EURO ADOPTION CHALLENGES AND PERSPECTIVES

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Abstract: *The analysis aims to highlight the premises which stood behind the crafting and forging of current framework, which is bound to ensure the transition to a new paradigm and, subsequently, a refining of the notion of 'identity' at societal level, as implied by euro adoption process. The assessment of Romania's capacity to join Eurozone should factor in two key aspects – optimality and suitability. Only under optimal economic auspices, could the intention of seizing and acting upon a window of opportunity yield maximum returns. Thus, from an economic standpoint, the fulfilment of both nominal and real convergence criteria is essential and should be fundamental to political decision. The latter one is not opportune unless the economic environment had been brought to an optimal state.*
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I. Nominal convergence and macroeconomic equilibria

Steering Romanian economy, in its quality of EU Member State**,** on the desirable path, hinges upon the continuation of ongoing processes, both domestically and internationally, on the base of efficiently grounded decisions of all the authorities involved. More precisely, it is imperative that the processes and outcomes of future decisions concomitantly satisfy three conditions – of optimality, suitability and coordination. Or, to put it otherwise, the steps that shall be made should be in the right direction, at the proper time and correlated. Also, all these need to be closely tailored to the context. However, we must admit that, regardless of the decision makers' will, an

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outstanding judgement made today, may prove better or worse tomorrow, simply because of the dynamic nature of context, given that the potential occurrence of sudden changes could require readjustments of varied complexity and, accordingly, time.

The most complex challenge regarding the future path of monetary policy, yet "without being the exclusive attribute of the Central Bank"[1], is adopting the euro. Exclusivity is ruled out as the process involves by default a certain degree of shared responsibility-taking and decision-making. Focus falls not only on the monetary policy conduct, but also on the coordination between it and the fiscal-budgetary policy. A strongly coordinated approach to the fiscal-monetary policy mix is required in order to prepare/strengthen the economy during pre-adoption period and even more thereafter, when the fiscal-budgetary policy remains the sole lever to counteract/correct adverse economic developments.

The next condition for achieving a coordinated fiscal-monetary policy mix at single market level is a singly fiscal-budgetary policy. This would imply the introduction of a common fiscal authority, the European Finance Minister (EU-FM), acting as a political counterpart to ECB. The need emerges from the fact that, a partial mix, combining supranational monetary policies with national fiscal policies is unsustainable, would always be imperfect and just partially efficient (could turn even inefficient).

It is worth underlining that the impediments to the institutional set-up of EU-FM are marginal compared to obtaining the approval of member states over the common budget and fiscal rules. Changes involved imply a paradigm shift, whereas challenging mental constructions which enjoy widespread acceptance within a community may be perceived as a form of "aggression" towards the identity of the respective community or society. EU member states which are preparing to adopt the euro are faced with the prospect of ceding some elements of sovereignty (i.e. national currency), as well as the flexibility/comfort granted by the independence of decision (i.e. economic policy), which inherently raises questions about the appropriateness of the choice (i.e is it better now than it would be latter, or vice-versa?). It goes without saying that giving up an independent monetary and exchange rate policy as stabilisation tools could cause significant burden for countries with weak macroeconomic fundamentals, a relatively low income

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[1] "Nominal convergence versus real convergence", NBR Governor Mugur Isărescu presentation within the conference "Romania's path towards euro", Bucharest, 20 April 2015.

per capita and frequent/disordered adjustment of economic policies, particularly in the presence of populist politics.

Last but not least, if one receives an invitation to a ball and plans to honour it, then he ought to have an acquired sense of aesthetics, the most elevated form of creating and expressing beauty. In terms of conduit, this implies appropriate attire, manners and vocabulary. In technical terms, mastering the dance technique. In economic terms…options, as well as necessities, are diverse. More or less Europe, with stronger or weaker unity, single or multi-speed, facing trust or distrust and so forth. Yet, all comes down to two meta-choices: "either come together around a positive European agenda or each retreat into our own corners" [1].

Well, getting back to the topic, the most complex challenge arising in the future – euro adoption, requires meeting nominal and real convergence criteria in a sustainable manner, achieving and safeguarding the criteria for macroeconomic equilibria as defined by the Macroeconomic Imbalance Procedure (MIP) Scoreboard, entering and participating in Exchange Rate Mechanism II (ERM II) without severe tensions for at least two years and, finally, passing technical and administrative evaluation to qualify for euro adoption. Thus, put on paper, the prerequisites for euro adoption can be resumed in six rows of text, which can be written easily. Nevertheless, the temporal dimension of effectively accomplishing the aforementioned objectives is far more substantial, as there is no predefined interval and setbacks/delays can occur.

Romania's economic situation continues to be fairly balanced (see Table 1). The criterion on price stability is respected, the 12-month average of the Harmonised Index of Consumer Prices (HICP) being equal to the reference value of 1.9%, according to ECB's Convergence Report, published in May 2018.

Romania's government deficit and debt complied with the Maastricht criteria in 2017. The exchange rate of the Romanian leu (RON) against the euro exhibited, on average, a relatively high degree of volatility over the reference period, in the context in which RON did not participate in ERM II, but traded under a flexible exchange rate regime involving a managed floating of the currency's exchange rate.

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[1] European Commission, President Jean-Claude Junker's State of the Union Address, September 13th 2017.

The real effective exchange rate of the RON (HICP-deflated) exhibited volatility within the indicative threshold of +/- 11% (3 year % chg.), with competitiveness gains being recorded in 2016/2017 (see Table 2, section 2.1.). The 12M average of long-term interest rates stood above the 3.2% reference value for the interest rate convergence criterion, with the deviation progressively increasing over the reference period.

Table 1. The economic indicators of nominal convergence

		Price Stability	*Government budgetary developments and projections*			*Exchange rate*		
		HICP Inflation 1)	Country in excessive deficit 2),3)	General government surplus (+) / deficit (-) 4)	General government debt 4)	Currency participating in ERM II 3)	Exchnage rate vis-à-vis euro 3),5)	Long-term interest rate 6)
Romania	2016	-1.1	No	-3.0	37.4	Nu	-1.0	3.3
	2017	1.1	No	-2.9	35.0	Nu	-1.7	4.0
	2018	1.9	No	-3.4	35.3	Nu	-1.9	4.1
Reference value 7)		**1.9**		**-3.0**	**60.0**			**3.2**

Sources: European Commission (Eurostat, Directorate-General for Economic and Financial Affairs) and European System of Central Banks.

1) Average annual percentage change. Data for 2018 refer to the period from April 2017 to March 2018.

2) Refers to whether a country was subject to an EU Council decision on the existence of an excessive deficit for at least part of the year.

3) The information for 2018 refers to the period up to the cut-off date for statistics (3 May 2018).

4) As a percentage of GDP. Data for 2018 are taken from the European Commission's Spring 2018 Economic Forecast.

5) Average annual percentage change. A positive (negative) number denotes appreciation (depreciation) vis-à-vis the euro.

6) Average annual interest rate. Data for 2018 refer to the period from April 2017 to March 2018.

7) The reference values for HICP inflation and long-term interest rates refer to the period from April 2017 to March 2018; for the general government balance and debt, the reference values are defined in Article 126 of the Treaty on the Functioning of the European Union and the related Protocol (No 12) on the excessive deficit procedure.

Romania was not selected to be subject to an in-depth review in the context of the Macroeconomic Imbalances Procedure, following the 2018 Alert Mechanism Report. However, it was highlighted the need to improve the business environment, ramp-up investments, recalibrate the labour market (i.e striking a better balance between skills demand and supply), speed-up procedures for EU funds absorption, strengthen administrative capacity etc.

Or, to put it more bluntly, stable economic policies and far-reaching structural reforms to ensure favourable auspices for sustainable economic convergence. As far as central bank's independence is concerned, domestic legislation must respect all requirements, which necessitates additional concerns and efforts.

Table 2. Scoreboard for the surveillance of macroeconomic imbalances

Section 2.1. EXTERNAL imbalances and competitiveness indicators

		Current account balance 1)	Net international investment position 2)	Real effective exchange rate, HICP-deflated 3)	Export market share 4)	Nominal unit labour costs 5)
	2008	-11.8	-51.2	9.4	91.9	32.9
	2009	-9.9	-60.1	-4.9	69.3	26.7
	2010	-7.1	-63.9	-10.9	53.4	38.3
	2011	-4.9	-65.8	-3.2	50.1	4.2
	2012	-4.9	-67.4	-2.0	12.4	5.6
	2013	-3.6	-62.6	0.5	13.8	-4.9
	2014	-2.2	-57.3	-1.0	20.2	6.2
	2015	-1.0	-54.6	2.8	21.3	0.3
Romania	2016	-1.3	-49.4	-2.5	24.0	5.1
	2017	-2.2	-45.7	-5.6	36.8	12.0
Threshold		**-4.0/+6.0**	**-35.0**	**+/-11.0**	**-6**	**12**

Section 2.2. INTERNAL imbalances and unemployment indicators

		Internal imbalances						New unemployment indicators		
		House prices, consumption - deflated 6)	Private sector credit flow, consolidated 2)	Private sector debt, consolidated 2)	Financial sector liabilities 6)	General government debt 2)	Unemploy-ment rate 7)	Activity rate 8)	Long-term unemploy-ment 8)	Youth unemploy-ment 8)
	2008	.	12.7	63.9	14.0	12.4	6.4	0.6	-1.6	-1.5
	2009	-26.5	-1.6	69.8	16.0	22.1	6.2	-0.5	-1.9	-0.2
	2010	-12.7	0.9	74.5	5.0	29.7	6.4	1.9	-0.8	2.8
	2011	-16.0	2.8	73.3	4.6	34.0	6.9	1.2	0.5	6.3
	2012	-9.2	0.3	71.9	4.4	36.9	7.0	1.7	0.8	2.6
	2013	-2.7	-1.4	66.8	0.8	37.5	7.0	0.0	0.8	1.6
	2014	-3.1	-2.4	62.1	1.3	39.1	6.9	1.6	-0.1	0.1
	2015	1.9	0.2	59.1	4.0	38.0	6.9	1.3	0.0	-0.9
Romania	2016	5.0	0.6	55.8	7.6	37.0	6.5	0.7	-0.3	-3.1
	2017	4.0	.	.	.	35.0	5.9	1.6	-0.8	-5.6
Threshold		**+6.0**	**+14.0**	**+133.0**	**+16.5**	**+6.0**	**+10.0**	**-0.2**	**0.5**	**2.0**

Sources: European Commission (Eurostat, Directorate-General for Economic and Financial Affairs) and European System of Central Banks.
Note: This table includes data available as of 3 May 2018, i.e. the cut-off date for this report, and therefore differs from the scoreboard published in the Alert Mechanism Report of November 2017.
1) As a percentage of GDP, three-year average.
2) As a percentage of GDP.
3) Three-year percentage change relative to 41 other industrial countries. A positive value indicates a loss of competitiveness.
4) Five-year percentage change.
5) Three-year percentage change.
6) Year-on-year percentage change.
7) Three-year average.
8) Three-year percentage point change.

Romania's external position remained within the reference interval, though current account gap (% of GDP, 3Y avg.) recorded a 120% increase between 2015 and 2017, with a stronger accumulation rate being witnessed

in 2017. The position and magnitude of Romania's current account balance contrast with those recorded by other economies in the region. In most states (i.e. Hungary, Croatia, Bulgaria, Czech Republic), external position yielded positive balances, with Poland and Romania being the only ones to run deficits.

While there are several reasons behind this divergence, probably one of the most important is the populist imprint on fiscal/income policies, considered against a background of limited domestic supply, insufficiently diversified export markets and low non-price competitiveness. This argument must be supplemented by the fact that, while in the presence of the abovementioned developments, Romania steadily gained export market share starting with 2013. Hence, structural issues have been adequately, yet insufficiently addressed.

Consequently, the adjustment process of the net international investment position (NIIP) lost pace somewhat in recent years, with the indicator remaining above the threshold level in 2017. Even so, NIIP registered a substantial correction since 2012 peak (-67.4% of GDP), reaching -45.7% of GDP in 2017. We earmark that NIIP relates mainly to net foreign direct investment liabilities, a relatively stable source of funding.

Another indicator with an accelerated evolution is the unit labour cost (ULC). The reference level is 12%, three-year percentage change. During the post-crisis period the indicator did not breach the mark for most regional peers. In Romania's case ULC dynamics fluctuated between -4.9 and +6.2 during 2011-2015. Then the pace became swifter, standing at +7.1 in 2016 and even higher, at +12.2 in 2017, thus breaching the threshold level. The evolution is surprising and at the same time worrisome, not only because of the pace, but more due to the decoupling from the 'logical core' represented by productivity gains.

As such, with annual productivity gains ranging between 2.6% and 5.8% for the period 2013-2017 (see Table 3), the increase in incomes (wages and pensions) witnessed over the last two years, putting additional burden on the already fragile structure of public finances, can be hardly defined as sustainable. There is considerable untapped potential in terms of government tax collection, which runs below the decade high (as percentage of GDP).

With regards to the evolution of the indicators for the surveillance of macro imbalances (included in the MIP scoreboard), it is worth mentioning that Romania was close to fully meeting the criteria (except for NIIP) in 2014 and 2015, whilst Maastricht criteria were completely accomplished in 2016.

Table 3. Labour productivity (%, y/y change)

	2013	2014	2015	2016	2017
Bulgaria	1.3	1.0	3.3	3.4	1.7
Czech R.	-0.8	2.2	3.8	0.8	2.7
Hungary	1.0	-0.6	0.9	-0.4	2.0
Poland	1.5	1.5	2.3	2.4	3.2
Romania	**4.4**	**2.6**	**5.2**	**5.8**	**4.2**

Sources: Eurostat

This situation brings up the natural question: if there were moments when all the criteria have been fulfilled, why hadn't been taken advantage of? A potential reason is that simply ticking the Maastricht criteria, whilst necessary, is not enough, the success of euro adoption leaning upon the capacity to meet them on a sustainable basis as to facilitate the attainment of a high enough degree of real convergence.

II. The state of real convergence

The "*induction mechanism*" from "*nominal*" to "*real*" proceeded sluggishly, therefore implying a notable lag. Thus, despite posting the biggest advance, of 9 percentage points between 2013-2017 (see Table 4), Romania occupies the penultimate position among the regional group.

Table 4. State of real convergence (GDP/capita in PPS; EU 28 = 100)

	2013	2014	2015	2016	2017
Bulgaria	46	47	47	49	49
Czech R.	84	86	87	88	89
Hungary	67	68	68	67	68
Poland	67	67	68	68	70
Romania	**54**	**55**	**56**	**58**	**63**

Sources: Eurostat

In the face of this situation, another question, totally justified, could stir up the debate. How come Bulgaria can have higher aspirations, as well as EU approval, even though Eurozone entry conditions became more stringent? Bulgaria applied to enter the anti-chamber for adopting the single currency (ERM II).

Bulgaria introduced a currency board arrangement (CBA) starting with 1st of July 1997 as a way to ensure financial discipline and macroeconomic stabilization, the economy being severely affected by bank failures and hyperinflation[1] at that time. In accordance, the lev was fixed to the German mark (the currency board's reserve currency) at the rate of lev 1000 per DM 1. With the replacement of the Deutsche Mark by the euro (effective Jan, 1st 1999), the lev's peg switched to the euro at the rate of lev 1,955.83 per EUR 1 (equivalent to the DM's fixed conversion rate to euro). The peg was later changed to lev 1.95583 per EUR, amid the redenomination of Bulgarian lev on Jul, 5th 1999. Hence, Bulgaria effectively relinquished an independent monetary and exchange rate policy, relying solely on fiscal-budgetary policy for managing the economy and counteracting adverse shocks throughout the phases of the economic cycle.

All in all, we can conclude that the introduction of the CBA acted as a first-class lever, bringing the economy into a state of stable mechanical equilibrium, which implies self-reverting to the initial state (prior to equilibrium) once the stabilizing factor is removed (i.e. renouncing at CBA). In other words, the introduction of the CBA initially helped bring equilibrium, whereas the conditions of optimum, suitability and coordination were fulfilled implicitly, concomitantly with respecting the restriction (seen as only choice). Nevertheless, later on, CBA proved limiting, its stiffness constraining capital accumulation and welfare transfer[2].

Although it is the poorest EU member state, Bulgaria satisfies the nominal criteria for entering ERM II and from a fiscal position standpoint, not only that it respects the Maastricht threshold level (-3% of GDP) but it even boasts a budgetary surplus. Practically, what is left for Bulgaria in or-

[1] Inflation rate dropped from 580% in 1997 to below 1% in 1998.

[2] Bulgaria's GDP/capita in PPS rose from 29% of EU avg. in 1997 (when Monetary Council was introduced) up to 40% in 2007. In Romania GDP/capita in PPS increased from 29% of EU avg. in 1997 to 44% in 2007. After 2007 (when both countries joined EU), GDP/capita in Bulgaria advanced by 9 pp (to 49% of EU avg.) until 2017, whilst in Romania it increased by 19 pp (up to 63%) over the same period.

der to receive the approval to enter ERM II is to pass ECB's banking stress test (which may imply a period of one year or even longer).

Beforehand, Bulgaria's 'to-do list' comprises a series of tasks that must be addressed over the short term, which might prove demanding: i) improve the macro-financial framework, ii) strengthen the supervision of non-banking financial institutions, including pension funds and insurance companies, iii) boost the fight against money-laundering and iv) optimize the legal framework of bankruptcy. According to the action plan, Bulgaria aims to join both ERM II and Banking Union by end-June 2019. However, with a meagre expansion of GDP per capita in PPS between 2013-2017, of only 3 pp to 49% of EU28 average, Bulgaria appears to be the 'candidate' with the highest risk of slipping into a 'boom-bust' cycle in case of a premature euro adoption.

Ever since the issuance of first euro banknotes and coins (1999) and their later entry into circulation on January, 1st 2002, not even a single EU member state which adopted the common currency had a level of GDP per capita in PPS below the Eurozone average in the prior year to adoption. Greece, for example, had a GDP/capita in PPS of 74% of both EU and Eurozone average in 2001 (computed according to EU and Eurozone membership in 2000, the prior year to adoption).

Table 5. GDP/capita ahead of euro adoption

		prior to Euro Zone entrance		
	EUR adoption	**GDP/capita at PPS**	**% of EU average**	**% of EZ average**
Greece	2001	17,100	74	74
Slovenia	2007	21,300	86	77
Cyprus	2008	27,100	104	94
Malta	2008	20,500	79	71
Slovakia	2009	18,600	71	65
Estonia	2011	16,500	65	59
Latvia	2014	16,700	62	58
Lithuania	2015	20,800	75	70

Sources: Eurostat

Romania announced in May that it will reveal the strategy for euro adoption until the end of 2018. Moreover, according to the latest conver-

gence programme, by 2020 Romania aims to have gained another 11 pp in terms of GDP/capita relative to Eurozone average, which represents a bold objective, yet not necessarily impossible to attain.

Table 6. Romania, GDP/capita

	GDP/capita at PPS	% of EU average	% of EZ average
Romania 2017	18,700	63	59

Sources: Eurostat

As mentioned at the beginning of this article, the most complex challenge from the future perspective is euro adoption, yet we believe that the immediate priorities for Romania should be safeguarding macroeconomic equilibria, reversing the weakening trend in key indicators such as fiscal and external position, consumer price dynamics etc and ensuring a stronger coordination of the fiscal-monetary policy mix.

Besides, from an economic point of view, achieving nominal convergence criteria on a sustainable basis is a precondition for joining the euro anti-chamber. Broadly speaking, achieving a relative equilibrium, at least between what is spent and what is being produced.

III. Prospects and risks

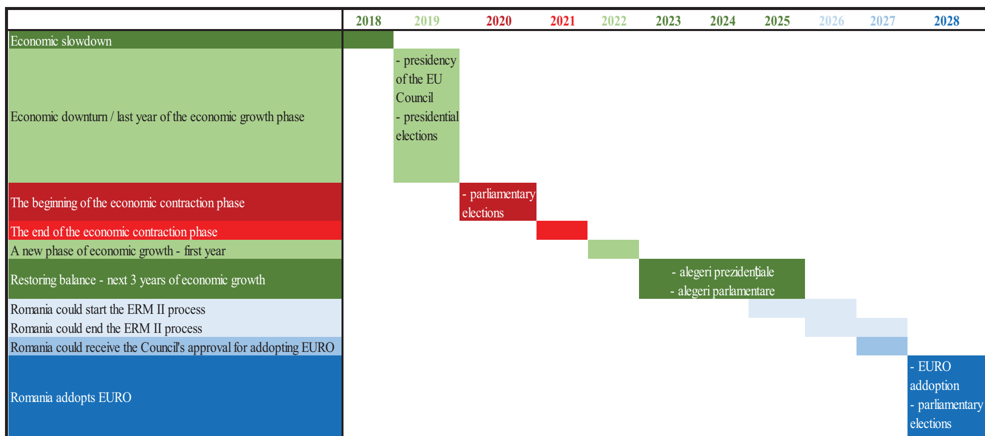
Overall, prospects for Romania's economic evolution are good, but prospects cannot be assessed irrespective of the inherent oscillations associated with the economic cycle. The factors which influence the economy and its journey through the various stages of the cycle are both internal and external. We will put emphasis mainly on internal factors, splitting them in two groups: operational and decisional. Whereas both groups are important, the decisional factor is the one that sets and then imposes the maintenance or the change of the conditions under which the whole apparatus (the economy) will operate (regulation, surveillance and adjustment).

It is worth mentioning that 2019 will likely mark the ninth year of the expansionary phase of Romania's current economic cycle. Historically, the maximum length of the growth phase during the last four economic cycles was of nine years. It is equally true that the first cycle began and ended in the same year (1989), which makes it less relevant in certain aspects.

At economy level, the decisional factor operates through two primary branches: the legislative one (Parliament) and the executive one (Government) which are run by the political party or the alliance/coalition that has political majority. At the level of public institutions, only the Central Bank benefits of decisional independence.

The monetary authority works in close cooperation with other institutions and acts exclusively in the national interest. Under these circumstances, sketching the itinerary for euro adoption under a probable scenario of prudent equilibrium (see Graphic plan) relies on own hypothesis and unofficial possible evolutions, in no case being the expression of a precise and unique roadmap. It is a scenario built upon the data available at this time, it is objective, while simultaneously debatable and amendable.

Graphic plan. Potential scenario for EURO adoption



Before proceeding with the debate, we must reiterate that euro adoption (irrespective of the country) is more of a political than an economic decision. In this regard we briefly mentioned above Bulgaria's case, which does not fare so well in terms of real convergence, but this does not appear to be a major impediment.

Throughout 2017 and 2018, the fragile equilibrium of Romanian economy was kept and exposed to additional tensions, which pushed it close to the maximum acceptable limits of deviation from the economic criteria. One of the main measures taken for the purpose of statistical adjustment and

of temporarily gaining manoeuvre space was to rectify macroeconomic prognosis, lowering the estimate for real GDP growth in 2018 by 0.6pp (from 6.1% to 5.5%), while concomitantly lifting the nominal value of GDP by raising (in fact more than doubling) the deflator (from 2.1% to 4.3%)[1].

This adjustment, coming in the context of maintaining unchanged the estimate for EURRON average exchange rate at 4.65, translated into an increase of nominal GDP by EUR 3.23 bln and implicitly in a higher denominator for deficits, hence granting temporary leeway to respect economic criteria[2].

Turning to external position, considering the excess aggregate demand fuelled by steady wage growth, which ignites and amplifies 'money illusion' phenomenon (attraction of large numbers), but is not covered by domestic supply, imports are prone to further rise and deepen external misbalance. Therefore, we see an increased likelihood of Romania breaching the indicative threshold under MIP (-4% of GDP, 3-year average) in 2019.

Labour market, characterized by the increase in resource costs and the decoupling between wage dynamics and productivity gains, represents another argument for the lack of sustainability in economic developments and stresses the need to water down overheating pressures. Human resource nearly completely engaged, mirroring in extremely low unemployment or even zero (as it is the case in best performing regions), may hinder business expansion plans. So, we have a red-hot labour market, but, as we said, only in certain regions.

The regions where unemployment is considerably higher (above potential rate or at record levels) and which could contribute to the balancing of labour market in the ones facing the opposite are isolated. In other words, the poor state of infrastructure (especially transport one) and the lagging

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1 http://www.cnp.ro/user/repository/prognoze/prognoza_2018_2021_varianta_de_primavara_2018.pdf; http://www.cnp.ro/user/repository/prognoze/prognoza_2018_2022_varianta_intermediara_de_vara_2018.pdf

2 This sort of initiatives simply reiterate the urgent need for a stricter fiscal-budgetary discipline. A potential solution would be to replace the fiscal deficit criteria with a new criteria of fiscal-budgetary performance, which could require to respect the current treshold levels as well as to achieve a budgetary revenue collection of at least 35% of GDP. It is worth pinpointing that structural deficit significantly deviated from the MTO (medium term objective) reference level of 1% and will continue to grow, which could pose threats in terms of liquidity and public debt sustainability in the long run.

progress on structural reforms led to a Romania with two speeds and an inflexible labour market.

Labour markets faced with extremely high competitiveness have, in the first instance, two options: either they embrace this ”modus vivendi” and the consequences deriving from it (growing labour costs and constrained development), either they open their doors wider to foreign workers (i.e. Poland), thus importing workforce from regions/economies which have a surplus.

Unfortunately, European states which find themselves in this situation, they too were confronted with the loss of domestic workforce (irrespective of the level of qualification) which chose to emigrate to other economies (predominantly European) in search of a higher living standard. Central-East European countries count among the most affected by emigration, which was fostered by their proximity to the labour-importing West Europe and the fact that cultural differences, where they do exist, are usually manageable and can be softened by self-conforming.

The complexity of euro adoption process can be described through the lens of four main elements: i) the effort required to ensure the sustainability of nominal convergence, ii) the importance of political factors in decision making, which can transcend the one of economic considerations, iii) the consequences of losing monetary policy independence, and iv) the potential intention to withdraw from the Eurozone (return to national currency) and its subsequent aftermath.

We earmark that the nature of the decision, prevalently political (see Bulgaria’s case), could minimize or even nullify (an extreme scenario, yet not implausible, if we look at Montenegro) the necessity of a proper degree of preparedness for effectively joining Eurozone.

The loss of monetary sovereignty involves a stronger role played by fiscal-budgetary policy in managing the economy and counteracting adverse shocks (likely to be intense if the economy was not enough prepared for Euro Accession), as well as the necessity (more exactly the conditioning) for coordination with European economic policies.

The issue of coordination that must be tackled in the context of joining Eurozone is rather complex, the approach being based on two interdependent layers: i) the coordination of a national fiscal-budgetary policy with a monetary policy that targets Eurozone economy, ii) the coordination be-

tween national and Eurozone economic cycles. The theory is deceptively simple, in practice the challenges are far more complex and if they are not properly addressed could become uncomfortable.

ECB adapts and adjusts monetary policy conduct in line with the behaviour of Eurozone economy (and not of a member state), therefore the efficiency of monetary policy measures depends on how homogeneous is the economy to which they are addressed. In other words, the economic cycles of Eurozone member states need to be as compact as possible in order to react unitarily to monetary policy impulses. Otherwise, ECB's monetary policy conduct risks being less adequate in terms of speed and amplitude.

As regards the potential intention of withdrawal and returning to national currency, there is no known solution nor mechanism in place. On one hand, Brexit process could be used as proxy, but must be complemented by the withdrawal from the Eurozone. To put it another way, a strong fiscal-budgetary policy and a coherent set of structural policies are indispensable. On the other hand, if they would have already existed, then the idea of a multi-speed Europe with different groups of countries would not have reached the front line of public debate.

So, taking into consideration the widening of macroeconomic imbalances (i.e. twin deficits), structural rigidities (i.e. labour market, in certain regions), uncertainty (i.e. questionable and frequent legislative changes) and the strong macroeconomic disparities at regional level, it would most likely be necessary for the economy to pass through a new growth phase, bringing a realignment and restoration of the macro balances in order to be more favourably positioned for euro adoption, at least from an economic perspective.

IV. Concluding remarks

Romania's experience reveals once again the importance of an adequate fiscal-monetary policy mix. The traction and efficiency of the 'mechanism' depends on the optimal and coordinated functioning of its two components. Thus, in case of a fiscal-budgetary slippage, par example, the correction and not compensation of it, should constitute the anchor of rational expectations regarding the monetary policy response needed for restoring equilibrium.

Failure to fulfil the condition of equilibrium and functionality of macro policy mix can have various roots, among which we underline the quasi-permanent procyclical stance of fiscal-budgetary policy, which mirrors in different development rhythms deepening existing interregional disparities, thus being conducive to an economy with multiple speeds.

Seen from a broad perspective, the Europe with two-speeds is nothing more than the outcome of the presence of member states with two speeds. The more numerous (or in majority) the regions moving in first gear (regional disparity is more pronounced) at the level of a national economy are, the lower is the probability for that economy to join the group of EU member states 'driving' in second gear.

From euro adoption perspective, challenges facing monetary policy arise from the need of cohabitation and coordination with fiscal-budgetary policy, the latter being significantly more prone to follow the political cycle (electoral) than to oppose the economic cycle (exhibit an anti-cyclical conduit). Rationally speaking, from an economic standpoint, durable equilibrium and efficient functioning of the single market cannot be achieved only by means of euro adoption by all member states and implementation of a single monetary policy.

Regardless of the angle from which we analyse the new European context and the possible future scenarios, a strong fiscal-budgetary policy and a coherent set of structural policies are indispensable, yet not enough, for ensuring the success of Eurozone accession with a robust and agile economy, well prepared to meet the demands of such a construction.

Properly addressing challenges and tackling fragile situations (economic or/and political tensions and their spillovers) through involvement, unity and vision represents the pivot of the solution.

The coordination and implicitly collaboration of all the authorities involved cannot be substituted for. Synergy of economic policies at national and European level will complete European integration. Still, the alignment of national economic cycle to the European one constitutes the one true confirmation of full integration.

In the absence of a sufficient degree of real convergence (GDP/capita in PPS of around 70% of EU avg.), Euro adoption, while still possible, may prove counterproductive, particularly in light of the desideratum of durable and inclusive growth. Consequently, the dream of every aspirant to adopt as

quickly as possible the euro could last a 'long time' and does not come with a guarantee that, if fulfilled, the reality will truly match expectations.

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