The country risk for Romania

Fratostiteanu, Cosmin and Tanasie, Anca

University of Craiova, Faculty of Economics and Business
Administration

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THE COUNTRY RISK FOR ROMANIA

Cosmin Fratostiteanu, Lect. PhD
University of Craiova, Romania
Faculty of Economics and Business Administration

Anca Tanasie, Asist. Prof. PhD
University of Craiova, Romania
Faculty of Economics and Business Administration

Abstract

The administration of a financial activities portfolio usually generates two categories of risks: the risk exposure and the market risk. The purpose is to present the evolution of the country risk of Romania through using the specific statistic indicators with the granted classification by the main rating agencies. The risk exposure is the result of credit activity to a public debtor (in this case, a country), this activity being applied by banks at international level. From this point of view, the analysis of the country risk must offer information on the base of which the banks can establish the upper limits of exposure to a country and can monitories as possible in real time, the exposure to the respective country.

The market risk appears as a result of unfavorable changes that may appear in a country's financial market and that may affect the performance of activities that compose the portfolio of a bank, which has an exposure in relations with the respective country. In the literature approaching the country risk, the market risk is as inexistent or it is treated with superficiality, although it constitutes a fundamental component of the banking risk, concerning the development of the activities that unfold on these markets. From this perspective the approach of the country risk is insufficient and the developed methodologies must be extended through including this last aspect. But this paper does not purpose to introduce new components in the methodologies of analysis concerning the country risk and the market risk.

The administration of a financial activities portfolio usually generates two categories of risks: the risk exposure and the market risk. The purpose is to present the evolution of the country risk of Romania through using the specific statistic indicators with the granted classification by the main rating agencies.

The paper has three principal parts - the first tries to familiarize the reader with the definitions and the fundamentals of the country risk analysis, the second presents the statistic indicators and methods used in the assessment of the country risk and the third focuses on the Romanian case.

JEL: F36, F02, F30

1. *Theoretical Fundamentals of The Country Risk*

The country risk is a complex draft that was taken into discussion by the researchers of the end of the '70, as the result of huge loans that private banks for well developed countries gave to the countries from Latin America and loan crisis in encounter by these countries in the '80, this crisis made big financial lost to external creditors.

The complexity of the concept is a result of factors that must be analyzed, evaluated and estimated at the level of a country, a reason for which, up to the present, wasn't elaborated a methodology of country risk analysis, which generates numerous misunderstandings.

Contra verse over the paper results out of the purpose for which this got into the attentions of the researchers and university environments, respectively the announcement of the difficulties which might appear in the payment of the duty which result from its external duties. This thing is difficult to achieve because it supposes besides knowledge of social, political and economical conditions of the country under discussion, the achievement of forecast regarding the future evolution of these conditions.

The methodologies of the analysis country risk made up the present do not have a unitary character, and it mixes up with social, political and macroeconomic concepts. In the big part of these methodologies it doesn't stand up the analysis in the domain from above, after with according to the performance of same indicators, either one should calculate the synthetic assessments indicators of country risk, or one should established a country at a certain rating level.

A simplified definition of a country risk could be: *the country risk represents the possibility of having financial loss in international business, the loss due to the social, political and macroeconomic events, specific to the respective country.* But the definition has a restrictive character because doesn't contain all country risk, in the sense it doesn't underline one of the main aspects for which the assessment of a country is necessary from this perspective, and namely that it exist an exposure of a financial institution towards the country, and the fact that those events should be identified from the beginning which can cause financial loss to the credit institution A more rigorous definition would be: *the country risk represents the possibilities that a financial-banking institution could manifest financial loss, due to exposure which the institution has regarding a country, and which are caused by the social, political and economical events or natural events which can or can not be controlled by the respective government.*

The concept of the country risk contains two main components: *sovereign risk, transfer risk* The sovereign risk sums up the side risks public external duties or public guarantied by state and can be measured by the possibility that at one point of view, a sovereign state, can not respect its external engagements out of governmental reasons. The notion of the sovereign risk appeared in the terminology of the financial institutions before the country risk concept, the moment when the international and capital market loans were solicited by some independent states, which were at the beginning of their social development. The loans were used exactly for development of investment projects in the social and economical domain.

Later it was found out that if the requesting countries had became unable to pay an obliged repayment wouldn't have been applied as for the economic agents, that's why the risk determined by the given lending was called sovereign risk.

The sovereign risk is a measure for the capacity of a country to pay the external arrangements and it is determined by the external public dept of the state in quest.

The external debt of a sovereign state can be classified:
o *The external raw debt*-that contains the instruments and the financial obligements taken by a country or by the economical agents either public or independent.
o *The external public debt*-it is referring to a public debtor, debt which can be the government, the economical state agent or a political under-division
o *The public guaranteed duty*-it refers to the external duties of private debtors whose payment is guaranteed by the state.

In the analysis of the country risk only the last two external categories are taken into account. The transfer risk expresses the possibility that the Government not to whish to dispose the currency demanded by private and public firms in exchange of the national currency. In the situation of the transfer risk, the debtor which can be a private firm or institution although he can pay his debts, he can not pay all these debts because of the restrictions imposed by the government.

At the level of a country besides of a sovereign risk and transfer risk, there are factors which can influence the field in which the national or foreign firms developed their activity or the country

capacity to pay its external debts. These factors compose the *general country risk* which comprises *the social, political and economical risk*. The general country risk appeared in the moment when it was established that the sovereign risk and the transfer risk are not sufficient in the analysis of the country risk, the reason for which at the level of the country is it necessary to follow the evolution of every economical, political, social aspects. *The sovereign risk and the transfer risk compose the country risk*

1.2. Systems, Methods and Techniques in Evaluating the Country Risk

For analyzing the country risk, the directions, the techniques and the methods must be specified.

First, in order to established the directions it is necessary that factors which intervene in analysis should be identified and classified. From the point of view of the factors, these can be classified into two categories: *General factors* which are characteristics and can be identified in all analyzed countries-the main macroeconomic indicators (inflation rate, GNP, unemployment, etc., political and social stability, the quality of the government, etc.), *Specific factors* which are characteristics to one country or to a certain category of countries-the capacity to get access to be financed on international market, the increase or decrease of population, the climate and the geographical conditions, natural resources, etc.

Another classification can be made according to the possibilities of measuring of these factors. From this point of view we can identify: *Quantitative factors* which can be quantified with the help with the statistic indicators –all social and macroeconomic indicators, *Qualitative factors* which are difficult or impossible to quantified, and refers to population behavior, of economical agents and of public institutions in a state /the psychology and mentality of the population, the traditions, birocracy, corruption, etc.

Mentioning all the possibilities of the factors classification used in analysis and assessing country risk, must be specified that the weight of these factors are different from case to case according to the purpose, by the institution which makes the analysis.

As we have already mentioned in the under-paper 5.1.2. the analysis and assessments of country risk are in spite of numerous discussions and published materials a ''recipe'' wasn't been found yet, a reason for which the methods elaborated up to now have a short life and they always changed.

In spite of this short comings some directions can be established which have to be followed in order to be elaborate a model of analysis the country risk. First, any model can not reduce itself only to a simple analysis and establishment to some aspects which must be elaborated but they have to contain methods of estimation of the evolution in the future of these aspects because in any risk analysis is the forecast of the phenomenon but not the estate of this one. Another problem that should be solved by a model refers to the identification of the aspects must be approached during the analysis. Mainly at the project of the logic laws which must be used when evaluating country risk, one must start from the fundamental components and final purpose of the analysis. Then those aspects must be identified and analyzed. Taking into account this reasoning one should start from the fundamental components of country risk. –the sovereign risk and transfer risk –and established the processes, the events and the actions which influences directly the evolutions of this components, and in the end, the capacity of the country, acquitting the external duty, the purpose of any analysis of country risk.

The reasoning for the identification of the aspects which influence the fundamental components of country risk could be the next: *in any state there is a political leading top which can be the result of a free and democratic vote or a tyranny imposed. Through to the actions that it undertake it influence the macroeconomic political of the country. The effects of this politics can*

affect on one hand directly the capacity of the country to pay its external debts –the sovereign risk-and on the other hand, the country can ask for new external loans. The social effects of these politics are reflected in the standard of population living, which is manifested by content or uncontent. The un-content situations can turn into social tensions which can influence the second component of the country risk –the transfer risk. In the second situation, the government can decide that the state does not repay the external debt, although it was enough founds. The action makes the paid external debts impossible by the private economical agents or by the state institutions. Besides that this possibility is rarely seen in practice, it must be said that the un-payment decision of external debt is preferred by the governments of the countries that wish to maintain high, reason for whom are aware that they must assure a higher living standard for the country population. In the terms in which internal resources of state economy does not satisfied this standard, the government appeal to the import goods and services which are financed in currency. The immediate advantages are in the growth of the people trust in the respective government. On the external plan the cost are considerably on long and medium term going from blocking the international financial sources to the towing of the respective country goods, and ending with the deterioration of external image and the loss of credibility in the international financial system.

The presented reasoning contains the fundamental aspects used in analyze the country risk (the social, economical and political processes). It must be mentioned that any considered aspects, it will always remain many factors that influence the unfolden of the events. In this sense can be mentioned: *Conflicts outbreak* in the region of the respective country with the directly or indirectly implication of the country. In the first situation, the materialization of the country risk can reflect appearance possibility of transfer risk. After, the war effort of the country can affect the payment capacity because, there are exhausted all available resources and if the country is not rich enough it can have payment difficulties. In the second situation, the conflict outbreak in the region can make it hard the access to a external financial sources because of the creditors restraint; *Natural calamities* like storms, earthquake it can have incalculable economical effects, mostly in the situation when these can not be paid on time; *The activities of external pression groups* which appear as a result of the conflict situations between the main countries or industrialized countries and which are concretized in using by these of some aggressive strategies in the interest domains, strategies has as effect reducement the competitive and financial capacity of countries from these regions.

Starting by the purpose of country risk analysis, they were conceived different analysis systems which use specific techniques and methods: *the analysis system based on country studies, the analysis system based on meaning of risk classes/rating, the analysis system based on the quantifying and identification the risk factors. etc.*

But, indifferently of analyzing system used, it can be identified some common features of techniques and methods used in these systems: it uses the statistic indicators which characterized the social and economical situation of the country, it uses statistic models of forecast the future evolution of these indicators, situation in which the forecasted values represents projections in future of the past values, if the situation would remain unchanged in future. In some situation it is used the economical modeling, and the indicators values are forecasted, it uses tests methods and techniques made in financial or economic system from respective country, situation in which is obtained many information (the inflation evolution, economical growth, exchange courses) in the population financial culture. The purpose of any risk analysis is to identify the events which can generate crisis in payment capacity of a country, so as the creditor can protect his investments.

From the perspective of the banking-financial company, the analysis of economical aspects has a double purpose:

- o The signaling and foreseeing of modifications in financial market, more exactly in exchange rates and interest rates as a consequence of the evolution of macroeconomic indicators at a national level.

- The signaling of difficulties that may arise in the external debt redemption of a country.

Before tackling these issues, some clarifications need to be made regarding the need for financing of a country. In this regard, countries fall into 2 large categories.:

- *Capital exporting countries*, on the territories of which there are powerful private banks, capable of offering international financing. Here one can mention strongly industrialized countries (G7 countries: The United States of America, Canada, Japan, Germany, France, Great Britain, Sweden)
- *Capital importing countries* that are unable to cover their financial needs from internal sources and appeal to external credits. This category is made up of developing countries and transitional countries (countries in Latin America or Eastern Europe)

Analyses aiming at signaling changes that may occur in the evolution of financial markets should be carried out especially for the former category of countries because the financial instruments issued by these countries (foreign currency, state owned titles) are the object of the main transactions on financial markets and, consequently, most banks in any geographical area have in their portopholio such instruments (currency in EUR, USD, GBP). The economic analysis for signaling a country's problem in returning external debts –the sovereign risk- are carried out especially in the case of the latter category because the currencies of these countries are not freely convertible and consequently the respective countries may encounter difficulties regarding their ability to dispose of such liquidities.

Irrespective of the final result of such analysis or of the category of the country, one should mention that all methods and techniques use statistical indicators of measuring macroeconomic performance. The main macroeconomic indicators are presented and defined in Annex 3 of this paper. The interpretation of these indicators differs from one financial institution to the other, and the influences of the macroeconomic indicators on the main components of financial markets (exchange rates and interest rates) can be analyzed accurately by econometrical modeling.

In this paper we will present only the indicators that are used in the analysis of the fundamental component of the country risk –the sovereign risk.

To start with, we must establish the way in which external financial necessities are formed at the country's level. A country appeals to external loans when its internal savings are insufficient to finance consumption and national investment. In a closed economy production is meant for private consumption (PC), public consumption (PCL) and the raw formation of capital (RFC). In a open economy, due to external relations, the offer balances demand according to the equality:

$$PIB+IMT=PC+PCL+RFC+EXP \qquad\qquad 5.1$$

In this case income from production equals the value of expenses. A part of income is taken by the government as taxes (T), another part is saved in the private sector (E), and the rest is destined to private consumption (PC), (5.1) becomes:

$$T+E+PC+IMP=PC+ PCL+ I^b+ EXP \quad \Leftrightarrow$$
$$T+E+IMP=PCL+ I^b+ EXP \qquad\quad \Leftrightarrow$$
$$(T+E)-(PCL+ I^b) = EXP-IMP \qquad\qquad 5.2$$

- If the EXP=IMP, the investments and expenses of the government are limited to the level of economics in the private sector and taxes;
- If the EXP<IMP, the last relations becomes $T+E<PCL +I^b$, investments and expenses go over tax and population savings level, and the government must ask for external loans. External loans allow the government to finance the budgetary deficit and to increase investments over the saving possibilities in the private sector, which stimulates economic growth. The country must however return the repayment of the loan and the interest;
- If EXP>IMP the last relation becomes $T+E> PCL +I^b$, investments and expenses of the government overcome tax levels and population savings, the situation in which the government can award external financing as a loan.

On such a reasoning the economic indicators, that influence a country's ability to repay external debts can be identified.

1.3. Statistic Indicators

A country's ability to pay its external debt is analyzed based on the External Payment Balance. The elements of the balance are periodically published –usually monthly or trimestrially- by statistic organization in the respective country. In the case or Romania, They are published by The National Statistical Institute. A series of indicators for evaluation can be calculated in this way. In the case of a country's risk one must identify those indicators that influence of the evolution of the payment balance elements. For this respect, 3 categories of indicators are identifies:

- *Macroeconomic indicators* reflecting the efficiency in using natural and human resources in these countries;
- *Balance of payment indicators* which reflect the evaluated state strategy and the capacity to create account over plus for payment debts.
- *The external indicators debt* which reflect the country capacity to pay its external debts for avoid the crisis.
- *The macroeconomic indicators*
  -*GDP/inhabitant* with it expresser the efficiency in the use of production factors to obtain services and goods at a country level. Besides GDP, GNP is another indicator with help of which it can be appreciate a country level development, because the indicators offer comparatibility advantage.
  -*The budget deficit /GDP* -it reflect the management quality at the macroeconomic level. The specialists recommendations suggest that a optimum level for this indicator is situated between -1 and -3%. The growth over these levels causes a growth of request for financial of the budget deficit with consequences over governmental credit growth and monetary system.
  -*The internal amount of investments/GDP* –it reflect the efficiency with which they are administrated the internal resources.
  -*The amount of economies/GDP* –together with the real interest rate (the difference between the interest rate and the inflation rate) it reflect the grade in which the investments and economies are encouraged. In practice, this indicator is hard to obtain because of difficulties of calculating the economies level.
- *The payment balance indicators:*
  -*The growth rhythm of the imports and exports*
  -*The resilience of request depending on imported products* –it is calculated as a rapport between the rhythm of import and the growth rhythm of GDP or GNP
  -*The degree of coverage of imports through exports* is given by the rapport between exports and imports
  -*The export to the main partners/Total of exports*
  -*Addiction exports* it is calculated like a rapport between the value of the exported principal products and the total value of the export.
  -*External reserves/The imports of goods and services*
  -*The import of goods and services/GDP*
  -*The import of energetic/total imports*
  -*The balance of current account/The cashing in current account*
  - *The balance of current account/GDP*
- *The external debt indicators*
  -*The total external debt/GDP* –which express the relation between debt level and the total economy resources. The bigger the rapport, the bigger the GDP part for external debt.

-The total external debt/The export of goods and services –reflects the export capacity to finance the obligation from external debt. According to the size of this indicator the countries are grouped in:

-Countries with little debts –for which the indicator value is subunitary

-Countries under the critic level of debts –for which the indicator takes value on the interval (1,2)

-Countries with big debts –for which the indicator value is more than 2

-The debts total payment/The exports of goods and services express the country capacity to cover the debts

- a value under 10% reflects a sustainable debt

- a value between 10-20% reflects a big debt

- a value over 20% reflects a very big debt

-The indicators of the external debt services

-the public debt service/the goods and services exports

-the debt services and a short term interest/the goods and services export

-the debt service and a short term interest, and short term debt/the goods and services export –reflects the payment in the debt account, total exports.

-the debt service/GDP –reflect the country capacity to obtain the necessary currency to payment of debt.

The presented indicators are in almost all methodology for estimate the country risk. The application of these indicators differ from a methodology to another and from the purpose followed in the analysis.

At the moment there have been identified many fundamental systems for analysis the country risk, but in the practice there are used two systems:

o *The system based on the country studies which assumes the analysis, estimation and achievement of forecast for the macroeconomic or social-politic indicators of a country;*

o *The system based on rating classes/country risk in rapport with performances of the social-political, macroeconomic indicators.*

The first system is the most complex and it elaborates country risk rapports, which contain forecasts of the principal indicators which a country is characterized. These forecasts are usually achieved on short term (under tow years)or medium term (between 3 or 5 years)

On short term, the forecasts are oriented on the resources of the respective country, to anticipate the eventual depressions. The forecasts on medium term try to anticipate especially the evolution of the external payment balance, of the structure and the debt level of a country, but the evolution of factors which influences these aspects directly (the economical growth, the unemployment, the inflation and the social tensions). Generally, this wind of analysis is very expensive. One disadvantage could be that the obtained results, indifferently of chosen forecast methods; economical modeling, forecast over the respective indicators. The method does not provide for the investors possibility to compare countries in rapport with the risk level

The analysis system described is used in the financial institutions which operate to a global level: IMF or the International Bank, which condition the finance of the analyzed country in accordance with the political and macroeconomic performances of the countries. The system based on the rating class/country risk in rapport with the social-political and macroeconomic indicators performances, assumes the identification, the quantification and the estimate of the risk factors and in the end, the elaboration country risk classes. In this way it is provided a good compatibility between countries which have different geographical locations social, political and economical systems.

For the elaboration of a country classification system, it starts to the risk factors identification after that it is established the variables for these factors and in the end there are

analyzed the importance of these variables. In the last part the variables are analyzed and the results reflects the country risk level of the analysis.

One disadvantage of this method is the subjectivism degree, especially when it must be established the importance of every variable which participate to the formation of the country risk indicator. Another disadvantage is that the used indicators have different importance for the respective countries, and their values must be interpreted taking into account the development level and the economical-social structure of the country. Although these disadvantages, the system of the risk/rating class is used by the majority of the private investors, and by the rating agencies because it provide the possibility to compare the analyzed countries from risk point of view.

The classification model of the country risk described in this paper starts from to the identification of 5 groups of indicators which are relevant in the analysis of the country risk: *indicators which measure the social-economical performance; indicators which measure the application of the economical politics; indicators which measure the balance evolution of the external payment; indicators which measure the structure and the evolution of the external debt; indicators which measure the country social-political aspects;*

Every group of the indicators has a maximum score in the total score, which is the result of the each indicator score in accordance with its performances. The score for a country can contain values between zero for the maximal risk and 100 for the minimal risk. The model proposes 5 groups of risk, from A to E, on the base of which investment decisions can be made. The establishing in the respective risk groups are realized in relation to the obtained score, as follows:

- o *A Class* are framed the countries that have obtained 81-100 points. It represents the lower level of the country risk.
- o *B Class* are framed the countries that have obtained 66-80 points. It's a good level of the country risk and small. financial lost is possible.
- o *C Class* are framed the countries that have obtained 45-65 points, which corresponds to a critic level of the country risk and big financial lost is possible.
- o *D Class* are framed the countries that have obtained 35-44 points. It's a big level of the country risk and the financial lost can be total.
- o *E Class* are framed the countries with a maximum level of the country risk. Practically, the country is in the incapacity of paying and is recommended to avoid the transactions with titles emitted by this one.

The number of risk classes can be extended when is wanted the development of precision or of the future time analyses covers.

2. The Romanian Country Risk

2.1. Purpose of Analysis, Data and the Simulation

The analysis of the country risk presented in this paper, follows 2 main objects:
- o first of all, is described the evolution of the main macroeconomic indicators, for Romania, along the horizontal line: 1996-2004
- o second of all, a rating analysis was realized, for Romania, using the system described and was presented the evolution of the rating classes, where our country was established by rating agencies.

The data used in the analysis are statistic indicators through which it presented the evolution of our country, macroeconomic and social-politically along the horizontal analysis line, registered with a year frequency.

The starting point of the analysis was chosen the year 1996 because, it was the first year when the main rating agencies (Standard & Poor's, Moody's and Fitch-IBCA) realized a classification of the country risk for Romania, after our country passed to the market economy and the pluriparties decmocracy. The 1996 moment, practically marked the recoming of our country on the external financial markets by emitting emissions in American dollars and Japonesse Yen. The chart 36 presents chronologically the securities emitted by our country during the year 1996. To assure the compatibility of the information, all the indicators were transformed in American dollars, by reporting the values lei at the medium level of the changing course USD/ROL from the respective year. This method was preferred and not the reporting at the annual rate of inflation, because in the majority of international comparisons and in the analysis of the country risk, the statistic indicators are in American dollars.

Table .1 *The securities emitted by Romania in1996 on the international financial markets*

Currency	Total value equivalent USD	Maturity years	Date	Performance
USD	50	5	15.02.1996	Libor+2,25%
YEN	480	3	28.05.1996	5.20%
USD	225	3	25.06.1996	9.75%
YEN	269	5	20.09.1996	5.05%

The data used were the statistical year-book of Romania between 2000-2004 published by the Statistical National Institute and the market reports, yearly and monthly, published by the National Bank of Romania, between 1996-2004.

The paper presents the charts concerning the evolution of statistic indicators used by the analysis rating system, described previously for Romania between 1996-2004. In any analysis of the county risk, the most used indicator is the rhythm of the internal product. As we can see in figure 1, between 1996-2004, the GDP rhythm for our country had an oscillating evolution, recoding negative values between 1997-1999, and a spectacular increase in 2004. Not the same thing can be said about the GDP/habitant evolution, presented in figure 2, that registers the upper level in 1998. It's a very important that along the whole period, the value of this indicator is under the 3000EUR level, a fact that is characteristic to very poor economic countries, whose population has a low living standard. The weight of the budget deficit in the intern product (figure 3)reaches a maximum of -4.92% in 1996. But, starting with 2003 the value of this indicator situated over the critical level of -3.0%.
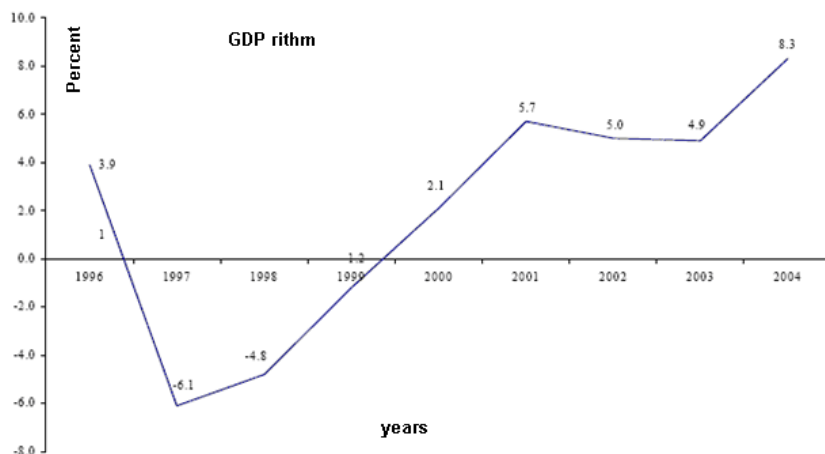
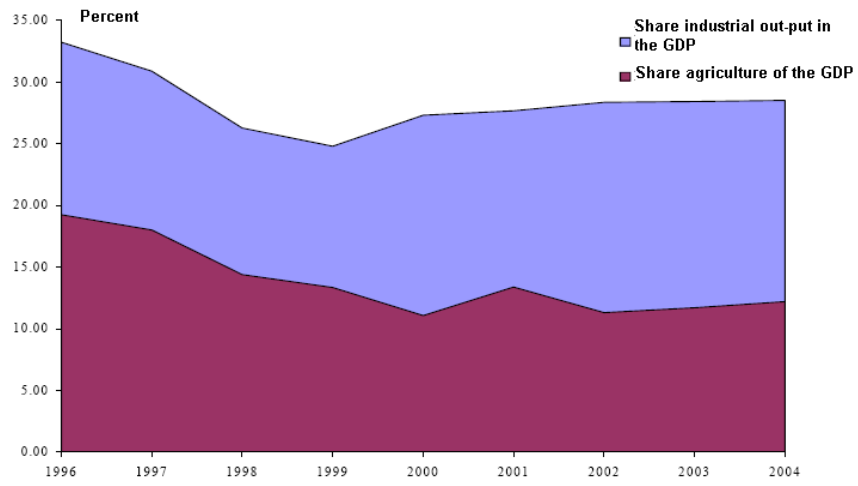**Figure 1.** The rhythm of GDP for Romania 1996-2004
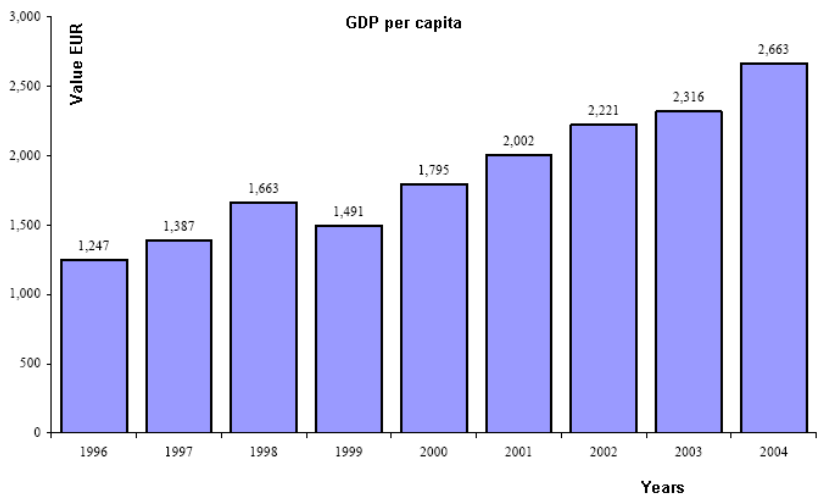
**Figure 2**. The evolution of the GDP/habitant for Romania 1996-2004
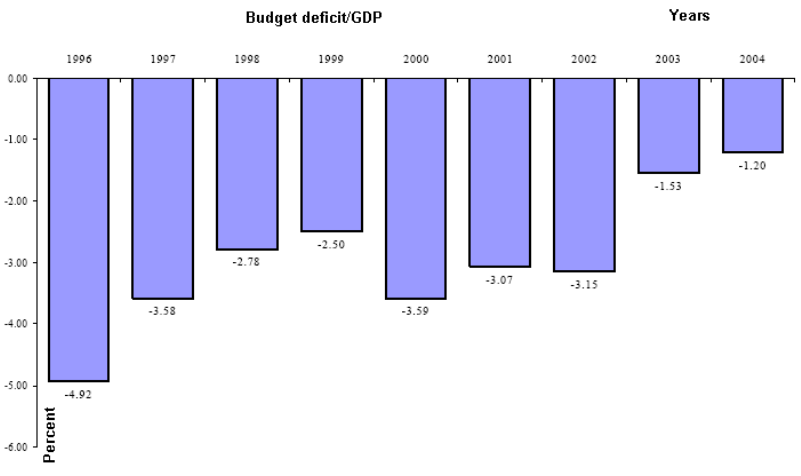
Figure 3. The evolution of percentage of Budget Deficit in GDP for Romania 1996-2004

Figure 4. The evolution of percentages of the sectors agricultural and industrial in the GDP for Romania 1996-2004


Although the weight of the agricultural domain at the GDP formation (figure 4) was reduced in favor of the industrial one, along the horizontal analysis line, in 2001, because of the growth of the agricultural production, its weight in GDP formation developed. But, in all the analyzed period, the weight of industry in GDP formation was bigger comparatively with the weight of agriculture.
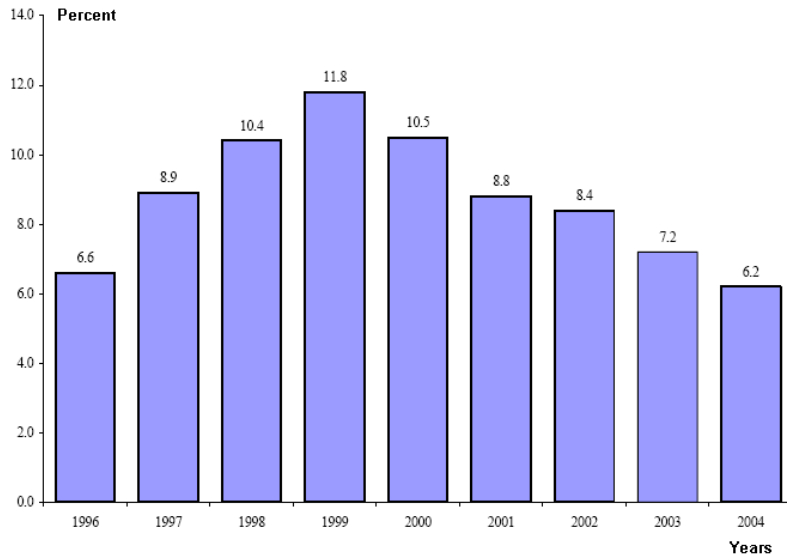
Figure 5. The evolution of unemployment rate for Romania in period 1996-2004

Starting for an lower level in 1996, the unemployment rate (figure 5) knows a growing trend, reaching a maximum in 1999. The main cause that determined this evolution was constituted by the starting of the restructuring process of the state institutions, and the especially of the mining domain. Starting with 2004, the unemployment rate enters a decreasing trend, as a result of creating new jobs, of an economic growing recorded in that period. In 2004, the unemployment rate records the lower level (6.2%).

As we can see in figure 6, the devaluation of the ROL in relation with the European coinage recorder the upper level in 1997 (77.16%). The lower level was recorded in 2004 when the national coinage was appreciated with 3.54% reporting to the European coinage. The depreciation policy was encouraged by the National Bank of Romania between 1996-2003, the main purpose being that of encouraging the exports and discouraging the imports. Starting with the second half of 2004, NBR moved to a new monetary policy, that envisages the stopping of the inflation and for this reason, the interventions for the depreciations of the national coinage reduced, fact that explains the reinforcement of ROL in relations to EUR.
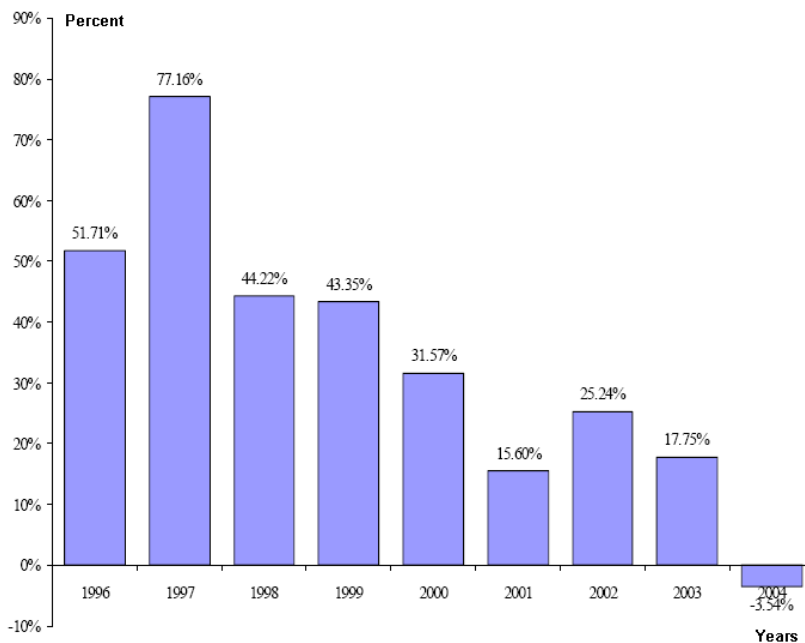

**Figure 6**. The depreciation of ROL reporting to EUR in period 1996-2004.

The strategy of NBR

between 1996-2003 pointed a depreciation controllable of the national coinage, that cat be situate under the level of the inflation rate (figure 7) and the chart of the depreciation of ROL in relation with USD.

Talking about choosing the reference coin, we must say that by March 2003, the reference coin was the American dollar and fro that moment on EURO became the reference coin. But, the national coin came depreciation in relation to the USD and the EUR, for reasons stated before.

After reaching the record level of 151.40% in 1997, the inflation rate (figure 7) had a powerful diminution evolution between 1997-1998, after that reaching a small growth in 1999 (54.80). Starting with 1999 the inflation rate reaches a gradual diminution, because in 2004, Romania registered one digit inflation rate (9.3%).
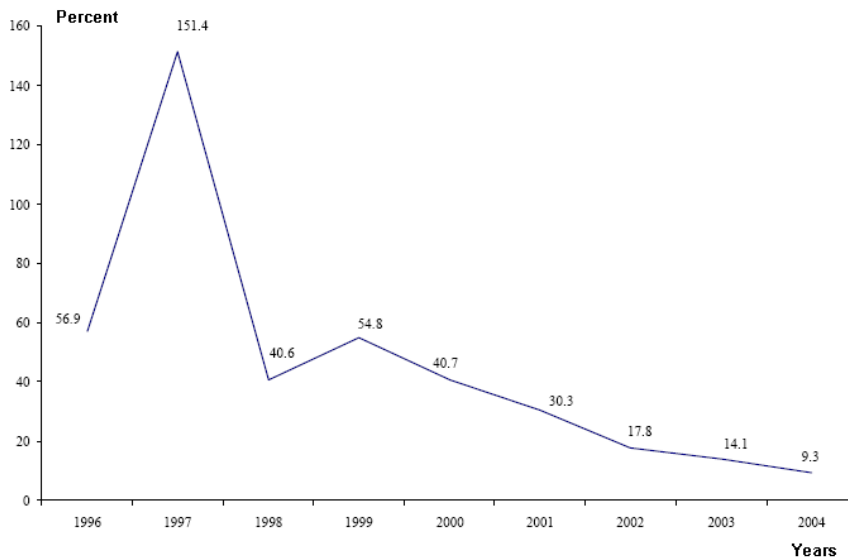
Figure 7. The evolution of inflation rate (end of period) for Romania 1996-2004.
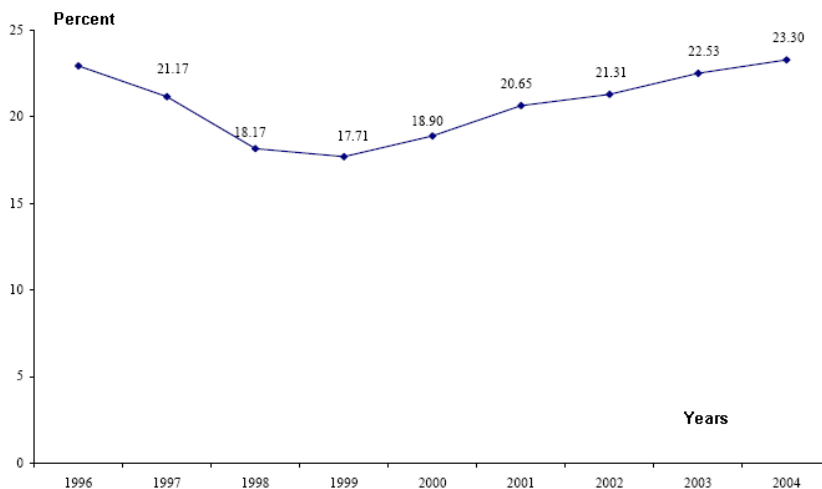
Figure 8. The evolution of percentage of internal investments in GDP for Romania 1996-2004.

In the analyzed period, the weight of internal investments in the intern product (figure 8) had an oscillating evolution, the highest level of the indicator being recorded in 2004 (23.30%). The lowest level was reached in1999 (17.71%), being followed by a growing tendency in the last years of the analysis horizon.

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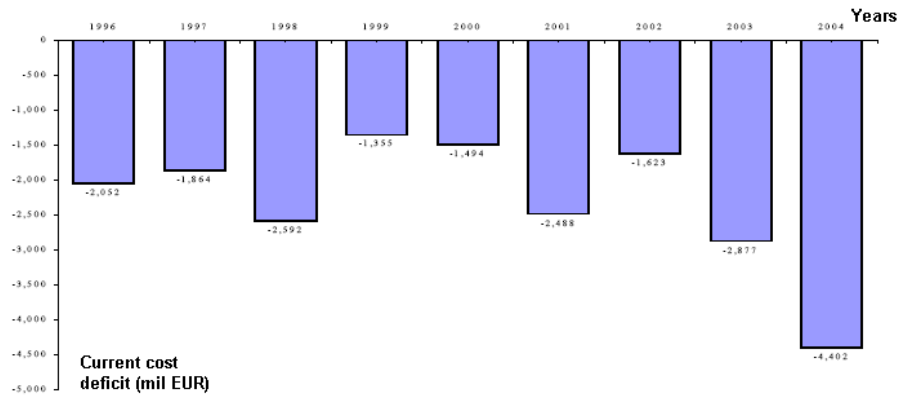
Figure 9. The evolution of current account sold of the external balance of payment for Romania 1996-2004.

Following the evolution of the current account of the external balance of payment (figure 9) we can see that between 1996-2004 Romania confronted with a big deficit of the current account, that reached a maximum level in 2004 (-4.402 millions EUR). These lacks of poise must be because of the little competence of exported Romanian goods, and of the appreciation, in real terms, of the national coin, especially in 2004.

The covering degree of imports through exports situated in the entire period under the 90.0% level. The lowest level of 76.0% was reached in 1998 and the highest level of 87.1% was reached the next year.

Following the growing of the currency deposits of the NBR, especially between 1999-2004, the import number of months covered by these deposits had an ascendant evolution in the mentioned period. From this perspective, the critical year was 1996, when the international currency deposits couldn't cover a month of imports.

As we can see in figure 10 the weight of the first 3 exported products in goods and merchandise export, reaches in all the period, the levels that are situated round the 50% value. The maximum level of 57.2% is reached in 1998and in 2003 the indicator reaches the second value of the period: 49.9%. It can be said that the goods exports in Romania is homogenous from the products categories point of view (on the first position: clothes, shoes and leather objects and electronic equipments and on the third position the metallurgic products). It's important to say that this chart is constant during the whole analyzed period.
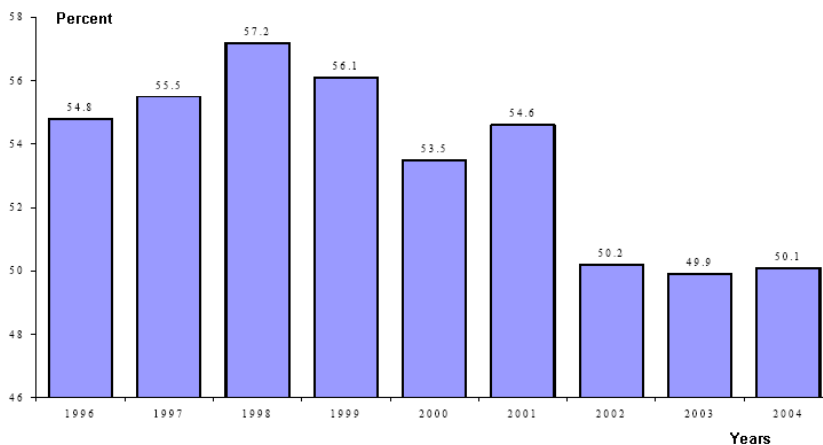
Figure 10. The dependence of exports (the export percentage of the first 3 products in total exports) for Romania 1996-2004.
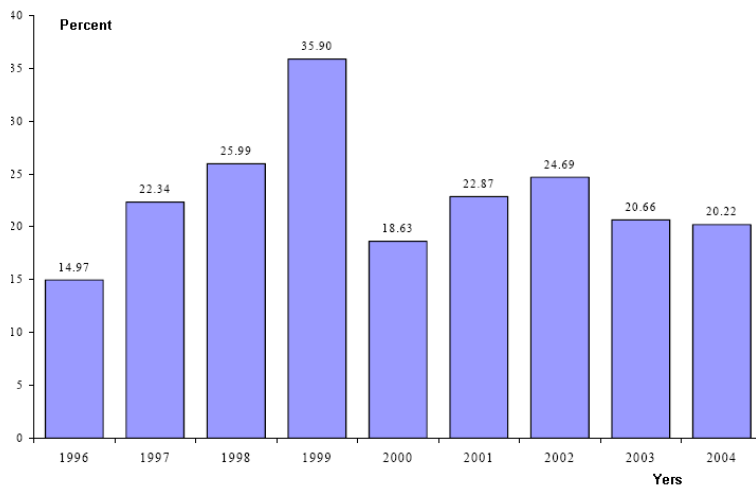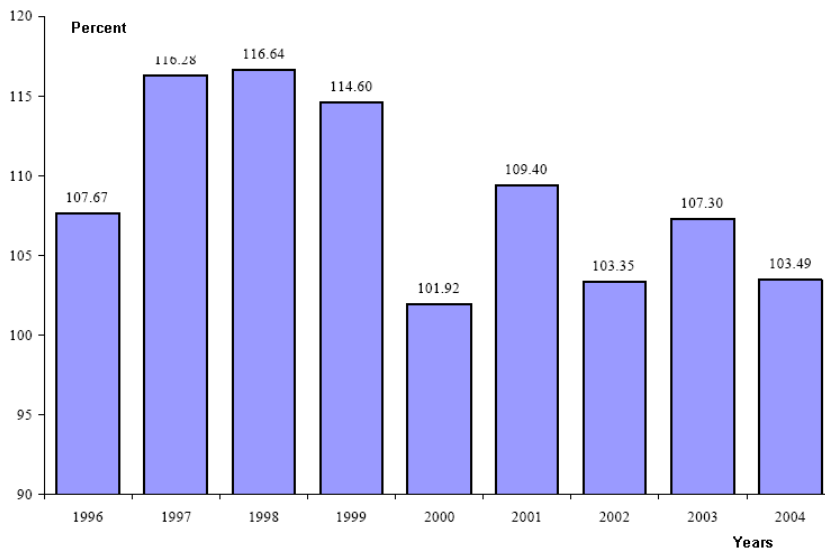
Figure 11. The evolution of external debt service reported to the volume of goods and services export for Romania in period 1996-2004.

The external debt service rate (figure 11) calculated as a report between the external debt service and the volume of goods export, reached the highest levels between 1997-1999, when it passed the 25.0% level, the level considered critical by specialists. This thing was due to the maturity periods between 1997-1999 where the loans achieved by our country reached.

Besides, the growth of this indicator in 1997-1999 created in the investment line the feeling that Romania cannot pay the external debt, but after 1999, when our country did not pay the debts, and the indicator reached again the normal prudent levels.

The weight of the external debt reported at the goods and services export (figure 12), registered during the whole period, values that overcome 100.0%, the highest levels, of over 116.0%, being registered in 1997 and 19998.

Figure 12. The evolution of total external debt reported to the volume of goods and services export for Romania in period 1996-2004.

Concerning the weight of the short term debt in the external debt (figure 13), that has known year after year big improvements. This way, the highest level (16.35%), was reached at the beginning of the period and the lowest level (2.95%) in 2001 after the indicator reaches a continually decreasing, reaching at the end of analysis period for the value to overcome 10%.

It can be said that Romania had an oscillating economic evolution. This phenomenon is due, first of all, to the dysfunctions our country met as a result of going from the centralized economy to a market one.
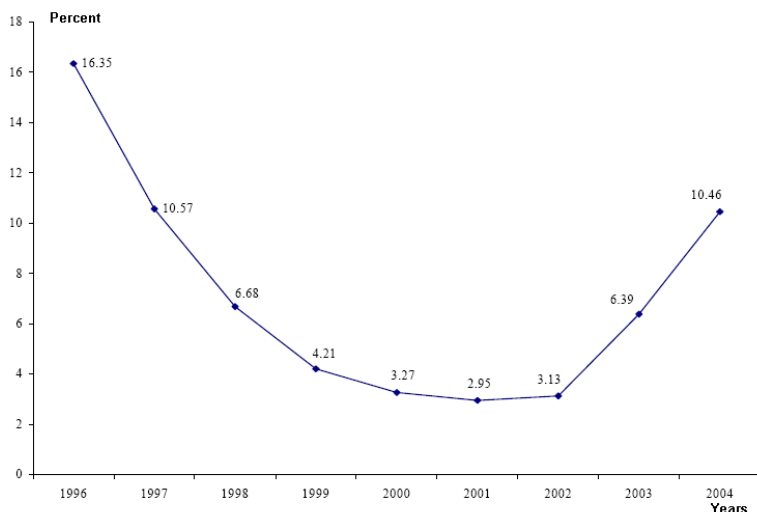
Figure 13. The evolution of external debt on short term reported to the total external debt.

The lack of a clear strategy enclosed by delays in the restructure of the state and the convenience to some interest groups in the privatization process, contributed at the evolution registered in that period.

More, the years 1996, 2000 and 2004 were electoral years for our country. After the elections, at the beginning of the period, the power was taken in a democratic way by the opposition with a liberal orientation, so that the year 2000 to point the recoming of the parties with social-democratic orientation , after which in 2004, the power went to the opposite parties. This process determined the respective governments, at least during the electoral year to take social measures that lead to the lagging of reform process and the decrease of financial international institutions trust in the leading political class.

2.3. Results

In accordance with every indicator, a score was accorded for every group indicators. In the end the country was classified in a rating class. In Table 2 Romania's maximum score for every year is presented and the adequate rating class to this score. The figure 14 presents the country rating evolution of Romania, in accordance with the described system.

Table 2. The maximum score and the Romanians rating classes between 1996-2004 in accordance with the system described

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004
Points	52	43	39	39	Cx50	55	60	62	67
Rating	C	D	D	D	C	C	C	C	B
	Critic level, are possible financial damage.	High level, the financial damage can be total	High level, the financial damage can be total	High level, the financial damage can be total	Critic level, are possible financial damage	Critic level, are possible financial damage	Critic level, are possible financial damage	Critic level, are possible financial damage	Good level, there are possible financial damage.

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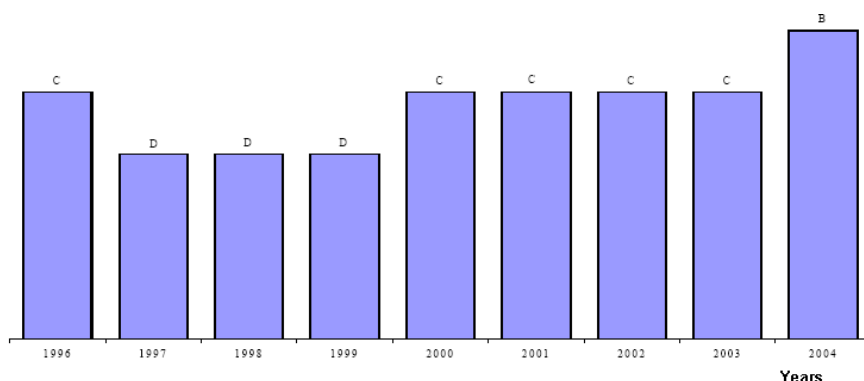
Figure 14. The country rating evolution from Romania in accordance with the system described between 1996-2004.

As observed, the application of this analysis rating system after 1996, our country had a classification deterioration between 1997-1999 and a bettering between 2000-2004. Because the system has a small number of risk classes we can not compare the respectively evolutions. Through this system application in years 2000 and 2003 our country belong to the same risk class like in 1996, and just in 2004 it has a bettering rating.

3.Conclusions

In this paper the statistic indicators were applied for country risk analysis from Romania. The most used classification method from the risk point of view, consists in the risk or rating system application. The rating analysis system application has advantages and disadvantages. The advantages is that it compares countries from different regions which have different social, political and economical systems. This aspects is essential in investment activities which financial-banking companies developed at the international level. From operational point of view, the big disadvantage is the systems incapacity to see on time the eventual crisis from the analyzed countries.

From methodologically point of view, in the specialization literature is criticized the analysis subjectivism. The important banking companies, which unfold their investments activities at an international level, have their own analysis rating systems, which are used with the specialization agencies classification. These methodologies are not published but they are the same with the described system in this paper.

In the analyses of this system it can be observed that the statistic indicators are essential for such methodology. More than that is preferred that the indicators weight from methodology must be bigger because the analyst work is easier. Unlike the statistic indicators, the unquantifiable indicators which characterized especially the political and social status of a country, they are difficult to interpret, reason for the score indicators implies subjectivism. In conclusion, just the uses of statistic indicators which are quantifiable offers a global image over the social and political macroeconomic performances, of a country, and for this reason it is recommended that they must be used in risk analysis. In this way it will be avoided the subjectivism of the unqualificable indicators

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