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Is Romania affected by the country risk? Country risk, especially the score given by the rating companies is meant to lead to economic growth or recession. Is it possible for only one grade to have that much impact upon the economy? The truth is that such a rating has multiple repercussions not only at macroeconomic level but also at the microeconomic one. The real question is how reliable and especially how objective are these ratings?

Key-words: country risk, country rating, business environment rating

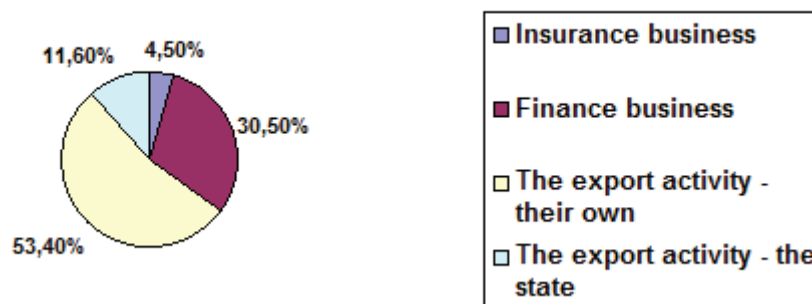
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Country risk reunites the possibilities that an institution may enlist losses, mainly due to the exposure towards the partner countries. These losses may be caused by economic, social, political or natural events which may or may not be controlled by the government of that country. Thus, the rating obtained by each country is designed to present the investors a clearer image of the possibilities that they have in establishing business relations with foreign partners or the possibility of business internationalization.

Created in 1991 with the support of Organization of Economic Co-operation and Development (OECD) and also with the help of the COFACE French insurance company, EXIMBANK has the main objective of sustaining foreign trade, of encouraging the export and especially the production designated for export. It grants credits in favorable conditions to the public and private societies with a Romanian headquarters if they can prove the compliance of some criteria, like: firm contracts, irrevocable letters of credit, various bank guarantees, etc.

Eximbank basically helps exporters by offering specific products and services designed to encourage the foreign trade of Romania. Their products are: export credits, guaranteed loans for export, export security to stimulate the development of goods and complex products with long manufacturing cycle, warranty export freight, letters of bank guarantee, commercial information about business partners, insurance policies of export credits and long-term, policies of credit insurance for export production, policies of buyer credit insurance and ensuring exchange rates.

Figure no.1. The structure of Eximbank customers exports depending on how they are supported



Eximbank ratings compared to Coface ones

The intention of these two companies is to support foreign trade transactions, but especially the possibility to offer relevant information to their clients about the countries in which they place their business activities. So, these companies offer explicit data about the financial status of their partners, about the economic and global context of the partner country.

The method Eximbank elaborated is a combination of quantitative and qualitative analysis, comparable with the techniques used by the great rating agencies and its results score and classify the analyzed countries into five risk categories: Aa, Bb, Cc, Cd, Dd, synthesized as follows:

Table no.1 Eximbank ratings

Class	Score	Class risk definition
Aa	100-53	payment difficulties appear impossible
Bb	52-37	payment difficulties and losses are possible
Cc	36-24	payment difficulties and moderate losses appear to be predictable
Cd	23-15	serious payment problems, including possible rescheduling
Dd	14-0	appreciable losses appear to be inevitable

Source: Ciumaş, C., *Asigurări generale*, Editura Casa Cărţii de Ştiinţă, Cluj-Napoca, 2007, pag.298-302

Aa category is characterized by a high inability to pay. Furthermore, the countries classified in Bb category are characterized by the possibility of payment difficulties and minor losses. Cc rating stands for the countries where these risks and losses are moderate. In the last part of the classification categories, Cd is specific to countries with serious payment problems and the rescheduling of payments is possible. The last risk class, Dd, is for countries characterized by losses which are regarded as unavoidable.

We'll further present the methodology used by Eximbank as for the assessment of the country risk. Eximbank assess country risk on short term based on two categories of factors: economic factors and political factors. The weight of these two categories in the final score is equal, each sharing 50% of it.

I. Economic factors:	II. Political factors:
1. the development level of the country; 2. real growth rate of GDP; 3. the payments' balance; 4. inflation ; 5. export dependence ; 6. reserves in months of imports ; 7. coverage of imports by exports ; 8. short-term debt ; 9. external payments situation.	1. current state of governance; 2. government economic policy; 3. internal tensions; 4. international position; 5. debt restructuring; 6. experience of bilateral relations .

1. The development of the country, expressed in GDP per capita, is assessed on a scale from 0 to 10 points:

GDP per capita USD	SCORE
0-500	0
500-1000	1
1000-2000	2
2000-3000	3
3000-4000	4
4000-5000	5
5000-6000	6
6000-7000	7
7000-8000	8
8000-10000	9
Peste 10000	10

2. The pace of real GDP growth may receive a maximum of 10 points:

The pace of real GDP growth (%)	SCORE
under - 1	0
-1 – 1	2
1 – 3	4
3 – 5	6
5 – 8	8
over 8	10

3. The situation for the balance of payments is calculated as a percentage ratio of the balance of payments and GNP. It is estimated by a maximum of 10 points.

Balance of payments /G.N.P.	SCORE
under -10	0
-10 – -5	2
-5 – -3	4
-3 – -1	6
-1 – 2	8
over 2	10

4. Inflation rate in the reference year (current year) can receive a maximum of 5 points.

Inflation rate (%)	SCORE
over 50	0
30-50	1

20-30	2
10-20	3
5-10	4
under 5	5

Considering its development for the last four quarters, a correction factor of + / - 1 is applied.

5. Dependence on exports is calculated as the ratio between the revenue percentage of the main product exported and the total value of exports – up to 10 points.

Revenues from the main exported product (%)	SCORE
over 55	0
55-50,1	1
50-45,1	2
45-40,1	3
40-35,1	4
35-30,1	5
30-25,1	6
25-20,1	7
20-15,1	8
15-10,1	9
under 10	10

Depending on the international market situation a coefficient of -1 may be applied for a negative trend and +1 otherwise.

6. Coverage of imports by exports is calculated as the ratio between the percentage of exports and imports, up 10 points.

Coverage degree (%)	SCORE
under 80	0
80-100	2
100-110	4
110-120	6
120-130	8
over 130	10

7. Reserves in months of imports - up 15 points

Reserves (months)	SCORE
Under 1 month	0
1-2	4
2-4	6
4-6	9
6-9	12
over 9	15

8. Short-term debt as a percentage to total external debt - up 15 points

Short-term debt / Total debts (%)	SCORE
over 25	0
20-25	3
15-20	6
10-15	9
5-10	12

under 5	15
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9. External payments position is determined as the ratio between external debt service and export - maximum 15 points.

External payments (%)	SCORE
over 70	0
60-70	3
50-60	5
40-50	7
30-40	9
20-30	11
10-20	13
under 10	15

II. Political factors

1. Current state of the governance - maximum 20 points, given for:

- Inefficient governance, frequent changes of undemocratic governments, corruption - 0 points;
- Effective governance, regular and normal government changes - 20 points.

2. Government's economic policy - maximum 15 points, refers to:

- Economic unstable, incoherent, and unfavorable policy regarding the foreign capital - 0 points;
- Reasonable consistency, relatively restrictive regime regarding the foreign capital - 7 points;
- Good consistency, favorable regime of foreign capital - 16 points.

3. Internal tensions - maximum 15 points:

- War - 0 points;
- Social, ethnic, political, racial, cultural, religious tensions –if they don't appear, 2 points will be assigned for each.

4. International position - maximum 20 points:

- International sanctions - 0 points;
- Relative isolation - 5 points;
- Relationships - 10 points;
- Good relations with major economic powers - 15 points.

5. The restructuring of debts - up to 3 points:

- Payments' cuts-0 points;
- Failure in negotiations with IMF - 3 points;
- Repeated rescheduling - 6 points;
- Rescheduling - 9 points;
- No problems - 15 points.

6. Experience with bilateral relations - maximum 15 points:

- Default - 0 points;
- Difficulties in rescheduling - 1 point;
- Rescheduling flawlessly - 3 points;
- Delays - 5 points;
- Small delays - 10 points;
- No problems - 15 points.

Depending on the analyst's judgment, a correction of up to 5% can be made.

The final score (index of country risk) is calculated as follows:

$$\text{Final Score} = (\text{Economic score} \times \text{Political score}) / 100.$$

Depending on the score obtained, the countries are classified into the above presented 5 categories. Country Risk Assessment by Eximbank is done not only to substantiate their decisions but also for providing consultancy services in this field for exporters.

On the other hand, Coface wants to facilitate trade at the global "business to business" level, offering four lines of services to its customers, such as total or partial outsourcing of trade management, the financing and the protection of revenues (credit insurances, credit reports, claims management and factoring services). Besides the resulting rating for each examined country, Coface gives a distinctive mark for the business environment of the country that can considerably vary from country rating.

Coface characterizes the business environment of a country in the same manner in which it determines the country rating. Countries are studied based on seven categories of risks that are meant to characterize the economic climate and business. By these ratings, Coface presents relevant information about the financial, legal system of the country with a strong emphasis on the correctness of the system, emphasizing whether the business environment of the country is favorable to inter-company transactions or not.

This new system is implemented on the basis of two modules. The main idea of the new rating system is based on the experience of Coface to analyze the quality of the available information about companies and the legal protection for the creditors. Ratings based on the experience of Coface are supplemented by a second module based on the quality of the institutional network, which tries to reflect how the weaknesses of this system may further influence companies. In this part public services are particularly included (government, education, health, infrastructure), the respect of the people towards the law system, corruption etc.

Based on these criteria Coface currently assesses 150 countries. Moreover, the highest possible grade is A1 and the worst is D. The following table summarizes the ratings granted by Coface:

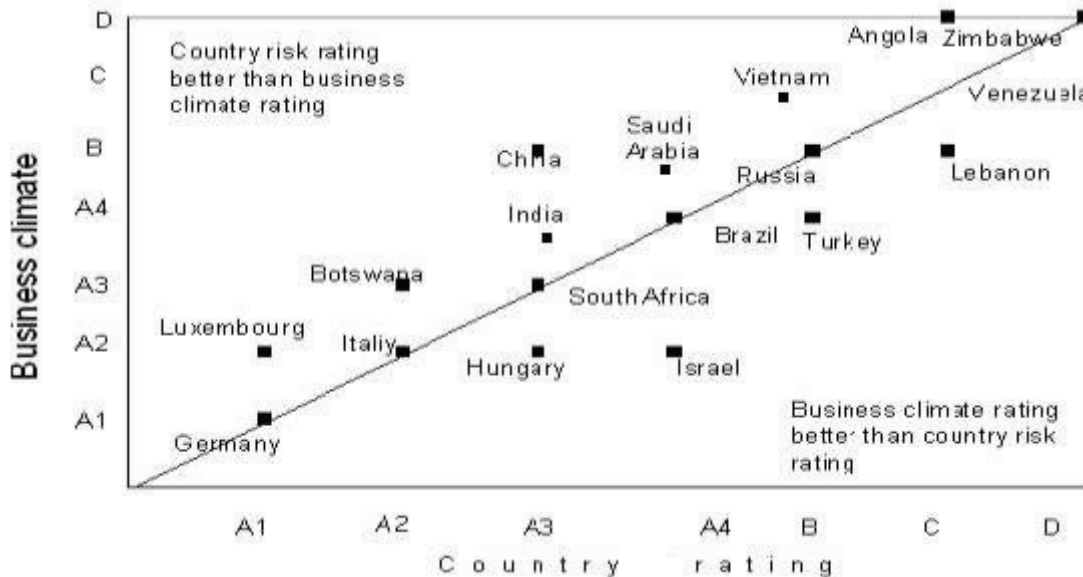
Table 2 Business environment ratings

A1	The business environment is very good. Corporate financial information is available and reliable. Debt collection is efficient. Institutional quality is very good. Inter-company transactions run smoothly in environments rated A1.
A2	The business environment is good. When available, corporate financial information is reliable. Debt collection is reasonably efficient. Institutions generally perform efficiently. Inter-company transactions usually run smoothly in the relatively stable environment rated A2.
A3	The business environment is relatively good. Although not always available, corporate financial information is usually reliable. Debt collection and the institutional framework may have some shortcomings. Inter-company transactions may run into occasional difficulties in the otherwise secure environments rated A3.
A4	The business environment is acceptable. Corporate financial information is sometimes neither available nor sufficiently reliable. Debt collection is not always efficient and the institutional framework has shortcomings. Inter-company transactions may thus run into appreciable difficulties in the acceptable but occasionally unstable environments rated A4.
B	The business environment is mediocre. The availability and the reliability of corporate financial information vary widely. Debt collection can sometimes be difficult. The institutional framework has a few troublesome weaknesses. Inter-company transactions run appreciable risks in the unstable, largely inefficient environments rated B.
C	The business environment is difficult. Corporate financial information is often unavailable and when available, it's often unreliable. Debt collection is unpredictable. The institutional framework has many troublesome weaknesses. Inter-company transactions run major risks in the difficult environments rated C.
D	The business environment is very difficult. Corporate financial information is rarely available and when available usually unreliable. The law system makes debt collection very unpredictable. The institutional framework has very serious weaknesses. Inter-company transactions can thus be very difficult to manage in the highly risky environments rated D.

Source: Authors' processing

In most cases, i.e. for 93 countries, the rating of the business climate coincides with the country rating. For 39 countries, Coface has given a lower rating for the business climate as compared to the country rating. Furthermore, for 18 countries, Coface has given a higher rating for the business climate compared to the country rating.

Figure no. 2 Business environment ratings compared to country ratings



Even if the system and the scoring process is calculated through a different methodology by Eximbank and Coface, the marks provided by these companies revealed the same features to a great extent, Coface taking advantage of achieving a more detailed analysis. The big plus that Coface brings compared to Eximbank is that it manages not only to analyze the global and country specific issues but the business environment as well.

Conclusions/ Critical points

The methodology used by Coface is based on the elements of qualitative analysis and the methodology used by Eximbank is mainly based upon quantitative analysis. Although both Eximbank and Coface offer support for the institutions developing foreign trade, it is very important to follow the objectivity of the presented data. Easily such institutions may have a role in handling the economy. Companies in this area should be equidistant and "cold" in their analysis furthermore avoiding making games for their personal interest or even avoiding the political attempts to change the image of the actual economic situation.

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