THE EFFECTS OF ECONOMIC CRISIS ON COUNTRY RISK

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It is widely accepted that risk is a constant of the human activity in general. From this perspective, the expansion of business across country borders requires identification, assessment and brief analysis of the overall risk that operators would face in a targeted national economy. Country risk is the one that shows in a general manner the international business risks, reflecting the overall situation and the cumulative effects of other risks. It is therefore considered to be a diagnosis of the socio-economic potential of the country receiving international economic flows.
The complex, dynamic and variable character of the "new economy" has imposed a permanent adaptation of the country risk concept and has increased its importance given the international affairs. This is because knowing and understanding it, enable the economic agents to make rational decisions, minimizing the risks and increasing the profitability of their foreign activities. Also for a greater efficiency in decision making regarding internationalization, a specific activity became essential, which is country risk management. Country risk issues remain open to interpretations, especially in the context of economic crisis. The situation the world economy is facing today, changes considerably the criteria and also the assessments regarding the cataloguing of country risk

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JEL Classification: F21, G24, G32.

Introduction

With the resources subject to alternative uses, existing the possibility of a different opportunity cost, accepted by the manufacturer, the results of the actions depend on the ability of the decision-maker to anticipate and measure the events which can occur in the context of each possible alternative (independent, or as an effect of the developed activity).

The probabilities of occurrence and their consequences, determine the selection of the variant which ensures the lowest opportunity cost.

The ideal situation would be one in which future events are certain, the decision-maker being able to anticipate in this situation, exactly, the results of his actions. Conversely, there are the situations where there is no information on future events, the effects of the decisions taken in these circumstances are uncertain.

In practice, most often, decisions are based on anticipation of some results that can be obtained with

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different probabilities[1].

In Knight Frank's conception the decisional problems are subject to a real complex of objective and subjective factors acting both under certainty and also uncertainty terms.
In conclusion, nothing is certain, all human activities are more or less subject to risk and uncertainty.

It is therefore important the distinction between risk and uncertainty[2]. Thus, uncertainty is the result of lack of information and occurs when there are no known consequences of an action and hence no probabilities regarding their occurrence.

If the probabilities of an event and its consequences can be quantified, it is clear that decisions will be taken under risk conditions.

The risk is the alternative most individuals face, being widely accepted that idea that it represents a general constant in the human activity. Under these circumstances, one can say that the activities with a high degree of safety are almost nonexistent, the concept of risk becomes thus complementary to that activity.

In conclusion, we live in a world of risk and, and according to the physicist Louis de Broglie[3], we must follow the risk because it represents the condition for success.

The concern devoted to the study of risk and its effects has a central importance within the theory of the company, in association with the notion of crisis, with a legitimacy which allows addressing several points of view. Consequently, there are several senses which led to many variations in definitions.

Most of the studied definitions view risk as the probability of a loss, as a result of some events, of some unpredictable phenomena but unfavorable.

Economist Raymond Barre, analyzing the characteristics of the market economy has emphasized the increasing trend of risks in this system of organization, as a result of social changes, increasing interdependence between the economic agents and accelerating the introduction of the technological progress. At this stage, in which everything evolves in an environment of uncertainty, economic perception requires the expression of legal precautions to resolve the conflicts due to lack of information. We consider welcome in this context, the point that George A. Akerlof[4] makes about the role of asymmetric information that affects the quality of market exchange and generates the uncertainty state widespread.

If anticipation is based on an indicator (or complex of indicators), then the prediction will use the instrumental variables method as the country risk is handled. Moreover, economic globalization, a defining process of the contemporary world, implies new opportunities but also involves greater risks, since all national economies are involved in various external relations, which makes them part in a greater or lesser extent to the effects of major international events.

When risk materialization is generated by external factors, circumstances beyond the company who initiated the international flow and which manifest throughout the economy, **the risk is part of macro-risks category.**

Factors that cause the risk may or may not be influenced by the host country government. The one which includes all these factors, is **the environmental risk,** and if the results are affected only by factors influenced or controlled by the government, the analysis is restricted only at **the country risk level.**

Standard & Poor's defines country risk as a measure of the degree of certainty regarding the return of financial capital and corresponding interest.

In a general sense, country risk expresses the likelihood of exposing the international business to loss whose causes can be influenced only to a lesser extent by investors, being at least partly under the control of the government of the host country.

So, because it reflects the political-social-economic status of the whole economy, country risk can be classified in the macro-risks category, as part of environmental risk.

Given the complexity of country risk and the diversity of the influencing factors, to avoid confusion, several criteria should be taken into consideration, depending on which an analysis can performed (geographical basis, causes, risk level, type of assets at risk).

1.Brief description of the country risk. Classification and conceptual boundaries.

Reporting to the risk-generating activity type makes the distinction between the following types of risk: **country risk for foreign direct investments, country risk for foreign loans, country risk for portfolio investments**.

Thus, **country risk for F.D.I.** expresses the possibility of capital losses actually invested abroad or even whole business

[1] There are objective and subjective probabilities (Bayesian). If experiments can be made, or previous experiences exist on which it is possible to determine exactly the relative frequency with which an event occurs, the given probability is objective and does not vary from one decision-maker to another. The relative frequency with which he believes that an event could occur, represents the subjective probability.

[2] The difference was highlighted for the first time by Frank Knight (1885-1973) in a study regarding the causes of profits.

[3] Louis de Broglie (1892-1987), French physicist, was a Nobel laureate in physics in 1929, the theory of wave-particle duality.

[4] George A.Akerlof-Nobel Prize laureate for Economics in 2001 - "The Book of stories of an economist. Essays about the consequences of new assumptions in economic theory".Publica Publishing House 2009

loss, as a result of some events that are under the control of the host government.

Country risk for foreign loans expresses the probability of total or partial recovery of loans granted abroad, due to some events which are under the control of the receiving country's government.

Country risk for portfolio investment expresses the safety degree of investments in securities traded on the international capital market, namely, the possibility of unrecoverable financial investments and specific gains from the host country. Of course, the materialization of this risk, can be determined only by factors that are at least partly under the government control in the targeted country. A synonymous concept to the country risk in generally is the **cross-border risk**. The term is used in particular for portfolio investment.

The degree of risk varies from country to country, so there may be: **countries with a low level of risk** (developed countries), **countries with medium-risk level** (developing countries, including Romania), and **countries with higher degree of risk** (poor countries of the Third World).

Reported to the debtor type (public or private), country risk takes the form of **sovereign risk or of the transfer risk**. Sovereign risk refers to the public external debt and government guaranteed loans and expresses the probability that a sovereign state cannot or does not want to pay their external obligations, due to causes under the control of state authorities**. Sovereign risk depends on economic performance and political changes in a country.**

Generally, country risk is used with the meaning of sovereign risk, given that external credit market is dominated by government loans, and the concept of country risk for foreign investment is not yet sufficiently widespread.

Depending on the reasons which determine its appearance, country risk has three components: **political risk** (nationalization, expropriation, confiscation, internal and international conflicts), **economic risk** (restrictions on foreign trade, barriers such as currency or tax), **social risk** (strikes, ethnic and religious conflicts, social convulsions, etc.).

A special category is represented by **systematic risk, caused by a global economic recession affecting all countries.** It is considered country risk only if, the policy applied by the government is unfit to overcome the negative effects, which are under these conditions worse than in other countries. Under the current economic crisis, the systemic risk "stigmatizes" the economy of a country.

Being a complex and synthetic indicator, which include several categories of risk, decomposition of country risk on components is necessary.

Country risk analysis must take into consideration two factors**: a) the host country vulnerability to external developments conjecture and, b) risk exposure time.**

In the case of economic crisis, energy dependence on other countries, dependence on international aid and the probability of risk materialization are factors involving and stressing financial uncertainty.

In this context, the differentiation should be made and confusions avoided between country risk, sovereign risk, risk transfer and political risk. The last three are components of country risk, as it has a wider coverage. Conceptual coverage has widened with the intensification of international economic trades and foreign investment, being the result of summing up more macro-risk categories. Should be avoided, in the same manner, the confusion between the form of manifestation of the country risk and the form of materialization. **Between manifestation and materialization there is a cause effect relationship.**

Country risk manifestations may take the form of political risk, sovereign risk, risk transfer, systematic risk, country risk general, etc., while materialization concerns the consequences that may arise.

2. "Country risk assessment is an art and not science" [5]

If the evaluation process depends equally on the objective factors related to the professional competence of the analysts and on the subjective factors, emotional, related to analysis and personal interpretation of the information with qualitative character, we appreciate that the allegation should be rephrased as: risk assessment is a combination between science and art.

Globalization, through increased international transactions in assets and loans, increased the opportunities of the economic agents, but has generated also an increased risk.

Therefore, for effective implementation of international flows, in terms of rentability and safety, the correct and timely identification of risk is mandatory but also risk management which may occur in the recipient economies.

The complexity and the emergence of the international financial system by expanding it with multiple bank financial instruments required that in addition to the coverage of credit risk, to consider reporting on other categories of risk (market risk, operational risk).

The risk is associated with progress to the extent to which the obtained results confirm the risk effort.

"The essence of progress is the risk"[6] but, only if, the risk is properly identified and evaluated, so that, the activities

[5] Terry Brian – "International finance and investment", 1987, p. 429

[6] Iliescu Cecilia - "Some aspects of the history of risk" - article from the "Regional and multicultural within the European Union (International Conference of Targu Mures, 26-27 October 2007), vol II, publisher Risoprint, Cluj Napoca, 2007, p. 19

vulnerability will be reduced by taking appropriate protective measures.

In the uncertain context due to the economic crisis, the present civilization is one of risk and uncertainty. The emergence of risk generates on an economic level, crises which lead to the destruction of functional normality of the economic-political national system.

Country risk becomes an informative indicator reflecting the economic performance and political stability.

Any analysis of the country risk is subject to uncertainty[7] which creates the knowledge framework of a country's vulnerability. The subsequent concern of determining the risk is finding a way, methods, control tools for proper management of risk. **For this purpose the concept of risk management emerged.** This activity is focused on guiding the related risks, targeting towards waste minimization, achieving added value in every process and ensuring profitability.

Therefore, risk management should be a primary and continuous activity in the implementation process strategy for any company, whether it is a small medium enterprise or a large company.

Usually, in the case of large companies, a specialist is employed, i.e. a "**risk manager",** while in the case of SMEs, the responsibility is assumed by the management team in general.

But there are still managers who believe that "risk management is rather magic than science" and therefore do not considered its application into practice useful.

Unfortunately in our country, although it is recognized the significant contribution of risk management to business success, work in this area is still in the early phase.

An additional argument that, although metaphorically, shows very suggestive the importance of management within companies' activities, is an assertion made by Warren Buffett, well known American investor, who is one of the richest people in the world: "You don't win by predicting the rain. You win by building an arch".

The period between 1929 –1930 was marked by a widespread economic crisis was the most relevant reasons for the introduction of "**risk management"** term, area that has developed a theoretical and practical interest rapidly. Its appearance could be interpreted as a reaction to losses caused by the great stock market crash in October 1929 on Wall Street and the global economic crisis triggered in the same year. The event of the present crisis brings back need to develop the international dimension of risk management.

As a reflection of the internationalization process of the economic life and its effects a distinct component of management science has taken shape - **international management**.

It has the role to organize, control, coordinate and monitor[8] the activity of firms on third party markets, outside the national perimeter. In this addressing space, country risk management becomes a key component and an essential part of **the decision-making mechanism in international affairs**.

Component of international management, country risk management represents the totality of strategies taken by firms that are internationalizing in order to reduce it in their operations[9]. Adopting appropriate measures have as an effect the reduction of the company's vulnerability.

The above allow us to formulate the following observation: **among the three types of management (international management, risk management and country risk management) there is a high degree of interaction and integration, all of them being components of the general process of management of the global business**[10].

Formulating and implementing risk management strategy is different according to each country and company activity. The argument is related to manager talent, skills, training and attitude toward the risk which significantly influences the success of international business.

Regardless of the business specific, the management process of the country risk is a complex process that requires completion of several steps, common and binding in order to achieve the global economic objectives (maximum added value for the entire portfolio of activities and hence the overall profit maximization).

Country Risk management involves transition through four stages:

1. **risk assessment**, which requires the identification, description, analysis and classification of the types of risk;

2. **risk management**, which involves avoiding, assuming or, where appropriate, risk amelioration by preventing or transferring it;

3. **financing risk** prevention actions;

4. **continuous surveillance** of areas which suggest the probability of risk.

Risk assessment is according to the United States General Accounting Office (GAO / AIMD), the cornerstone for all other items[11].

For this purpose the identification of country risk is the first step, the essential condition, since only a correct and

7 Nassim Nicholas Taleb - "Black Swan. Very little impact probability ", Curtea Veche Publishing House, Bucharest 2008, p. 16-21

8 This phrase sums up very eloquently specific management activities. It is a definition of management, made since 1916 by Henry Fayolle, in his "Administration industrielle et General"

9 Păun Cristian, Păun Laura – " Country risk", Economic Publishing House, Bucharest, 1999, p. 97

10 The concept of international organization, emerged in the early twentieth century, was moved to the multinational enterprise, around the '50s, for 1980 to be used more often in the literature the term global business.

11 Mazareanu VP-"Reflections on the concept of risk", Journal of Financial Audit, no.6/2006.

continuous identification enables a proper conduct of the next step, respectively the analysis.

3. Analysis of the Risk Level under Crisis Conditions

Country risk analysis involves decomposition of the indicator on risk factors (political risk, economic risk, social risk), so potential failure will be detected and measured, the effects and the probability of their occurrence.

Assigning a **degree of risk** to an activity is subject to two factors: the probability of occurrence and consequences of its occurrence.

The simplest option for estimating the effects of the materialization of risk, but with a high degree of subjectivity is the expected value (VA), which is calculated as the product between (E) the occurrence probability and (P) the value effects of materialization:

Thus: VA=P x E

The expected value of a foreign company is computed by summing the expected values for all identified risks. This involves the operation for identifying all risks to the extent to which they can be evaluated according to their level of severity.

In the context of the economic crisis, the lack of activity by total reduction, reduction or temporary cessation of it leads to the susceptibility state on respecting the deadline redeemability of the financial obligations. This is why, the lack of liquidity and insolvency represent two worrying states shake financial minds in full economic crisis, the "current turmoil which was marked"[12].

Lack of liquidity occurs when cash flows are insufficient to cover obligations. The danger of long-term country risk appears. However, insolvency occurs when it is unlikely to meet the financial obligations. This time, doubts and susceptibility are the descriptive components of the country risk.

Comparing the expected value with the expenses associated to risk reduction by adopting proper protective measures t for each activity, allows the investor to take appropriate decision.

Thus, if the expected value is greater than the costs for risk reduction, the decision-maker will choose to diminish them.

Conversely, if the expected value is less than the costs for risk reduction, it means that the effects of materialization of country risk are insignificant and can be neglected.

When selecting the optimal country risk management strategy reporting to a specific "**risk threshold" is necessary; it is a limit to the point where the risk affects the normal profit rate and influences the protection costs.** Potential losses caused by the materialization of country risk depend on the economic strength of the company and, generally, of the economy ability to cope with the risk impact

So according to these data it is decided which risks can be neglected (overlooked, is inextricably linked to the risks of competition) with significant effects and which must be prevented in order not to worsen and not affect the efficiency of external economic activity.

This is because, both underestimation and overvaluation of risk diminishes the companies gains, thus jeopardizing the continuity of the economic activity. Undervaluation leads to increased losses, while overvaluation involve unreasonable expense, unnecessary for protection and reluctance investment in the economy that.

In terms of behavior, **four types of risk behavior** have been shaped in the specialized literature: commitment, avoidance, prevention and risk transfer.

For example, **assuming country risk** refers to its acceptance of and it is recommended in the situations where the materialization probability is reduced and the effects severity is tolerable. It follows that the risks are negligible.

The attitude to avoid country risk is appropriate when the probability is high and the materialization of risk is very high, a situation which requires higher costs compared with outcomes of the developed activity.

Manager may choose to relieve the consequences of the event of country risk, by prevention and / or transfer.

Thus if the effects of materialization are serious, but the frequency with which they occur is low the risk manager will track the transfer of country risk.

For this purpose specialized insurance companies can take, but only partially, some of the components of country risk (political risk, economic risk, etc.) **in return of an insurance premium,** set in relation to several factors: the degree of the concerned country risk, the specific activity, amount allotted, etc.

There is however a major downside of **the risk transfers behavior**: partial insurance of the economic goods value involved and not of the entire economic value of the investment.

Prevention (as in any area of life) is the recommended approach where the frequency of event risk is high but severity of country risk is reduced.

In this case the international operator will try to diminish the possibilities of occurrence and consequences of unwanted events through pre-measures and / or post internalization. Unfortunately, the risk of a global financial crisis on the scale of the present crisis could not be predicted. The conclusion will follow. Or capacity to prevent, by all technical simulations are not efficient economic times, the factors responsible for triggering the financial decay must take full responsibility.

Country risk affects any international transaction and expresses the exposure to losses which affects equally both partners.

[12] Alan Greenspan-"The turmoil era. Adventures in a New World". Publica Publishing House 2008, Ch.5.

Materialization of country risk may be influenced by specific events, which, at least partially are controlled by governments. For evaluation, the institutions involved analyze both the internal situation in the country concerned (economic-political-social) and also its implications on the international conjuncture.

Specialized agencies in assessing country risk conclude only one comprehensive report for each country, each institution having its own method of exposing their results. The agencies are provided with various rankings that are based on: determining a score on a scale from 1 to 10, choosing a letter or group of letters, or a combination of letters and numbers.

Currently, there is no general accepted method, imposed by rating agencies; maybe that is why inaccuracies appear when determining the award of a place in each country under country review. All risk assessment systems and methodologies have equally, but common elements and differences, advantages and disadvantages.

Therefore, it formulates the view that country risk is an informative indicator, whose goal is to illustrate the economic performance and expressing the political stability in a country.

The complex, dynamic and variable character of the “new economy", has imposed a permanent adaptation of the country risk concept to the new economy conditions, and globalization has increased the importance attached to it in international affairs. Knowing and understanding the country risk concept enables global operators to take rational decisions, in order to minimize risks and increase profitability of their external activities.

Within the aim of assessing and evaluating the effectiveness of decision making in the globalization of business, country risk management is based on three processes:

- **Analysis**, to identify potential risks that threaten the safety of the business, the probability of their materialization and evaluation of direct and indirect consequences;
- **Reduction,** which involves ignoring, preventing or reducing identified risks, protection against unforeseen risks, and permanent tracking of the management;
- **Funding resources**, which financially supports to decrease the costs and the potential losses caused by their implementation.

4. Country Risk for Romania under Economic Crisis

This section challenges the Romanian economic context marked by the decline of macroeconomic indicators, as a result to the crisis. As a result of macroeconomic imbalances, Romania recorded, in October last year, the highest rate of inflation (4.3%) within the EU[13].

Compared with the inflation rate of 0.5% at the EU level, the alarming financial situation in Romania has increased also due to the compression of the economic activity (0.7%) and to the rising of unemployment, as a consequence of massive redundancies.

In November 2009, the President of the European Central Bank, Jean-Claude Trichet, considered that the global economy managed to avoid a depression "extremely dangerous" but, that further the economic situation is compounded by the persistence of unemployment. The fact has been also verified at our country level.

Adopting a set of fiscal measures, cutting the personnel within the public sector, the harsh control of the national expenditure, have proved unbearable for the population and difficult to apply by the authorities[14].

However, the IMF delegation formulated encouraging conclusions regarding the resumption of economic growth providing that inflation should be maintained (but with the prospect of reaching the required level of N.B.R) and a further severe condition of credit .In our opinion, non-correlating the financial sector with the real economy, can have dramatic consequences, such as: blocking economic reforms, the emergence of local imbalances as a result to the withdrawal of capital from Romania, depletion of the internal market with consequences for consumers, inadequate adjustment of the income of the population, financial constraints abnormal, etc.

In these times of economic impasse, the ratification of the letter of intent and memorandum with the IMF and the European Commission represents a clear and expected financial aid. Granting the third installment of the loan of 2.4 billion €, constitutes the moment of entry, within the country, of the money from the IMF (late February) and in March, from the European Commission[15].

Agreement signed by Romania and the IMF in May 2009, provided that the amount of 12.9 billion € should be divided into eight equally payments. So far, Romania has received the first two installments from the IMF, amounting to 6.9billion € and 1.5 billion € from the lending in amount of 5 billion € granted by EU. In the following next stage, the EU will transfer the second installment in amount of 1 billion €, however, there is a also a possibility that Romania will opt for a new type of agreement with the IMF of "**precautionary stand-by" type**, this summer.

In addition to the provided image by the indicator country rating and to its support, two other indicators participate and associate: **the ZEW index and the CDS indicator.** They are intended to complement data on country risk in terms of economic expectations and internal financial situation.

ZEW index is developed by the group of financial experts and business analysts from the Center for European Economic Research (Zentrum für Europäische Wirtschaftsfor-

[13] EurActiv-November 16, 2009, (according to Eurostat data)

[14] Euractiv-25 February 2010.

[15] the second installment will be transferred in the account of NBR and the Treasury, half the amount being directed to cover the budget deficit.

schung GmbH, abbreviated ZEW)[16]. It is an indicator that reflects the state of the economy, in other words, an index of economic expectations.

At the Central and Eastern European level ZEW indicator of economic expectations reflect on a 6 month time basis, for this region the indicator decreased by 38.6 points but remained positive at 20.5 pct. One of the reasons for this reduction is the current financial situation in Greece[17].

Also called the **"confidence index"** ZEW indicator represents the ratio between negative and positive feed-back provided by analysts when consulting the responses to the questions in surveys and the issues raised at different levels of specialized analysis.

According to the analysts, the ZEW index dropped for Romania, to 22.3 points. However it is still superior to the regional index of 20.5 points[18]. This estimate places Romania behind Poland, the Czech Republic and Hungary but ahead of Slovakia and Croatia. However, perceived economic situation in Romania has worsened as a result to the skeptical opinions and forecasts for GDP growth assessed FMI. They argue that Romania's GDP, given the level from 2008, will not be attained until 2012.

Another reason for concern regarding the rating of the country, for the Romanian economy is the level of corruption and the justice activity. According to the interim European Commission's reports on the mechanisms of cooperation and control in domestic affairs and justice, Romania continues to show problems. Our country is forced to accept the monitoring by the EU for at least another year (since the last annual report published on July 22, 2009). Further analysis on the monitoring will be published in early March when the new EU strategy for sustainable development and employment will be published, called "Europe 2020"[19].

Stock Indicator CDS (Credit Default Swap) makes reference to country risk. This indicator is added to the calculation of credits in foreign currency to banks inRomania, if the indicator increases the interest of loads will also increase. In this case, the tranches of money coming from the IMF and the EU facilitate, to an extent, recovery of the financial situation of banks Romanian.

On the same susceptibility level it is likely to fall, to a certain extent, the appreciations regarding the functionality and efficiency of the financial system in Romania.

According to the analysis, currently, the budget deficit of 7.2% should be reduced drastically to 3% (as it was in 2009)[20]. As compensation, encouraging references refer to a possible economic growth of 1-1.5% by the end of the year, which would label 2010 as a year of return for the Romanian economy.

As it can be seen from the following considerations, these data change, the controversial country-risk level assessed by two international rating agencies: **Fitch and Standard & Poor's (S& P).**

In our opinion, statistical information and rating assess-ments of international organizations and not only, can be discussed and interpreted, where supporting and catalo-guing a different country risk but, based on the analysis of the same indicators and values. The situation can be ex-plained by the fact that sometimes analysts choose dis-cretionary variables of country risk analysis and weights for each indicator.

Most times, the trends of some indicators such as GDP / inhabitant, imports and exports, external debt service, stability of the exchange rate, trade regime, political sta-bility, etc. affect the interpretation, analysis objectivity and the conclusions. As a result and based on the analysis of the indicators the verdict is given regarding the category of country risk. Also, scenarios are created (with a greater or lesser degree of probability) on the future of future deve-lopment of general business climate from a country or an area, or even the possibility of triggering an economic crisis.

In this context, it is easy to understand the concern and scrupulosity regarding the fairness of these conclusions which, by their nature, can influence global economic view on the attractiveness or reluctance toward an economy or another. A different country risk asserted by different rating agencies may trigger suspicion, often unfounded, regarding the safety of foreign investments from income, the efficiency of financial control etc.

How the two rating agencies give different “verdicts” on the same economic situation compels us to reflection on their degree of objectivity.

Rating agency Fitch has improved the prospects for Roma-nia's rating by switching from negative to stable. Also, the rating agency confirmed the BB+ rating for long-term loans in foreign currency and BBB- for long-term credits in lei[21]. These changes are based on estimates from director David Heslam from the Fitch Sovereign Group who con-siders that the Romania normalized relations with the IMF and budget adoption for 2010 are factors of economic and political stability that deserves to be taken into account in determining the rating of the country.

[16] ZEW is an institute and together with ERSTE Bank conducts surveys among financial experts from Central and Eastern Europe and develop an indicator on the outlook for the economy, stock market, currency, monetary and fiscal policies, etc. The indicator is calculated on a monthly bases by ZEW (Mannheim) with support from Erste Bank (Vienna)

[17] Greece, with a precarious state of public finances in 2009 recorded a budget deficit of 12.7% of GDP, well above the 3% imposed; government spending has exceeded 113% of GDP (the EU maximum level accepted by the 60% of GDP). The cosmetic accounts, U.S. bank Goldman Sachs helped Greece to hide the real situation of public debt to ensure stability in the euro area.

[18] Euractiv-21 February 2010.

[19] Euractiv- 1 march 2010.

[20] He was considered one of the general consolidated budget surpluses of 15.3 million lei for January 2010.

[21] Euractiv- 2 februarie 2010

Also Fitch Agency confirmed Romania's country ceiling rating for short-term loans in foreign currency at BBB and B.

Instead, **Standard & Poor's (S & P) agency**[22,] a few days later, after the assessments to improve the emission rating by rating agency Fitch, analyzing the same indicators persist in maintaining the rating outlook "negative", adding that Romania's ratings could stabilize, but, on a current level. An overall idea, with a comparison character, provides us with the confirmation of the maximum rating AAA for the EU and EURATOM on behalf of Fitch rating agency. Due to the support that institutions receive from the 27 EU countries[23]. It is clear that financial support represents an important factor in obtaining a higher place in the rating charts.

The issue of financial instruments and how to use them within the specific mechanism of the financial market should be, currently, a subject of serious reflection for all countries, including the developed ones. Let's not forget that the current financial crisis occurred in the U.S. as a result to the artificial money in circulation creation process by enhancing uncontrolled derivatives. Loans to companies and people have become over-sized in terms of economic opportunities. The ratio Q-M became M> Q.

This reality determines us to conclude that, in their action, the complex financial instruments designed to facilitate financial globalization, have proved to have a boomerang effect. The ability to manage financial risks, turned in creating other huge risk, as the current economic crisis proved.

Country risk issues remains open to interpretations, especially in economics. The situation the world economy is facing today modifies considerably the criteria and also the assessment for a specific state or group of countries. Exiting the crisis, economic recovery, financial aid, issues of political stability, preferability for certain areas of investment, are elements that contribute to accurate prediction, after economic adjustment processes, of the qualitative leap that changes the balance of power.

In the background, country risk reflects once again the issue of **homo œconomicus** in rational attitude to the probability of risk[24].

[22] Agency Reters-February 4, 2010, taken from forexyard.com

[23] Ziarul Financiar-February 5, 2010.

[24] Thierry de Montbrial-action and the world system -Romanian Academy, Expert publishing 2003 ch.XIV Strategy, foresight, hazard, pg.426

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