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Romanian Country Risk in the Context of the Adherence to the European Union

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Abstract:

The main aim of this paper is to analyse all possible characteristics related to the country risk factor for the state of Romania. The country risk factor is a measure of a risk related to economic, political, physical and other unforeseen events able to affect the stability of the financial sector in a certain country with immediate results in the profitability index of the multinational companies operated in the country especially banks. Nowadays, in the context of a very high rhythm of economic globalization and of international investor's expansion in multinational companies, the country risk factor is very important.

The paper tries to assess the Romanian country risk factor especially after the year 2007, when Romania has became a member of the European Union. Some comparisons between its country risk factor and that of the other new member states will be also made in an attempt to find out the relative position of Romania with respect to the other nations joined the European Union recently. A valid analysis of the business environment will be also presented as it is consider as a key element for the enterprises in order to be aware of the direction they are heading and contributes to improve the favorable factors they should develop to come out with the competitive advantage. The SWOT analysis will be used to emphasize the strengths, the weaknesses, the opportunities and the drawbacks of the Romanian business

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environment and their mode to influence the country risk factor of the state of Romania.

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1. Introduction

In what concerns the history of economic and social-politic development of Romania in the last decade, the most important step made by Romania was to join the European Union, a reality that provides both growth opportunities as well as some aspects that might slow down this process. The joining of Romania to the European Union on the 1rst of Januray 2007 undoubtfully represents the result for the efforts made by all the Romanian media in this respect for the last 19 years after the abolition of the communist regime. Today, at almost two years after the expected event, there appear the obvious positive effects of the integration over all the components of the Romanian society, in antithesis with the isolationist scenario that would have definitely generated higher costs then those of the integration.

The benefits mentioned by the majority of the analyists refer to the new business perspectives, to the access of Romanian companies on the European market, but also the the openings offered to foreign companies for the purpose of attracting foreign investments, which will translate by an important technology and performance transfer. Under these circumstances of a very high rate of business globalization and investors'expansion through multicorporations, we believe that, for any foreign capital investor that intends to enter another country's market, it is very important to know the details referring to the business environment of the respective country as well as the details referring to the country risk rate of the country where the respective business takes place.

Business environment represents a group of factors that *influence* the capacity of a company to develop and maintain succesful realtions and transactions with its partners. *Country risk* represents *the exposal to losses* that might occur in a business with a foreign partner, caused by economic, social, political or natural events, events that may or may not be controlled by the government of the respective country. Knowing this type of risk is important especially in the case of initiating business relations with foreign partners, which, under the circumstances on inter-nationality and business globalization, became a must.

The process of joining the European Union triggered the improvement of the business milieu and, implicitly, the country rating in many central and east-european countries, but implies many sacrifices as well.

2. The History of Romania before the Integration

The history of Romania's integration in the European economic group begun in 1955, when the European Council demanded ther Comission to present its point of view as far as the integration of Romania in the European Union is concerned, a result of handing in, on the 22 July, of the official request for integration. According to this request, on the 15 July 1997, there was born the so called communitary "aquis[4]", which harshly criticized Romania's request for integration. The final decision had as support the Copenhagen criteria, through which there was aknowledged that Romania reached an important development in the respect of the political conditions, but it underlined the fact that, on a medium term level (not mentioning the short term level), it would have great problems as far as economic competitivity and reaching the european competitivity level is concerned. At that moment, the greatest problem was the fact that legislative harmonization was not even a priority for our country and, on a structural level, nor the most elemenary legislations were adopted.

Beginning with 1998, the Comission drafted an annual monitoring. The first one admitted that the first Copenhagen criterion, that is the political stability, was fulfilled, but Romania was still not evolving as far as national economy is concerned and its competitivity became worse. In 1999 there were brought to surface the social issued regarding child protection and rromani discrimaintion. This year did not bring either any improvement in the general economic situation, but there was recorded great progress in the assuming of the communitary aquis.

Despite the major economic problems, the European Union suggested that the Comission should start neggociations and treaties for Romania's integration. The bench-mark for the official discussions was chosen to be the 15th of February 2000, this fact being mentioned in an annex to the report of the Helsinki Assembly in December 1999. In the same time at this date, it has begun the treaties with Slovakia, Lithuania and Malta, countries that succeeded to achieve, the requirements of the European Union three years sooner then Romania.

Simultaneously with the preparation for the beginning of negotiations, our country made a concentrated effort of defining a medium term economic strategy. This strategy, sustained though a political declaration of support from the entire Romanian political, social and economic milieu, was presented to the European Comission on the 20th of March 2000. On the 30th of May the action plan for putting into practice of the strategic objectives was approved and sent to the European Comission.

The strategy refers to the strict evaluation of the social costs of transition and reform promoting, as well as of the integration in the European Union, ensuring the necessary financial and legislative support. One of the strategic objectives was also *the creation of a favorable business environment, based on a coherent and steadfats*

[4] Official opinion of the European Union, represented by th European Comission.

legislative background that would ensure the development of market competition, decrease the transition costs and diminish the fiscal burden; promoting certain specific methods for stimulating small amd medium corporations; clear defininition of ownership rights, ensuring adequate administrative and legal structures able to inforce the law and respect contractual obligations.

Beginning with 2000, the country reports drafted by the European Comission describe an improving economic and social-politic situation, highlighting the social progress referring to minorities and legislative harmonization, while *in 2004*; Romania was granted *the status of economy on the functional market* – the last criterion to be met. Thus, the treaties for integration ended on the 14th of December 2004. The Copenhagen criteria were met with some exceptions; for eight areas Romania requested and received derogation from meeting the expectations of the Union. These areas were *the free circulation of services and capital, legislation regarding economic competition, agriculture, transportation, tax issue, energetic politics, and environment protection. The chapter with the most and more difficult problems was that of competitional policy, internal politics and justice.*

In 2002 there was determined the date of the integration for *the 1rst of January 2001*. Even if the year of the integration was supposd to be 2007, there was underlined the fact that Romania is expected to make great sacrifices in the period to come. For this purpose, in the integration treaty, as final disposition, was mentioned the fact that, in the case in which the country does not meet, up to the time of integration, all the commitments it made, this date might be moved to 1rst of January 2008.

The 25th of April 2005 was the date on which Romania together with Bulgaria signed the integration treaty with the European Unuion. In the context of this treaty, the two countries became full memebers begining with the 1rst of Januray 2007. Romania waited for 12 years for the integration to take place de jure. We say de jure since, as far as trade and partnership between Romania and the European group is concerned, the integration de facto was made before that. The failure of CAER brought by a rapid – but not abrupt – reorientation of the Romanian trade by the European Union, a phenomenon characteristic also to the other central and east-european countries. Until the end of 1999, more then 65% of Romania's exports were to the European Union, while imports from the European Union were 60%. The European Union represented in 2001 59.6% from Romania's trade flows. These numbers are comparable to the values of the inter-european tarde of many of the European Union member countries. There can be said that, at least from a commercial point of view – excepting some rate barriers for agriculture and several industrial areas protected by the European Union -, Romania integrated de facto in the community trade even before 2007.

3. Aspects Regarding Romania after the Integration

The year 2007 marks the passing from the aquis assuming stage to the aquis generating stage and the building of the political union. The fact that Romania joined UE in 2007 did not leave much time for companies to prepare themselves, unless done before. The business milieu becomes more competitive and Romanian companies have to compete with well known European companies.

Romania is currently under the observation by the European Union out of *two important reasons:*

• First, Romania is one of the two newly integrated countries and, as before this step it had to show stability and economic growth, now it has to show more and has to compare its forces and accomplishments „as member of a select club".

• Second, Romania belongs to an ambitious[5] project of the European Union as far as the development of the Black Sea area is concerned. This project has a high importance among the objective of the development policy of our country. Among these objectives there is also the consolidation of the cooperation within the Black Sea Organization of Economic Cooperation for unfolding and applying the already accepted projects (energy, financial-banking system, transportation, tourism), for the purpose of a more efficient relating of its activity to the priorities of national economy and interests Romanian business people.

Out of these two reasons, the development of economic competition and services in Romania is both the aim of our country and of the European Union.

4. SWOT Analysis of Pre and Post Romania's Integration

After 2007, the year of Romania's integration in the European Union, the Romanian business environment became friendlier for investors and the country rating given to Romania by various institutions increased. The methodologies for country risk analysis created up to now do not have an unitary character and interconnect with concept from the macroeconomic, political and social field. The majority of these methodologies are only analysis for the above mentioned fields that, according to the performances of several indicators, either measure synthetic country risk evaluation indicators, or subscribe the respective country to a certain class of rating (risk).

We believe it is useful to use the analysis of the Romanian economic standing with the help of the main economic-financial and monetary indicators for 2000-2007 (table 1). This period is very important for the economic standing of our country since it coincides with *the beginning of the negotiations and treaties referring to*

[5] Initiative of instituionalizing the interest For the Black Sea area existed since 1992, when 11 states around it created The Black Sea Organization of Economic Cooperation (BSEC), that defined as its purpose the gradual integration of the region in world economy, especially in the european. There was taken into account the market potential and the resources of the area. The European Union did not clearly define a policy for The Black Sea region, but the example of the euro-mediteranean partnership or the initiatives of Finald of cooperating in the northern region imply that, in a short period of time, such a policy will emerge.

Romania's integration to the EU (15 February 2000), with Romania obtaining the status of functional economy (2004) and the integration on the European structures (1 January 2007).

Table 1. Situation of the principal macroeconomic indicators at the level of the Romanian economy for the period 2000-2007

	UM	2000	2001	2002	2003	2004	2005	2006	2007
ECONOMIC GROWTH AND ASSOCIATED FACTORS									
Value of Gross Domestic Product GDP	Mil. lei (RON)	80377,3	116768,7	151475,1	197564,8	246468,8	288047,8	342418	**404708,8**
Rhythm of growth of GDP	%	2.1	5.7	5	4.9	8.3	4.1	7.7	**6**
Rhythm of growth of the industrial production	%	7.1	8.4	6	3.1	4.3	2.5	6.9	**5.1**
Rhythm of growth of the final consume	%	1.4	6.3	2.4	6.9	10.2	8.5	12.6	**10.2**
Raw formation of fixed capital	%	5.5	10.1	8.2	9.2	10.1	13	16.1	**28,.9**
TRADE AND INVESTMENTS									
FOB exports	Mil. Euro	11273	12722	14675	15614	18935	22255	25850,5	**29380,3**
FOB imports	Mil. Euro	13140	16045	17427	19569	24258	30061	40745,8	**50882,6**
Trade balance	Mil Euro	-1867	-3323	-2752	-3995	-5323	-7806	-14895,3	**-21502,3**
Direct foreign investments	Mil Euro	1147	1294	1212	1946	5183	5213	9082	**7069**
Deficit of current account	Mil Euro	-1494	-2488	-1623	-3060	-5098	-6883	-9973	**-16872**
INFLATION									
IPC(end of the year)	%	40.7	30.3	17.8	14.1	9.3	8.6	4.9	**6.57**
IPC(mean)	%	45.7	34.5	22.5	15.3	11.9	9.0	6.03	**5**
LABOUR									
Population in charge	Thousands of people	4623	4619	4568	4591	4420	4704	4575	**4717,2**
Unemployed	Thousands of people	1007	827	761	659	558	523	460,5	**367,8**
Rate of unemployment (end of the year)	%	10.5	8.8	8.4	7.4	6.2	5.9	5.2	**4.1**
EXCHANGE RATE									
RON/USD (end of the year)	-	2.5926	3.1597	3.3500	3.2595	2.9067	3.1078	2.5676	**2.4564**
RON/USD (mean)	-	2.1693	2.9061	3.3055	3.3200	3.2637	2.9137	2.8090	**2.4383**
RON/EUR (end of the year)	-	2.4118	2.7881	3.4919	4.1117	3.9663	3.6771	3.3817	**3.6102**
RON/EUR (mean)	-	1.9956	2.6027	3.1255	3.7556	4.0532	3.6234	3.5245	**3.3373**

Source: *The reports of the National Bank of Romania (http://www.bnr.ro/) and the Statistic Yearbooks of Romania during 2000-2007 edited by the National Institute of Statistics (http://www.insse.ro/)*

The analysis of data from the table and other data we hold shows us some important aspects during the respective period, especially in 2007, regarding the situation of Romania:

- The increase of the GDP in the last two years is an actual fact. We can say that the Romanian people started to work better and harder. In the first semester of 2006 it was recorded the biggest rhythm of growth of the Gross Domestic Product (GDP) from 2001 until now: 7,4%, compared to the same period of the year 2005, according to the National Institute of Statistics. A special support to this performance was brought by the growth of productivity of work. The high level of productivity of work reflects the result of correct restructuring measures. Re-allotment of sources (for example migration of labour from the industrial sector to agriculture; subventions alloted to heavy industry, most from the state) has partially altered the real economic growth. If in 2007, after Romania's adherence to the European Union the Romanian state no longer alloted subventions to the mining sector. Unprofitable mines were closed or will be closed. We are speaking of about 370 localities from 22 counties that are affected from a social and economic point of view. Romania has a strategy of restructuring of mining societies, but besides these mining areas need social and economic regeneration. The main purpose of the project is increasing the capacity of local communities to administrate the economic and socială situation in the area. The project has created business centres and offered support for new entrepreneurs. There was also a component of microcredits (there were offered approximately 2.500 microcredits with a total value of 5.589.140 dollars) and one for financial stimulents for employers and for reforming of manpower (at the end of the project for 2006 there were reported 6.736 newly created workplaces).
- Although Romania's exports depend to a considerable extent on the process of transformation of raw materials in end products, there was not possible to balance the export and the import. One example in this sense is Romania's commercial deficit in the agriculture and food sector. The degree of coverage of imports by exports maintains at about 80% by year.
- One potential winner of the market liberalization could be the sector of services because of the fact that it is relatively intensive in latest technologies (thus losing its competitivity) and especially because it includes in a percentage of 60% work force. It is estimated a constant decrease of the competitive disadvantage from the European Union, due to the unitary cost of the Romanian manpower which is much under the European one and due to gain in efficiency through imports of technology. Therefore, services contribute to the sold of the general balance sheet and to the macroeconomic development of the country.
- The domain from which Romania could take much profit is that where exported „products" are „intensive in manpower" while from imports it could

win only if the products are „intensive in technology", but not the goods of final use, that have no impact or significance for Romania's production or exports, but machines and equipment used as inputs for the sectors less intensive in technology.

- In 2004 from the total of manpower employed 30 % were working in services, compared to 31,5% hired in agriculture domains, 25,9% in industry, 10,3 % in the commerce and 2,3% in other domains. Even if at the end of 2007, Romania records the lower rate of unemployment from the entire period analyzed, the truth is that we deal with an under-use of existing manpower and in the context of the future deficit of manpower from the European Union, Romania has great chances to become a source for the attraction of human resources by European industries[6] (either directly, through migration of labour, or indirectly, by subcontracting). As a matter of fact, this thing is in progress now and is starting to become a threat to the Romanian manpower market. From the second half of 2007 Romania has also started to face the lack of specialized labour especially in the domain of services. This situation would not be such a great matter in the hypothesis of repatriation the income. The problem lies however elsewhere. More than half of the money sent in the country by the Romanian people goes to rural areas. In the stage of the development of Romanian rural from 2007 this repatriation exclusively means consum, so the sums brought back in the country are not invested, decreasing the chances for a real contribution to the formation of GNP.
- Romania succeeded to attract more direct foreign investments than we would have expected according to the relative oart it holds from the world gross national product. This means that it makes visible efforts to attract investments and is going through continuous liberalization. In this context Romania offers good perspectives of economic growth, a high level of qualification of manpower, considerable natural resources, capacities in the domain of scientific research, advanced infrastructure and an efficient financial support especially due to massive privatisations from these domains in the past 7 years.
- The summer drought has strongly affected the economic growth, this being placed at the level of 6% and has determined the increase of inflation not only for 2007 but also for 2008
- The first year in the European Union brought some important news for Romanian economy. The most important of these is the great fluctuation of money exchange, after long periods in which the rate of exchange was heading in a single direction. Now during the same year we have witnessed a record-appreciation (at the middle of August 2007, the rate of exchange leu/Euro being of 3,15 lei/Euro) and a record devaluation (at the end of 2007,

[6]We include here in the name of industry the domain of services.

the rate of exchange leu/Euro being of 3,61 lei/Euro) with a disparity of almost 20%. This was due, on the one hand, to the increase of prices at food because of the drought that affected the agriculture, and on the other hand, to the world economic crisis generated by the fall of real estate markets from the SUA and Great Britain, and to the inflation from the EU.

- The rhythm of growth of imports up the rhythm of growth of exports situated Romania on the 5th place among the EU states in what concerns the extent of the commercial deficit. Moreover, the deficit of current account and the worsening of the perspective of country rating are other factors that reduced the interest of investors for Romania. At the end of January 2008, the rating agency Fitch had to change from „stable” to „negative” Romania’s perspective, as result of the deepening of the deficit of current account, one of the biggest in the world, it is shown in the press communicate quoted by Standard Business.
- The lowering of the interest of investors because of the decline of macroeconomic indicators, in what regards the transactions from the Stock Exchange Bucureşti, has reduced the mean volume transactioned, in November, to 14,2 million Euro compared to 22,8 million Euro in July (according to statements made by chief-economist from East Capital).
- With all these, in 2007 there were recorded unprecedented growths in almost all domains of activity, only agriculture passed through the worst year after the Revolution, because of the drought, causing unfavourable effects in the food industry.
- The incomes grew in 2007 in a rhythm that places Romania on the second place in the EU and on the fourth place in the world, while sales of cars and goods surpassed any previous expectations and constructions went from record to record, even if it is recorded a deficit of manpower in this sector (of approximately 150.000 workers).

We present below a SWOT analysis of the Romanian business environment on which are based the ratings given to the Romanian business environment.

Table 1. The SWOT analysis of the Romanian business environment

STRENGHTS	WEAKNESSES
Human resources, social capital, infrastructure of education and research ►Great amount of manpower, at low costs and an acceptable level of initial education ; ►The existence of infrastructure of research and training (achools and institutes) specialized on important domains of activity such as: wood processing, machine construction, machine components, industrial equipment, textiles, chemicals etc. ►The educational system has the infrastructure, the institution and human resources well—prepared and distributed in territory in strategic domains (IT&C, textiles, furniture, chemicals and oil-chemicals, engineering) ; ►The good concentration of foreign languages speakers in the big cities; ►Very well-prepared specialists with key positions in transnational companies; ►Cultural heritage specific to the European context. **Natural resources and the environment** ►Natural resources available for wood processing (90% of the main types of regenerative wood), quality of soil; ►Increased biodiversity, climatic conditions good for the health and unique ecology systems as the Danube Delta; ►Natural conditions good for the agriculture. **Other significant factors regarding competitivity** ►Friendly business environment and a national infrastructure in course of modernization with UE funds. Macroeconomic stability. ►The existence of industries able to provide and adapt the offer within the national value chain for the integration on vertical of the products of strategic sectors such as: furniture, car industry, chemicals, electric objects, metal processing and IT&C;	**Human resources, social capital, infrastructure of education and research** ►Lack of synchronization, communication and cooperation between companies, research institutions and the public sector; between banks and companies; between the suppliers of utilities and natural resources and processors; ►Insufficient connections and cooperation between the needs of the business sector and the educational system in the curriculum area (IT, furniture, textiles); ►Low capacity of association in a business or between firms in order to create marketing, branding centres etc. ►Low level of knowledge about foreign markets and the effects of the UE integration, globalization and liberalization; ►Lack of understanding the need of quality control and certification, of creating and protecting brands and industrial property or of the requirements, advantages and priorities for a lasting development, rural development and protection of environment; ►Focus on sectors with low added value/strategies based on reduced costs; ►Insufficient capacity of industries (IT, ecology agriculture, food processing) to absorb funds due to low demand and lack of entrepreneur skills; ►Lack of management skills and brand building and networks of distribution on foreign markets which determine a low degree of market sophistication ►Insufficient marketing resources, market development and promotion at the level of company, association, macroeconomic and public level; ►Lack of experience of farmers in creating business plans and getting financing from available sources like the UE SAPARD program; ►Low adaptability of manpower and low level of learning all along the time of life; ►An important segment of population affected by poverty and social exclusion

►Complementarities and capacity of vertical specialization in European industries like car construction, car components etc.; ►Long tradition in manufacturing sectors like: textiles, wood processing, chemistry and oil chemistry, metal processing; ►Governmental support for strategic sectors in certain key areas such as: development of the infrastructure IT&C; ►Increased interest and pro-active attitude of business associations for ecologic farms and the special priority of this sector in the programs of adherence and integration Romania-UE combined with the introduction of legislation accordingly; ►The measure of the internal market; ►Favourable geographic conditions such as: fast connections with foreign markets with good possibilities of car, railway, sea and Danubian transport.	**Natural resources and the environment** ►High level of wood cutting and use of wood resources in primary industries with small added value, such as export of unprocessed wood and timber; ►Low protection and promotion of biodiversity; ►Inefficient agriculture (exceedingly intensive in labour), the excessively fragmented agriculture surface; ►Poorly developed touristic infrastructure and inadequate marketing; ► High energy intensity **Other factors significant for competitivity** ►Technological disparity and low level of modernization of technologies (viticulture, furniture and other processing sectors), low productivity, high costs (excepting the labour); ►Disparity from advanced standards of quality and environment; ►Digital disparity in the electronic commerce, e-business and the use of IT services and of computer-assisted technologies; high costs for the Internet and phone infrastructure; ►Lack of information about markets and marketing skills; ►The inexistence of a coherent image of sectors; ►The business environment is still altered by monopol agreements, corruption cases and the lack of collaboration, communication, transparency; ►Connections with producers of textiles, ornaments, accesories etc. of companies from the final sectors (clothing and textiles) were broken; ►Weak links on the value chain between final processors of oil-chemical goods such as tyres, plastic materials etc. and suppliers of raw materials and increased costs of production in primary industries ; ►Financial blockings at the level of productive companies; ►Lack of cooperation between foreign investments in sectors considered as an important source of managerial know-how, transfer of technology and access to foreign markets and

	other production factories within the respective sectors, even if they have different production profiles; ►Insufficient efforts of restructuring and recapitalization for the infusion of new technologies capable of helping the sector and create and increase the added value of the product; ►Dependence on raw materials and imported accessories such as: lack of offers of local raw materials and insufficient technical endowment of primary sectors; ►Flawed local legislation regarding the commerce of goods, exports and transport; ► Degraded and insufficient infrastructure/ Low accessibility inside and outside the country.
OPPORTUNITIES **Human resources, social capital, infrastructure of education and research** ►Romania's adherence to the UE. Romania will benefit from the UE of research and education infrastructures, legislation framework and support schemes; ►Education and research will be more tied to production; ►Good general knowledge of foreign languages allowing the development of delocalizaed services; ►Dimension (the second country as population from the new member states -10+2 and the seventh of all UE countries); ►New sources of investment, including the Structural and Cohesion Funds; ►Development of business infrastructure; ►Bigger direct foreign investments; ►Modernization of the capital and of other city centres where most of the learned population lives; ► The necessity/acceptation of the need to change; **Natural resources and the environment** ►Increased interest for the protection of environment and biodiversity in the world and in Europe;	**THREATS** **Human resources, social capital, infrastructure of education and research** ►External brain drain, especially in the case of IT specialists, engineers, mathematicians, inventors; ►Lack of a well-developed school of industrial design with connections with the business environment in important production sectors such as: textiles, clothing, furniture etc. ►Focusing of human resources upon unspecialized activities with small gains; ►Lack of interest of enterprises regarding the use of the results of the activities of research-development and innovation for the improvement of competitivity of products and services; ►Low interest for innovation and original brands. **Natural resources and the environment** ►Loss of biodiversity and rural cultural heritage because of chaotic economic activities; ►Concentration of activities in cities and an unbalanced development between cities and rural areas; ►Climatic changes/degradation of the natural environment. **Other factors significant for competitivity** ►Integration but not convergence within the EU; ►Greater exposure to competition on globalized

►A new type of consumer, interested in ecology, protection of environment, biodiversity; ► Romania as touristic destination – niche tourism -potential knot in the region for natural gases and electric energy transport ►Modernization of agriculture **Other factors significant for competitivity** ►Romanian enterprises will benefit of the scale economy of the great community market; ►Liberalization and globalization of commerce and the modernization of business models; ►Delocalization and growth of competition between CTNs and IMMs to set or enter world value chains; ►The great importance given by the UE to the "new economy" and the high-tech sectors, development of infrastructure, energy efficiency, protection of environment; ►The existence of IT&C, electric, electronic and hardware industries relatively developed and a great number of specialists in this domain who can face the requirements of informatisation; The application of e-commerce/e-governing techniques ►Complete liberalization of public acquisitions	markets; ►Value chains of the strategic sectors are inefficient and weak, having reduced profits and being much too dependent on international value chains; ►Strenghtening of Romania's position/image as an economy focused on sectors with low added value; ►Poor e-business infrastructure; ►Lack of significant information about the market in highly specialized domains (IT externalization, industrial subcontracting, organical farms); ►Unconssistent country branding; ►Low productivity and efficiency in the consume of utilities and raw materials as compared to competition; ►Aggresive foreign competition borrowing segments from the local market in sectors such as: textiles, furniture, metal and wood processing etc. due to liberalization and integration. ►migration of certain industrial sectors towards external locations with lower costs ►long periods of stagnation/economic decline at European or world level

Source: *The authors' prelucrations*

Considering this SWOT analysis we can say that the Romanian economy has a relatively small level of competitivity in the European context, and Romania attracted smaller investments per capital, as compared to other countries from the region, because of the absence of a transparent legislation frame and an increased competition in the region. The competitive disparity compared to the rest of the EU member states cannot be ignored in the conditions of the importance the European market has for Romania. It is very likely for this disparity to grow within the perspective of an even greater liberalization and integration of the world commerce, leaving the Romanian exporters in a critical situation.

5. Synthesis of the Macroeconomical Analysis: Determining Country Ratings for Romania as Compared to Other Central and East-European Countries

The institutions wich make the syntetical analysis regarding the country risk are various among them we can mention the most *four* importants as folow: Political Risk Services: International Country Risk Guide (ICRG);Standard and Poor's Rating Group; Moody's Investor Services ;Fitch Ratings.

Besides them, there are the risk measuring services inside of the follwoing *economic institutions and units*: Bank of America World Information Services, World Bank; Business Environment Risk Intelligence (BERI); Institutional Investor; Coface; Political Risk Services;Coplin-O'Leary Rating System; A.T. Kearney Global Services Location Index; Ducroire-Delcredere Country Risks etc.

According to the annual report „Doing Business 2008”[7] made by the World Bank, one year after the integration in the European Union, due to the reform in the credits and tax paying areas, Romania has the place 48 out of 176 in the classification of the states with the most favorable business environment. This classification was made according to a methodology based on the data in 10 fields referring to the period April 2006 - June 2007.

The classification made by the World Bank and the International Finance Corporation is based on time and cost indicators meant to respect the requirements of public administration about the setting of a business, the functioning, commercial activity, fiscality and closing of the business. This classification does not concern variables such as the macroeconomic policy or quality of infrastructure, the fluidity of currency, the perception of investors or the rate of criminality.

According to this classification regarding the attractivity of the business environment, Romania steps 7 positions compared to the previous year (from the 55th place), recording significant progress only in two of 10 domains, after which the classification was realized, namely: *the easiness to contract credits* (from 32 in 2006, to 13 in 2007) and *the easiness to close (liquidate) a business* (from 109 to 81). It stepped one position from the previous year in what concerns the domain of *tax payment* (from 135 to 134) and the domain of *transborder transactions* (from 39 to 38). In exchange, regresses were recorded with the results obtained in five of the most significant domains (less than 12 places from 2006) as follows: *the setting of a business* (from 14 to 26), *the staff employment* (from 133 to 145), *the property recording* (less than 11 places from 2006, from 112 to 123). At chapters *obtaining of licenses* and *protection of investors*, there was also some regress, less significant however (from 87 to 90, respectively from 32 to 33). In a single domain – *the contract application* – Romania occupied the same position in both years (position 37).

If we take into account the classification for the area of Eastern Europe-Central Asia, Romania stands, according to the same report, on the 9th place of the 28

[7] http://www.doingbusiness.org/economyrankings/

countries, after Estony, Georgia, Latvia, Lithuania, Slovakia, Armenia, Hungary and Bulgaria, being followed by Slovenia, Czech Republic, Turkey, Kazakhstan, Poland.

Within the region, Romania stands out by the attractivity of the business environment, occupying the first 5 places at the following chapters: *the easiness to contract a credit* (2nd place in the region), *protection of investitors* (3rd place), *the easiness to start a business* (4th place), *transborder transactions* (5th place). Among the 28 economies of the region, Romania stands in the middle of the classification at the following chapters: *obtaining of licenses* (the11 th place), *application of contracts* (the 13th place) and *closing (liquidation) of a business* (the 15th place). It is situated on the last places at 3 of the 10 chapters according to which the classification was made, namely: *tax payment* (the 20th place), *staff employment and property record* (the 26th place). The leader of the group that realized this report, Simeon Djankov, pointed out the fact that states from Eastern Europe and the former Soviet block surpassed the states of Eastern Asia in what concerns the attractivity of the business environment, some of them even compared to states from Western Europe (for example Estonia, Georgia, Latvia, Lithuania which are nowadays classified in front of countries like Belgium, Germany, Austria or France).

A classification made by the Economist Intelligence Unit (EIU)[8] forecasts that in 2008 Romania would stand on the 45th place with 5,46 points on a scale from 1 to 10. Thus, Romania maintains the place obtained in 2007 when it got 5,32 points.

The classification was made on basis of data obtained at the level of economies from 70 states all over the world. To make the top there were taken into consideration *100 quantitative and qualitative variables* organised into *six distinct categories*, feed into the e-readiness rankings. The six categories (and their weight in the model) are[9]:

- *Connectivity and technology infrastructure (20%);*
- *Business environment (15%)*; As in previous years, scoring model in 2008 makes use of our existing Business Environment Rankings, which evaluates over 70 separate indicators grouped in ten categories of criteria, such as political stability, macroeconomic health and the country's overall policy towards free enterprise. Utilising these allows us to assess each country's ability to maintain a stable, secure and unfettered place to conduct commerce in the manner in which it attracts and fosters (or repels and hinders) digital commerce. The rankings for this category reflect our view of each country's expected performance in the five-year period of 2008-2012[10];
- *Social and cultural environment (15%);*
- *Legal and policy environment (10%);*
- *Government policy and vision (15%);*

[8] http://www.eiuresources.com/mediadir/

[9] www.eiu.com/sponsor/ibm/e-readinessrankings2008

[10] „E-readiness rankings 2008. Maintaining momentum A white paper from the Economist Intelligence Unit", The Economist Written in co-operation with The IBM Institute for Business Value

- *Consumer and business adoption (25%).*

The data used in the rankings are sourced from the Economist Intelligence Unit, Pyramid Research, the World Bank, the World Intellectual Property Organisation and others. Qualitative criteria are assessed by the Economist Intelligence Unit's extensive network of country experts, and their assessments are reviewed by top economists.

In the classification on regions, most points (the first three places), for the region of Central and Eastern Europe (see table 3) were obtained by countries like: Estonia, Slovenia, Czech Republic (these being the countries with most „nominations" for the first three places), then Slovakia, Lithuania and Hungary, each with one „nominalization" for the first three places in the categories the classification was made. In the following table we present the situation of the top of countries from Central and Eastern Europe, on categories of criteria and points.

TABLE 3
The situation of the classification of countries from the region of Central and Eastern Europe in top 70

Categories of criteria **Country**	**Connectivity and technology infrastructure (20%)**	**Business environment (15%)**	**Social and cultural environment (15%)**	**Legal environment (10%)**	**Government and vision (15%)**	**Consumer and business adoption (25%)**	**Overall score**	**Place 2008/ 2007**
Estonia	**6,50 (*)**	**7,81 (*)**	6,73	**7,80 (*)**	**6,25 (*)**	**7,60 (**)**	**7,10**	**28**/28
Slovenia	**6.40 (**)**	7.32	**7.00 (*)**	6.60	**6.10 (**)**	**7.70 (*)**	**6.93**	**29**/29
Czech Republic	**5.95 (***)**	**7.42 (**)**	**6.87 (**)**	**6.90 (***)**	**5.70 (***)**	**7.20 (***)**	**6.68**	**31**/31
Hungary	5.30	7.08	6.47	6.90	5.55	6.75	**6.30**	**33**/34
Slovakia	5.40	**7.42 (***)**	**6.40 (***)**	6.90	4.70	6.05	**6.05**	**36**/39
Latvia	5.60	7.10	6.20	6.90	4.70	6.10	**6,03**	**37**/37
Lithuania	5.00	7.09	6.33	**7.20 (**)**	4.70	6.35	**6,03**	**38**/41
Romania	4.70	6.57	5.47	6.30	5.25	5.20	**5,46**	**45**/45
Bulgaria	4.40	6.79	5.33	6.30	4.55	4.70	**5,19**	**48**/48
The symbols (*), (**), (***) attached to the points alloted to criteria according to which the classification is made, signify the position (I, II, III) the respective country occupies by the amount of points obtained to one of the 6 criteria, for the Central and Eastern European region								

Source: *„E-readiness rankings 2008. Maintaining momentum A white paper from the Economist Intelligence Unit",The Economist written in co-operation with The IBM Institute for Business Value.*

The process of adherence to the European Union triggered off the improvement of the business environment in many of the states from Central and Eastern Europe, however these states' motivation to implement reforms decreases once with the acquiring of the quality of member of the European community, according to the report realized by the European Intelligence Unit (EIU). At the international level, the same report assesses that the business environment will maintain favourable for the next five years (2008-20012), in spite of obstacles like: the intensification of protectionism, the risks of the security system and macroeconomic disturbances, which might transform in big global threats. With all these, the process of globalization is still yet to go on. The international trend of liberalization and regulation will be further sustained by important factors, such as the increasing concurential pressures upon multinational companies and the competition between different countries for foreign investments.

A second quantification model of country risk that we wish to bring to attention is that issued by the Coface Company. Coface Company, with headquarters in Paris, is represented in 65 countries by its subsidiaries and in other 93 countries CreditAlliance network. Coface Romania is leader of the Romanian market of risk management.

Coface reunites specialists and experts from the financial, banking and research fields. It evaluates the trends of world economy from the point of view of:

- recent events
- their effect on the stading of companies

Coface issues ratings on 153 countries around the worls, measures the medium risk of payment incidents for companies from a certain country, indicates the degree in which the payment capacity of companies from a certain country is influenced by the political, financial and economic perspectives of the respective country.

The methodology for determining the country risk, according to Coface, takes into account 7 types of indicators:

- *Development vulnearbility*
- *Political and institutional instability*
- *Fragility of the banking system*
- *Foreign currency liquidity crisis*
- *External leverage degree*
- *Vulnerability to foreign capital*
- *Companies' payment behaviour*

Coface Romania added *for the first time in 2008* to the calculation modality of risk a microeconomical perspective. The new rating takes into account *the business climate and refers to the availability and trustworthiness of financial data, legislative system; especially as far as bankruptcies and creditors protection is concerned.*

This company classifies or divided country risk in several categories:

A1: A secure political and economical milieu has positive effects over an already good payment habit of companies. There is a very weak unpayment probability.

A2: Unpayment probability is still low, even if in the case in which the economic and political environment of a country or the payment history is not as good as that of A1 rated countries.

A3: Unfavorable political or economical circumstances may lead to worse payment behaviour, already lower then the one of the previous categories, even if unpayment probability is still low.

A4: A mediocre payment history that can become worse on the background of a deteriorating political and economical envrionment. Nevertheless, the unpayment probability is still acceptable.

B: An unstable political and economical environment that might further affect an already poor payment history.

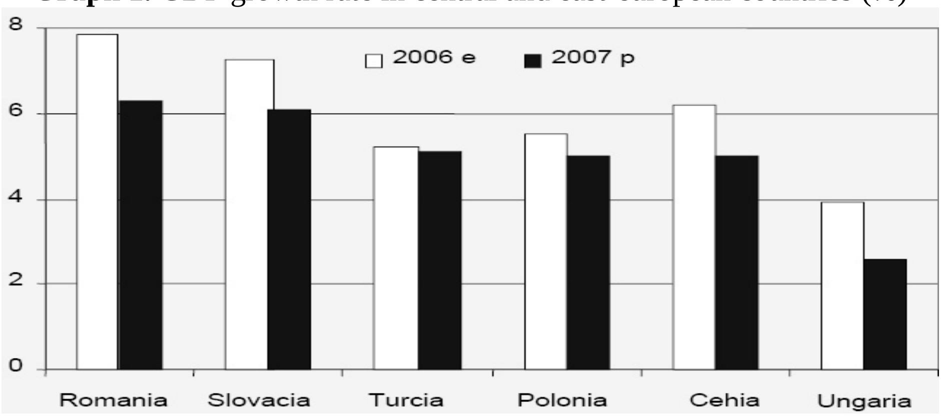
C: A highly unstable political and economical environment that might influence an already deteriorated payment behaviour.

D: A high risk degree of the political and economic environment of a country will make worse an already highly deteriorated payment history.

As follows we will present in a comparative manner, several important macroeconomic indicators considered in the calculation of country risk by Coface:

a) Real growth of the GDP refers to the annual oscillation of the macroeconomic indicator GDP corrected by the inflation rate. Generally speaking, there is appreciated that if the real growth of the GDP (meaning also economic growth) is over 6%, the respective country gets a maximum score of 10 points, implying a low risk. The lesser the real growth of the GDP, the smaller the score obtained. It can reach up to -6%, case in which the country gets 0 points.

Graph 1. GDP growth rate in central and east-european countries (%)



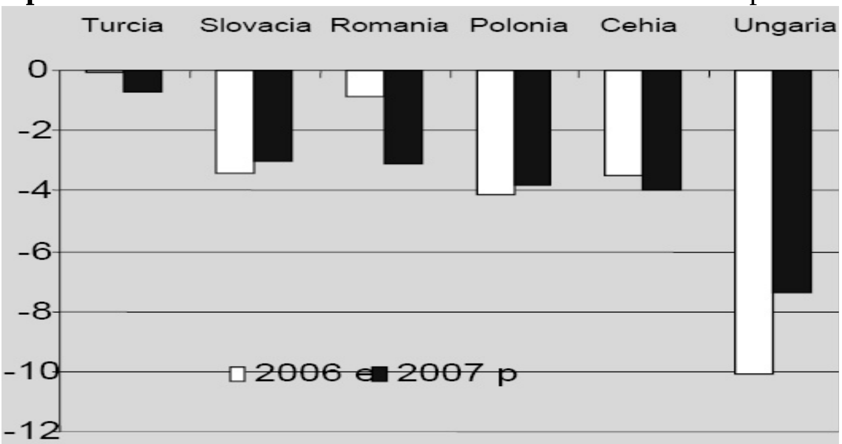
Source: *www.coface.com*

On the basis of the data provided by Coface, the medium growth in the region is of 5.7%, with 3 points over the European one. The economic development rates from the latter years have been among the most consistent ones, in comparison with EU states-27. For example, the growth of the GDP during 2001-2007 representd aprroximately 6% per year, more then most of the EU states. The drought from 2007, according to the calculations of the Romanian specialists, reduced the growth of the

GDP with 2 percents. However, we may notice a quite high GDP growth rate for Romania, suprassing that of Poland, Turkey and Czech Republic in 2007.

b) The budget deficit as percent from the GDP reflects the quality of the management on a macroeconomical level. The recommandations of the specialists suggest that the optimum level of this indicaor is between -1 and -3%. An increase over these levels determined an increase in the financing demand of the budget deficit, with consequences over the increase of the governmental credit and monetary amount. The increase of the monetary mass is one of the factors thet trigger inflation.

Graph 2. Public deficit from the GDP in central and east-european countries (%)

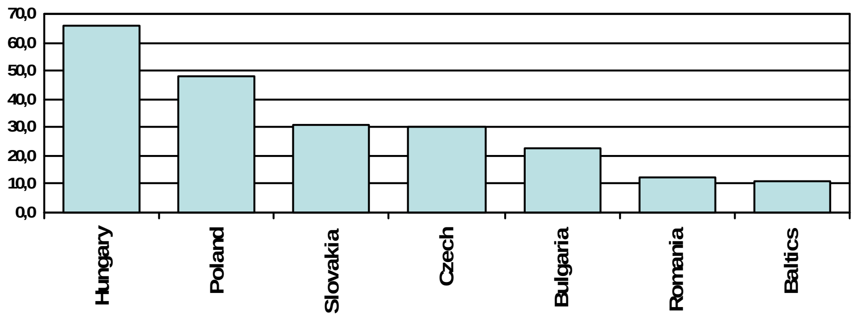


Source: *www.coface.com*

From the table above we can see that the regional average for the public deficit is 3.5% from the GDP. The pulic deficit remained on a high level, excepting the Baltic countries, Bulgaria, Turkey and Slovenia. Hunagry records a 10% deficit from the GDP. In 2006 Romania has a moderate public deficit of arounf 1%, but it increased in 2007 up to 3% from the GIP. Even with this increase, it is situated beneath Czech Republic and Poland.

c) Government debt represents the debts of the state to third parties and individuals, legal entities, banks, foreing or local companies that bought bonds issued by state in order to cover the financial requirements of the state.

Graph 3. Government Debt in central and east-european countries % GDP, 2006



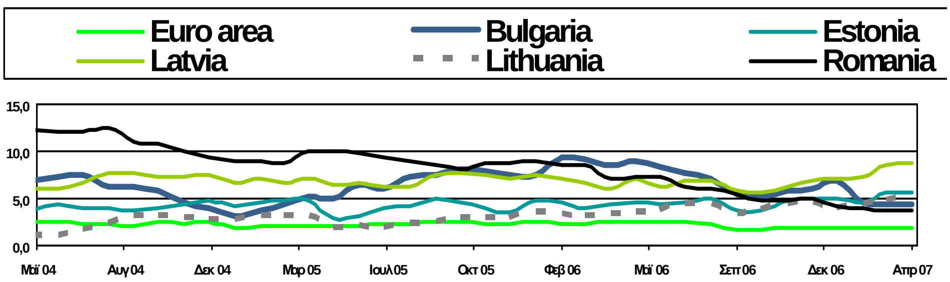
Source: *Eurostat 2007, www.eurostat.com*

Unlike in the previous period, under the influence of the actions taken by authorities for the integration to NATO and the European Union, of the agreements with internationals financing authorities, especially those of the International Monetary Fund and World Bank, the issue of sustaining government debts and budget deficit becomes more and more important.

The government leverage degree of Romania for the last years records a decreasing trend, on the background of the sustained economic growth, so that, at the end of 2006 and of quarter 2007, the degree of government leverage was fewer than 20% from the GDP, much under the level of Hungary, Poland, Chekoslovakia and Bulgaria.

d) The annual inflation rate (average of Consumption prices indexes) is calculated as percent. Generally speaking, there is believed that a country with an inflation rate no higher then 1.9% received 10 points (very low isk), while a country that has an inflation rate over 130% represents a high risk (0 points). Between these two extremes, the score decreases by 0.5 rating points at the increase of the inflation rate with one percent.

Graph. 4. Annual Inflation in central and east-european countries (%)



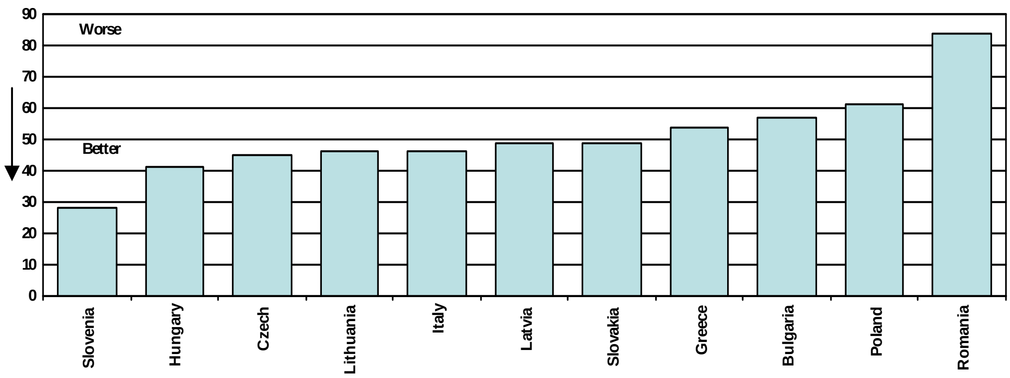
Source: *Coface Country Risk 2007, www.coface.com*

It may be noticed a decreasing tendency in the evolution of the inflation rate in May 2004 – April 2007, reaching a level under 4%. The monetary policy has as purpose the „aiming of inflation" adopted by The National Bank of Romania 3 years ago as a superior stage in controlling inflation, proved to be effciently performed in the Romania's case.

d) Coruption is a highly used indicator in country risk analysis. It refers exclusively to the political system. Government corruption may influence direct foreign investments out of several reasons, among which we can mention;

- Distorts the economic and financial environment
- Reduces the efficiency of the government and business allowing certain people to assume pwer positions especially due to „internal" help, rather then due to their ability and performance
- Introduces a constant instability in the political system.

Graph 5. Corruption Perception



Source: Transparency International 2006, byCoface Country Risk 2007, www.transparency.org/news_room/latest_news/press_releases_nc/2007

On the basis of the graphic above there can be said that a major problem that Romania faces is corruption. One year after the integration in EU the efforts made by governors to diminish its level seem inefficient. The study presented by the company Transparency International regarding world corruption, shows that Romania is placed on the first positions, between central and east-europan countries. Corruption in Romania is situated on the same level as countries like Cambodgia, Pakistan or region Kosovo. Just like in 2006, in 2007 also the most corrupt institutions in the country are the political parties and the Parliament. The citizens'perceptions upon corruption in certain sectors are also worrying, a fact which might influence the business environment. Opposite to the neighbouring country, Bulgaria, where corruption manifests at the level of criminality, in Romania acts of corruption are restricted to thefts, frauds, traffic of influence, bribery.

Table 4. Evolution of country risks in Central and East Europe during 2001-2007

Rating de tara	Ianuarie 2001	Ianuarie 2002	Ianuarie 2003	Ianuarie 2004	Ianuarie 2005	Ianuarie 2006	Ianuarie 2007
Romania	**C**	**B**	**B**	**B**	**B +**	**A4**	**A4**
Cehia	A3	A3	A3	A2	A2	A2	A2
Ungaria	A2	A2	A2	A2	A2	A2 -	A3 ↘
Polonia	A4 -	A4 -	A4 -	A4	A3	A3	A3
Slovenia	A2	A2	A2	A2	A2	A2	A1 ↗
Slovacia	B	B	A4 -	A3	A3	A3	A3 ↗
Bulgaria	B	B	B	B	B +	B +	A4
Turcia	B -	C	C	B	B +	B +	B

Source: *www.coface.ro*

▶ROMANIA

- Was included at the beginning of 2007 in A4 rating class;
- We notice very good results in its evolution for the past three years;
- If in 2006, Romania's rating eas evaluated by Coface as C category, this moved up to B for four consecutive years (during 2002-2005). For 2006 and 2007, Romania's rating steps on to A4 rating category suggesting a mediocre payment history, which may become worse on the background of a deteriorating political and economical environment. However the unpayment probability is still acceptable, while B represented an unstable political and economical environment, able to influence and already poor payment history.
- Represents one of the fastest growing markets from the central and east-european region;
- 60% of the companies has a turnover growth with at least 10% in 2006;
- 55% of the companies has a profit growth with over 10% in 2006;
- 93% from the current account deficit is covered by foreign investments;
- The level of foreign investments reached almost 9 mild EUR in 2006;
- After two consecutive years when Romania had an A4 rating, in 2008 it is anticipated a decreasing tendency with an A4- risk. Among the developping countries, Romania's position since October 2007 is under Coface's negative supervision. According to the company, the Romanian currency is in a very risky position, as compared to the other developping countries, a fact that makes the economy vulnerbale to a national currency trust crisis. The increase of foreign currency debgts from the private segment represents another reason for appreahension as far as the deterioration of compaies' payment behaviour is concerned; it is said in Coface announcement. According to the representatives of the company, Romania is highly influenced especially by the financial crisis

of the U.S. that started last summer and the RON recorded a significant decrease and became the most vulnerable currency from the ones of the developping countries.

Making a comparison with the other central and east-european countries recently integrated in EU, we notice the following:

▶HUNGARY

- Was included at the beginning of 2007 in A3 rating class;
- During 2001-2007 shows the poorest evolution from Central and East-Europe;
- The industries with negative evolution that lowered the rating of the country were: IT, textiles, goods, packings;
- 25% of the companies had a turnover decrease in 2005 and 20% in 2006;
- The increase of the turnover was under 10% for 75% of the companies;
- 55% of the companies had profit losses or decreases in 2005 and 25% in 2006;
- Car industry, electricity/electronics and pharmaceutical indutries continue to flourish;
- Trade and constructions auffer because of the decrease of internal demand and food and textiles industries are already fighting competitive pressures;
- Budget deficit of 10% and current account of 8%.

▶POLAND

- Was included from the beginning of 2007 in A3 rating class;
- One of the most competitive markets in Europe and the most important market in the region
- The strongest companies are industry, services and pharmaceutical;
- In manufacturing there was recorded a 9-10% growth;
- In the pharamceutical industry the turnover increase was up to 40%;
- Agriculture is developped, Polish farmers enjoy high prices when exporting meat and diary products in the UE countries;
- The macroeconomic standing has goos and stable results.

▶BULGARIA

- Was included from the beginning of 2007 in the A4 rating class;
- Comanaies turnover and profit have better values then those of Hungary, about at the same level as Hungary's, but lower then Romania's;
- Corporate strategies are hindered by the reduced size of the market, for example, if in Romania a medium size company sells 100 units, in Bulgaria it can sell no more then 65 units;
- In 2006 Bulgaria reached 3.6 mld EUR from foreign investments;
- Bulgaria has the advantage of a buget surplus that enables an increase of public expenses unlike other countries from the region;
- Direct foreign investments cover 70% from the current account deficit.

▶SLOVENIA

- Among the countries from the same region, Slovenia stands out by its constant evolution, which made it the single country to adopt the Euro on the 1rst of January 2007 and with a rating upgraded to A1.

6. Conclusions

The integration of Romania in the EU already led, in a very short time, to real economic results not only for the citizens of this country, but also for the citizens of Moldavia and other states. After almost two years from the integration in the EU, Romania became a more and more atttractive country both on a regional, European, and global level.

Among Romania's strong points for 2008, we can mention:

- The joining the European Union on the 1rst of Janurary 2007 *improved Romania's economic perspectives;*
- Romania has a *relatively large market;*
- *Specialised labor and at a lower* cost then in the other EU countries;
- The attracting of a *large volume of foreign investments* enabled the partial covering of. The external deficit. The governament and external leverage stay at a reasonable level.
- Realively *low government debt;*
- *Foreign exchange reserves* are among the highest in the area.

Among Romania's weak points for 2008, we can mention:

- First of all, the aggravation of *political tensions.* The minority position of the government and the concern with the new elections of this year swifted the attention of the politics from continuing reforms ans the strategies for repairing macroeconomical lack of balance. . The tensions within the governmental coallition may hinder the continuation of the reforms, while the continuation of increasing political stability is very important
- Coface also criticizes the Executive, and says that this does *not seem to be concerned with correlating fiscal and monetary policies.* A prudential fiscal policy for 2008 should be oriented towards a smaller budget deficit and an increase of wages from the public sector according to inflation and the increase of productivity.
- Fiscal and salarial policies have an expansionist trend on the background of the elecotral year, thus encouraging the growth of consumption and imports, with negative effects over asupra *inflation and current account deficit.*
- The economic imbalances lowered the trust of foreign investors, while *direct foreign investments will decrease* during this year, especially since the end of great privatisations.
- *The increase of inflation,* high dependance on foreign capital, as well as the increase of interest rate and depreciation of the national currency will have

negative effects on the population and companies that borrowed money in foreign currency. In the last three years, the foreign currency leverage degree of Romanian companies doubled. Moreover, Romania should export with 65%-70% more then now in order to equilibrate the trade balance.

Year 2008 is characterized as a period of uncertainties on the background of the economic recession that is expected to occur in US. The United States have 26% from the global GDP and, at the same time, are the major consumers on a global level. That is why an American economic crisis would have great influence on the Asian, European and Latin American markets. As Romania is no longer isolated from the point of view of the global economy, it is expected that uncertainties should represent the major trend that will characterize the Romanian economy in 2008. This had already materialized in the decrease of the country rating from A4 to A4-.

Romania should pay attention to the examples of the neighbouring countries in order to avoid imbalances in the near future that would endanger the macroeconomic stability obtained with so many efforts in a long period of time.

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