talking about France, Turkey, Spain, Greece, Poland, Bulgaria, The Czech Republic, Luxembourg, Estonia, Finland, Austria, Switzerland, Montenegro and Slovakia, hoping that the results of these elections may bring a new breath and more cohesion against the centrifugal forces manifested on the continent. The unity of the continent, represented by the EU and some states who want to join the EU, regarding the position toward the war in Ukraine and the support of Ukraine, we consider it a conjunctural one. As Europe is facing an energy crisis and a possible deepening of an economic crisis, the largest economy on the continent is expected to show clear signs of fatigue, social unrest is expected to increase, and politics interested in perpetuating power feel threatened. They will influence the people and parties who will participate in the polls, prolonging energy insecurity and the persistence of high inflation despite an aggressive monetary policy.

Let us approach other sensitive, concerning aspects, too, regardless of the election results, such as migration management, prudent taxation, refrain from protectionist measures (Economist Intelligence Unit, 2022). Journalist D. Hartmann says that Germany has lost the status of hegemonic economy, the timing being with the explosions at the famous North Stream 1 and 2 gas pipelines, which could deepen the economic crisis prospect following the energy crisis.

The Franco-German tandem is also to be watched, its outlook being also determined by the positions towards the US of the two EU states. Olaf Scholz is considered the most pro-American chancellor since Germany's first post-war chancellor. Things are not the same in the case of France, a fact that adds new dimensions to the possible disagreements inside the EU. In Hartmann's (2022) opinion, speaking to *Geostrategica*, Germany needs 10 years to recover. It seems that this "servility" adds negative elements to the internal discontent of Germany, fuelled by rising energy bills and high inflation, spread not only between the general population, but also among professional structures – industrialists, army, police, secret services, magistrates – producing the worst moment for the first European economy, namely an attempted coup de état (Karnitsching, 2022).

Comments regarding this singular moment since WWII are diverse, from reality to image manipulation, after the president of the US decided to allocate \$400 dollars in subsidies to American industries, a decision that put the concept of free market at risk. The decision inspired Germany to abandon investments in armaments, promised after the outbreak of the war in Ukraine, for investments in its own industry. In many other European states, public spending has been directed towards supporting or stimulating national industries, a lesson learnt from the financial crisis. The states who had their own industrial structures managed a better resorption of the crisis through decreasing their dependence on products created in other countries, where they had relocated their own production years ago. Hopes for support and/or rebirth in the developed European countries of their own industrial activities are directed to public and private sustainable debts. Post-pandemic and energy crisis have increased the likelihood of bankruptcies, which involve state aids, to be oriented toward viable, recoverable companies.

Unfortunately, the same Roubini (2022) regards the *de facto* situation with a lot of scepticism and made a prediction as early as 2021 in his alarming style. He stated that "unlike the 2008 financial crisis and the first months of COVID-19, the simple bailout of private and public agents with lax macro-policy would throw more fuel on the inflationary fire". What lies ahead of us is a new financial crisis characterised as "the mother of all economic crises" without decision-making factors to be able to do anything such as the explosion of deficits, loans of any kind to the government and the economy, and their leverage effects will constitute in the reasons for his presumption. As a result, Roubini is lenient only when he states that "the mother of all crisis" of stagflation debt can be postponed but not avoided. We should expect a harsh landing from a "deep and prolonged recession" in addition to a severe financial crisis. As the asset bubbles burst, the debts rates rise and inflation adjusted income falls among households, corporations, and governments, the economic crisis and financial collapse will feed off each other". The developed economies that can borrow in their own currency can use the crisis caused by inflation to reduce the real value of some nominal long-term debts.

According to some rough data, public and private debt totals, currently, at global level, \$300,000 billion or, more exactly, according to the International Monetary Fund (2021), \$235 billion in 2021, equivalent to 247% of global GDP. According to International Monetary Fund (2021), analyses, not forgetting, however, the record level that public and private debt has reached (regardless of the sources commenting on it), in 2021 it showed the first decline of the last 70 years, after the record in 2020. An IMF BLOG post shows a 10 p.p. drop of the 247% of global GDP level from 2020 (257%). In 2007, the debt-GDP ratio was 195%. This decline may have been determined by the post-pandemic recovery of the global economy and the high inflation level. The dynamics of the inflation were differentiated. 5% of GDP in

developed countries and less in emerging markets, despite the impact of inflation. Public debt continued to rise in low-income countries, creating uncertainty that they would be able to make payments when due. Gaspar, Medas and Perrelli (2022) warns that debts management, under circumstances of low economic prospects, becomes increasingly difficult also due to rising of the borrowing costs for governments. The latter should apply fiscal policies that help reduce inflationary pressure and neutralise, as much as possible, the long-term vulnerability to debt.

2. On inflation and economic growth

The last 2-3 years brought dramatic macroeconomic and inflationary challenges, unknown in the recent history of economics. It has gone from a relatively long period of time with low inflation to a period with high and persistent inflation with stagflation potential seeing the reaction of central banks. The priority of inflation management meant that monetary policy went in a relatively short period of time, especially in 2022, from accommodating to restrictively aggressive. Returning to the quantitative definition of price stability, a 2% inflation is intended to be rapid, with less emphasis on defending economic growth. In monetary policy, we see new approaches in analysis methodology (monitorization of data that determine its decisions in real time and not past statistical series), accepting some symmetrical deviations from 2% (close to 2%, from bottom or from above) and pursuing the goal of medium-term price stability. The evaluation of each decision, especially of a rising monetary policy interest rate, is made from the point of view of short-term effects.

The steps of rising monetary policy interest rate were surprising in their range, from 0.25 up to 1.00 and in the tight timing of their implementation, starting with the MS of the EU from Central and Eastern Europe (Poland, Hungary, The Czech Republic), then followed by FED, BCE, and the Bank of England. This has led to a disparity in the levels of monetary policy interest rate with an impact on the fragmentation of interest rates for refinancing budget deficits and public debt, on their own account, with an impact on the economic performance of the EU MS, either from the EZ or the ones with a derogation from the euro. The belief that prices would plateau in 2022 was an illusion, the new prospects postponing such a situation for the first part of 2024, hence, a persistence of inflation into the year to come. The president of the ECB, Christine Lagarde (European Central Bank, 2022), announced in December 2022 that she would try to answer an increasingly persistent question regarding the intentions to move to “quantitative tightening”, QT, by specifying a timetable and the correction values (“in fact, the key principles!”). Lagarde (European Central Bank, 2022), in the ECB balance sheet inflated with the purchase of sovereign assets. Lagarde confirms that the changes will take place for the time being only for the assets from APP (Asset Purchase Programme) and not for those from PEPP (Pandemic Emergency Purchase Programme). It is known that the APP was launched in 2014, in the context of steady low inflation, interrupted between January and October 2019 and then resumed until July 2022 due to the COVID crisis. So far, the ECB has reinvested the APP profit in its own capital, which has not influenced the intention to reduce its balance sheet, expanded by 8,800 billion euros, but, according to experts, this is expected to stop.

The decision to sell government bonds will take into account the inflation prospects, the effect of measures taken up to an actual decision to sell them, and the lag in the transmission mechanism of the monetary impulse and the effect on the EZ economy with further increases

in the euro central interest rate expected. The selling process will be gradual and predictable, independent of the monetary politics reunions in order not to disrupt financial markets by waiting for decisions. However, the normalisation of the balance sheet needs time, used to prevent shocks, either in financial markets or in the declining dynamics of economies in the EZ and not only.

As a rule, we have witnessed huge price increases for food, gas, and electricity, and the trend follows the idea that their increase is still behind, but with some differentiations. At the end of 2022, a relative decrease in fuel prices was observed, influenced by the performance of economies, especially those of China, and by a global fear about the pace of economic growth, between technical recession, economic crisis, and even stagflation. The price of crude oil also depended on the stock market quotations, a sensitive element in the crude production decision, the quantity extracted under the OPEC+ actions remaining constant, in fact calibrated to global economic growth signals. In principle, fuel prices have absorbed the initial shock, but the ripple effect of the initial increases has been transmitted up the chain of production and transport of manufactured goods. However, the most consistent influence was on food prices, which, according to most opinions, will also continue to increase due to climate circumstances (draught) that affected the production of basic raw materials (cereals). On the other hand, the rise in interest rates, following central banks' decisions, has further reduced the pressure on prices, but according to some IMF experts (Bogmans et al., 2022), factors such as weather, the war in Ukraine, the cost of raw materials and the already more expensive energy determined food prices to hit records at the beginning of 2022, affecting food security and social tensions.

The mentioned impact tensed the budgets of the governments for food imports, diminishing their capacity to secure supplementary funds for the social protection of the most vulnerable. Price capping has led to product shortages (see the case of Hungary, possibly Romania, too), and there is a distinction from compensation, usually a fixed one, that applies to price variation regardless of their level. The authors mentioned above, noting that they do not necessarily express the view of the IMF, synthesise the following aspects regarding the evolution of prices for food products. *The first* refers to the fact that a decrease of 1% in global agricultural production leads to an increase in basic products (quotations) of 8.5%. *The second* aspect – an increase by 1% in interest rates in the case of FED reduces the price of basic foods by 13% after one quarter. *The third* – an increase of 1% in fertiliser prices, after high gas prices - contributes to a 0.45% increase in basic products for food. *The fourth* aspect – an increase of \$1 per barrel in the price of crude oil has a 0.2% impact on the same basic food products. The authors suggest that, based on these estimations, those interested can better define the prospects of food prices, whether the stated trends remain upward or factors to slow them emerge. The idea of some economists that interest rates rising by central banks, especially in their aggressive character after initially the persistence of inflation was denied, is a mistake needs to be reiterated, the escalation leading, in fact, to maintaining high inflation through spillover effects: (1) the prospect of inflation-wages circle; (2) reduced consumption; (3) reduced supply; (4) impossibility to compensate demand-supply imbalance through monetary policy; (5) leading economies to stagflation with all the content of this notion; (6) high unemployment and inflation. All this against the backdrop of the decreasing competitiveness of the European continent and, especially, of the EU. In practice, although inflation is claimed to have slowed down, all it is happening is that the steps of monetary policy to increase monetary politics interest rates are being reduced, approximately from 1 p.p. to 0.5 p.p. However, the positive progression of interest is maintained, fuelled by the

fear that the inflation rate has not reached a plateau from which the decrease in the interest rate is justified. In the context, the 2% target is maintained, but, according to the opinion of some members of the ECB's board of governors, immediately after the last increase in the interest rate by 0.5 p.p. in December 2022 (the fourth in 2022 at an average annual inflation rate of 8.4%), it is already being talked about that only toward the end of 2024 we will see a downward trend of inflation from 3.4% to 2.3% in 2025. Christine Lagarde (European Central Bank, 2022) has announced that increases in the monetary policy interest rate will also take place even in 2023.

In principle, it is stated that central banks are far from having completed their task in 2022, in the context in which small decreases in the inflation rate do not reveal the fact that new prices increase are not possible. On the contrary, prices are expected to increase more rapidly than it is estimated, the effect being only the reduction of the monetary policy interest rate to 0.25 p.p., respectively, the return to the historical tradition of conduct in the monetary policy of the central banks. Hence, maintaining a tight monetary policy is an option in both the US and in Europe (ECB and Bank of England). We can estimate that, maybe, starting with the end of 2023, assessing the impact of the economic recession, central banks will also become more careful to tightening in the economies they serve.

3. Geopolitical and geostrategic issues in economic governance

Looking ahead, everyone is focused on the relations between the United States and China, the current stage being conflictual and competitive with little fluctuation. Global trade has shown some resilience in the face of the US-led trade war against China, with fluctuations intervening as influences of the evolution of the pandemic. Toward the end of 2020, following uncertainties determined by weak economic growth, among the worrying signals regarding international trade included falling shipping tariffs in the absence of significant cargo volumes. It is a consequence of the end of the Asian export boom. This evolution has nothing to do with the distortion of supply chains whose regional adjustment will be possible by the time developed countries restructure industries with loss-making branches and exports are directed towards long-term agreed neighbours. In this context, although China remains a major exporter, its role in the recovery of international trade is expected to be reduced. China will attempt to support trade and financial relations with African countries, with additional successes aimed to promote the "Belt and Road Initiative (BRI)", especially in Gulf countries. Here, the agreement between Xi Jinping and the prince of Saudi Arabia Mahommed bin Salam, dubbed by experts "the deal of the millennium" – should be mentioned, which makes Saudi Arabia a bridgehead for the Chinese interests in the region. The movement is equivalent to turning its back on the US, Riyadh entering the BRICS family with another strategy, "Saudi Vision 2030", through which it wants a post-petroleum from the West. The consequence was a rapid growth in the trade with China, to over \$87 billion in 2021 (a 39% plus) from 2020, while the trade with the US fell steadily and dramatically, from \$76 billion dollars in 2012 to \$29 billion in 2021.

Meanwhile, EU-US trade relations are under strain, especially after the US passed the Inflation Reduction Act, a mechanism that explicitly subsidises the industry of electric vehicles with all its indigenisation of domestic production as well as other industries producing green goods. The EU considers that these subsidies are a major attack on the competitiveness of the EU economies, and is ready to take the problem of dissensions

determined by the escalation of subsidies at national level in the WTO. Unfortunately, there are also some EU states inclined to resort to massive subsidies (see Germany and France), an example for other countries, although the very complicated economic situation in Europe requires it at least for 2023 and 2024. It seems that dissent in the WTO is pushing the organisation to become a part of the coalition for which the US has been working for several years, seeking to weaken China's global influence. The way the EU MS resorts to other and other measures is weakening the role of the Union as a symbol of free trade, based on rules. The giving up of the concept of free market hits the entire global economy, while the influence of the USA, which facilitates Europe to enter the US-China commercial war, will describe a slow and dangerous path to a hard to break global protectionism through rounds of multilateral trade negotiations such as the famous Kennedy and Uruguay rounds. A new "irritating" factor adds to this in international trade, respectively, the competition in climate change control technologies. The forums on the theme, with nominal targets committed, seem to bring limited progress to governments' ambitions of financing the management of climate change with the necessary industrial transformations. Instead, we can start contemplating how bad challenges are targeting the propension to protectionism and disloyal commercial practice. The damage will deeply affect developing countries.

The presumptive putsch in Germany should not be minimised in Europe for now, quickly extinguished and treated contrary to a serious situation (that occurred before), such as the Beer Hall Putsch, which did not attract the attention due to the victorious states in WWI. Ten years later, Hitler became the chancellor of Germany, dismantled the republic, and instituted the Third Reich, and the rest is known. The growing influence of the US in Europe, the connection with the effects of the war between Ukraine and Russia, not to the liking of all Germans, put us in front of two totalitarian, imperial intentions, Germany and Russia, something that happened before. At risk is the international political and economic order (WTO is a part of it) and, especially, the disorderly transition to another, evoked by the new economic powers and other groups of states that see they are losing their economic advantages and the political influence (China, India, Southeast Asia). The background of the war in Ukraine made a Romanian journalist, who was also heavily criticised for various reasons, not to consider the putsch in Germany "a mere soap bubble", but the effect of a "very serious situation" (Iacob, 2022). This is because many German citizens, among them being aristocrats of the old guard, but also staff of the German State institutions (the police and the army are mentioned) are overwhelmed by the high energy bills, the economic crisis situation, the discomfort of "handing over" the country to the American interests, etc.

A quasi-ideological confrontation, predicted by Alberto Monteverdi (2017) as early as 2016, becomes topical, contrasting the neoliberal doctrine born in the 1980s as an answer to the Keynesian economic crisis which shaped, at that time, both the conditional vision of the IMF regarding financial assistance and economic governance in the European space. We have to believe Alberto Monteverdi, considering his professional career (professor and researcher at LUISS, School of European Political Economy – SEP, giving courses at London School of Economics -LSE and Institute for Studies on Economics and Employment – ISEO, former minister of finances, currently working for the banking group UBI BANCA). We know that the prescriptions of the Washington consensus followed a "one-size-fits-all" approach, assumed transparently by the EU through the Maastrich Treaty (1992), but the relief of the financial crisis in the EU, and especially the EZ integration area, created a review point in the field of macroeconomic policy. According to Monteverdi (2017), the EU adopted a hyper-conservative approach trying to demonstrate that it remains devoted to economic orthodoxy.

The IMF engaged in an open debate regarding the promotion of the best policies for stability and economic growth, after which the IMF researchers moved on to challenge neoliberal principles of any kind. The book (Monteverdi, 2017), which was published in 2017 (important for us is Chapter 5: “*Accountability, Transparency and Democracy in the Functioning of Bretton Woods Institutions*”) guides us toward identifying the strength and weaknesses of the institutions established following the Bretton Woods agreement, in terms of transparency and compliance with democratic principles, with effect on the new financial assistance instruments of the IMF. An IMF which is now requiring the strengthening of social protection policies in conditional programmes. The emphasis was also placed on the effects of the so-called constitutionalisation of the Washington Consensus with the establishment of the so-called “Berlin-Brussels-Frankfurt Consensus” (Mitchell and Muysken, 2014).

We are, hence, coming to the confrontation of our days, between the analysts who make comments and the conduct of the central banks of major interest, especially regarding the manner of action in managing the inflation. It is argued that the result of governments adopting the ideology of inflation with many twists and turns, respectively, its control through monetary policy interest rate, failed by not using fiscal policy in a manner that would secure enough jobs in economy. The Brussels-Frankfurt consensus narrowed the acceptability of a gendered monetary policy by abandoning foreign exchange operations to maintain currency competitiveness. This deficiency, argue the mentioned authors, apart from the respective European consensus seeming to be unsustainable, leads to avoidance of public deficits (constraint considered artificial?), as well as to ECB refrain from offering an adequate support of exporters through direct foreign exchange market operations, the goal of ECB being to accumulate dollars for the foreign exchange reserve. As a result, the euro may be overvalued with effects on investments and output growth.

To clarify once more where the EU or ECB policy has gone, we believe that it would be better and natural to evoke the forgotten Paris Declaration entitled “A Europe we can believe in” of 2017. We find the extent of the drift of the European integration project from Barroso to Ursula Gertrud von der Leyen striking. The debates of some conservative elites, who avoided further enriching the literature dedicated to the death of the West (Fukuiama), gather among their signatories: Phillipe Beneton, Remi Brague and Chantal Delson (France), Roman Joch (The Czech Republic), Lanczi Andras (Hungary), Ryszard Legutko (Poland), Roger Scruton (Great Britain), Robert Spaemann (Germany), Bart Jan Spruyt (Holland) and Matthias Storme (Belgium). All of them wanted to make their attachment to the true Europe known, the reason being familiar to many of us even, but not limited to, due to the mentioned frustrations. We took over the text reprinted by Anonimus (2017). A few messages addressing the reforms not operated by the EU or carried out contrary to the interests of Romanian citizens are worth noting: Europe is our home; We are under the threat of a false Europe; The false Europe is utopian and tyrannic; We need to defend the true Europe; Solidarity and civic loyalty encourage active participation; We are not obedient servants; The nation state is the emblem of Europe; We do not support a unity imposed by force; Christianity encouraged cultural unity; Europe feeds on its Christian roots; Classical roots encourage excellence; Europe is a common project; We are losing our home; True Europe is in danger; False freedom is promoted; Individualism, isolation, and aimlessness are spreading; We are regulated and managed; Multiculturalism does not work; Ill-faith; The rise of technocratic tyranny; False Europe is fragile and powerless; A self-denial culture is taking hold; Elites are arrogantly displaying their virtue; There is alternative; We have to reject the pseudo-religion; We need to restore the true liberalism; We need responsible statesmen; We

need to renew our unity and solidarity at a national level; Only empires are multicultural; An appropriate hierarchy nurtures social wellbeing; We need to restore moral culture; The market should be orientated towards social goals; A reform in education is needed; Marriage and family are essential; The notion of populism needs to be re-examined; Our future is the true Europe; We need to assume responsibility.

Maybe it would be better for us to put Romania as an EU MS through the ringer of these commands, and we shall notice that either we swallowed them through inactivity and the eternal agreement given without the filter of national interests, or we have not paid any attention to the effects on us as Romanian and European citizens, although we have been advocating for years for activism in the European forums. This way we might find the answer to many troubling “why” questions, but after the hammer of Brussels bureaucracy and the EP legislator has fallen on the table with an echo from the Atlantic Ocean to the eastern EU border. It would not be bad if, in the mandate file of each Romanian representative in Brussels, there was a first tab with these commands.

4. Synthesis of 2023 forecasts

Apart from characteristics of uncertainty, fragmentation, fragility, weakness, and vulnerabilities, all constituting the key of about any analysis or comment regarding what is going to happen in 2023, we find ourselves in front of a huge lack of a universal agreement (Sobel, 2022) that draws attention to the real issues that Europe is facing. From the point of view of the forecasts, 2022 demonstrated the failure of the econometric models. Mike Dolan (2022), Reuters Editor-at-Large for Finance & Markets, formulated, in his turn, a good terminology regarding the quality of forecasts, used in the title of an article taken over by Reuters (Dolan, 2022): “a vortex of guesswork”. Assessing the business cycle has become a treacherous exercise, especially since the pandemic, he states. The observation applies to executives and central banks, too, who have admitted that the discussion should be carried out on current data, not past statistical series.

The centre of external influences shifted to the war in Ukraine, which sent impact shocks, from the situation itself to solutions focused on European and American help to defeat Russia and save democracy in Ukraine (here is a question: Which democracy?), including through the six sanctions packages. The war prolongation seems to give the note of a NATO-Russia confrontation, a more than dangerous turn. Uncertainty persists, due to the structure of Russia's persistence of attack, but also to the boomerang effects through which democratic Europe entered an abrupt ex-energy crisis. Inflation caused by the increase of prices in energy, due to giving up energy imports from Russia, with knock-on effect throughout the entire European economy has created an acute dilemma for central banks especially the ECB. The preference, perhaps late, for an aggressive increase in monetary policy interest rates has caused economic destabilisation of the European states through the contamination propagated by the ECB. Global growth will be small in 2023, due to the crisis, and stagflation is expected to result from the combination between high inflation and widespread unemployment. It is difficult to appreciate how difficult a recessionary stage will be, but Nouriel Roubini (2021) tells us, as we showed, that it is going to be a more severe one than all the crisis so far. The spectre of sickening economies, says M. Dolan (2022) raises more questions than answers. Maybe understanding that the new normal cannot be the old one could help in finding some eagerly sought answers.

The joy manifested in the last months of 2022 that some of the inflation has subsided is not good news. Decision-makers are expecting further increases in inflation which moves at least a year a real control of inflation and, probably, a decrease towards a normalisation of it as far as 2024. It is interesting that, in the context in which the FED and the ECB announce new increases in the monetary policy interest rate, inflation still well above the target of price stability, voices from the same family of analysts are heard speaking about a “mild recession” in 2023. Unemployment is regarded in the same way, but the expectations, through the lenses of the theory, would be that recession may reduce the tensions on the labour market by reducing positions in the first stage, after which, following the reluctance to work due to the pandemic, the need for labour force will increase. Up to 5% in unemployment is stated to help lower inflation. FED – The bank of banks in the US has become the turntable and a relative example to follow by the European central banks, although it is said that the ECB cannot apply in the EU the experience of the US as circumstances are different from the point of view of financing the economies (a priority through the banking system and less through the capital market as happens in the American economy). The Quantitative Tightening (QT) stage adds to the restrictions imposed by the central banks the surprise of returning to quantitative easing.

The China situation is viewed with fearful interest, especially after abandoning the zero-COVID policy, following protests that demanded even the president’s resignation. A new economic boost is expected, but there are contradicting factors: a new peak in COVID contamination, the increase in the number of deceased people in a strained health system, impacting a weak productivity, housing, demographics, etc., likely to endanger the scope of consumption and the gains in economic growth (Dolan, 2022). For the EZ, it seems that the recession will become certain for 2023, but it is uncertain how deep it will be. Germany is being hit hard, although it has made efforts to secure energy reserves such as those of other EZ MSs. Their consumption will depend on winter conditions, followed by the replenishment of reserves for the winter of 2023-2024, which remains an acute issue due to the total blocking of gas imports from Russia. Inflation in Europe is caused by the supply side, where monetary policy cannot do anything. Expectations about the evolution of inflation have no anchor, suggesting that the goal of entering the quantitative definition of the inflation rate is established in the medium term, under the new ECB monetary policy strategy. Additional measures for flexibilization and to stop the fragmentation of the loans accessing costs are also considered, the market having the tendency to raise them within the mandate, according to the concept “we do whatever is needed” (European Central Bank, 2022).

The question to be asked is whether the ECB can adjust its proposed conduct at the time of a recession whose depth is unknown. This impacts on the financing risks of governments, which often are not ready to come up with adequate fiscal support meant to complement the indirect economic support measures of central banks. In the case of governments, “unfunded fiscal disadvantage planning” (Dolan, 2022) is observed, with the assignment of a risk premium to sovereign assets in the euro or national currency.

Economies represented by the US. The EU, Great Britain, China, and Japan will maintain their 60% share in global GDP. A basis for survival, while the emerging economies will face greater difficulties, due to public and private debt loads and other global influences: inflation, monetary policy with an aggressive conduct from capital/investors exporting developed countries toward them, exchange rate depreciations, etc.

Maybe the only positive thing that would result from the analyst commentaries would be that the extension of uncertainties to 2023 could be smaller compared to the years 2021-2022, but both Dolan (2022) and Sobel (2022) state that they “remain enormous”. 2023 will face volatile markets and will be dominated by an environment of political decisions lacking predictability.

There is also an interesting recent prediction, of Italy’s Defence Minister (Guido Crosetto), taken over by Amante and Balmer (2022): “ECB rate hikes help Russia by damaging the EU economy”. It is a warning expressed by other analysts and commentators, too. This also contributes to undermining the solidarity of the West with Ukraine, a fact increasingly visible in the expression “how much is too much” (with respect to the solidarity of the United States and the EU solidarity). It is not at all laughable to state that, through many EU decisions against its relations with Russia in 2022, the EU appears to have become Russia's “best ally”.

An economic and social situation has been created in the MS that shows that Russia is waging a war in the public spaces of these countries affecting citizens who have been subjected to sacrifice by their own rulers after decades of peace. It is an effect of the absurd monetary policy promoted by C. Lagarde (apud G. Crosetto) (Amante and Balmer, 2022), which failed to observe the big picture of realities and limited itself to applying the economic theory.

The certain EU crisis should bring the end of the support for Ukraine, despite the difficulty of ending the war started by Russia, in order to limit also the effects of the energy crisis triggered by Russia.

2022 does not yet provide a clear picture of the US relationships with the EU. The war in Ukraine, although it led to better relationships within NATO, also had negative effects. Cooperation in the defence area and sanctions imposed on Russia have escalated trade tensions by applying policies, particularly in the US, that circumvent WTO rules. What irritated the mentioned relations were the hidden subsidies of the US who recommended EU also to address the plight of European firms by using and expanding the European Sovereign Fund, launched in September 2022 to boost green initiatives. The EU-US relationships with the global world are causing concerns especially on the Russia-China axis, which shows that geopolitics can determine more sustainable cooperation, even if the support for Ukraine will continue in 2023. The US will also strive to minimise China’s global role, while the redefinition of the relationships between the EU and China will have the same effect. Therefore, China's chips and supply chain bottleneck will be solved, with both the US and the EU agreeing to produce their own.

Adding to this picture, the governor of the Bank of India (Shaktikanta Das), concerned with the developments of 2022 announces, virtually in a chorus of similar opinions, that for 2023 we need to pay attention to what will happen with cryptocurrencies and any other private money, as this digitised currency market knew a total failure, an “annus horribilis” (The Economic Times, 2022). Euphoria passed with the FTX crash. Shaktikanta Das reinforced the idea that, in fact, cryptocurrencies had no supporting value, were speculative and should have been banned (The Economic Times, 2022). They will be the cause of a new global financial crisis, maybe more serious than the one in 2008 provided that there would be factors that allowed them to grow (through regulation attempts and other subterfuges) for the sake of acknowledging the technological innovation that central banks should consider. We believe that central banks' exercise to issue digital currencies (CBDC) is a priority with respect to the assimilation of technology in terms of secure digital money.

An entire series of 2022 key events (invasion of Ukraine, US-China tensions, chain supplies bottleneck, producer lockouts, COVID's return, etc.) also raises the issue of whether the market economy is the best one (Elliott, 2022). For this reason, we can also refer to 2022 as a "pivotal" year for the global economy, taking its place among other moments such as the end of the Breton Woods Agreement with fixed exchange rates (1971), Germany's reunification, the collapse of the USSR, and the near collapse of the multitude of banks during the last financial crisis. During the last 12 months, the era of cheap money has come to an end in the battle with inflation paralleling the rising costs of living in developed states. The example of Great Britain, with the finalisation of Brexit, indicates a major failure for those flirting with leaving the EU. European integration is a one-way road, but its bureaucrats, starting with the Commission and the EP, have to return to reforming the organisation from the ground up, especially after the financial crisis, when there was no speech from those in high positions that did not include this exhortation. As usual, however, other priorities occur, but not for the MS, usually treated pompously, a mocking the idea of Union through diversity proclaimed as the most important active asset of integration towards Political Union.

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