

THE WORLD ECONOMIC CRISIS REFLECTED IN THE COUNTRY RISK

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The dimensions of this global economic crisis, spread across all the variables of the global economy, develop and multiply in time and space. The effects of this quantitative and qualitative trends are found in the country risk, an indicator that summarizes the main global coordinations of the quality national business environment, of the credibility of its foreign relations. The development of the specific crisis phenomena, which in itself is a risk, the gravity and the severity, lead to the creation of the conditions to the growth of the country risk and thus decreasing the potential for interest to start or to develop business in the national environment.

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1. Some theoretical aspects of the country risk

To maximize the benefits obtained, the deciders assume a wide range of risks, systemic¹⁵⁴ inter-conditioned, of which, the country risk is among most significant. The country risk¹⁵⁵ is the expression of a cumulation the economic indicators: GDP developments, the balance of foreign trade, the external debt levels, the unemployment rate, the foreign exchange reserves, the inflation index and some assessments of the political and social climate. In general, it refers to the risks associated with those factors that determine or affect the ability and the intention of a sovereign state to borrow from a certain country "to meet its obligations towards one or more foreign lenders and/or investors¹⁵⁶. The country risk was defined by Shapiro (1999) as the general level of the political and economic uncertainty in a country, affecting the loans or the investments in the country. According to the opinion of M.H. Bouchet¹⁵⁷, the country risk is all the elements of the economic, financial, socio-politics uncertainty specific to a country, relevant for a economic, commercial and financial activity, trans-border or for the socio-economic environment of the country's residents.

By the causes and the effects, the country risk is related to other two types of risk: the sovereign risk and the transfer risk¹⁵⁸. After some opinions¹⁵⁹, the country risk components, grouped by economic or socio-economic dimension are: the economic risk, the financial risk, the risk of transfer, the market risk and the socio-political risk, the risk derived from the cultural environment, the operational risk, the legal and contractual risk (corruption, confiscation, bribes, bureaucracy), the regional influences risk, the systemic risk (global crisis). The most authors and agencies specializing in the risk country assessment join all these types of risk categories into the economic risk and political risk, synthesing each of these risks - causes that determine the size and the dynamic of the country risk.

The economic risk has correspondent at all the companies, may be materializes in not paying claims, delays in the payment for various reasons, unreception the products delivered from differents motifs, but issues like as: relatively large distance from the beneficiary, insufficient

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155 Colson, G, Gestion du risque, EAA, Paris, 1995, p.202-203.

156 Nath, HK, "Country Risk Analisys: A Survey of the Quantitative Methods" in Journal of the Institute for International Economics, February 2009, p.69.

157 Bouchet, MH, Le Risque dans la Globalisation, MS-IEKM, Janvier 2008, sl.4.

158 Dudian, M, The Country Risk Assessment, Editura All Beck, Bucharest, 1999, p.5.

159 Bouchet, MH, Le Risque dans la Globalisation, MS-IEKM, Janvier 2008, sl.8.

knowledge of the environment, the product maladjustment to a local tastes and preferences, national image of the company, market strategy, national culture.

The political risk is associated, in many cases, the implant operation abroad, having regard to decisions relating to: customs regulations, restrictions on import-export operations, payment obligations thru compensation, rules regarding risks related products, currency unconvertibility, confiscation, nationalization, etc. In all these, plus obsolete practices of the supplier based on national traditions in trade, the legislative gaps, the political instability.

For the evaluation of the country risk are defined and detailed, to be used in the calculation score of the discriminated analysis or in the probabilistic models, the following variables¹⁶⁰: economic variables (GNP per capita, the economic growth, inflation, budget balance to GDP and current account balance to GDP); financial variables (the external debt, external debt to GDP, reserves in months of imports, exchange rate changes, the current account balance); political variables (democracy, autocracy, the duration of governance, political competition, political openness, political independence, competition participants, the regulation of participants).

2.The coordinations of the actual economic crisis

In the context of the global economic crisis, each of the economic environment coordinations, national or international, is affected by the consequences of that risk. The crisis itself is a risk and the dimensions and the effects of the dissemination on the national economies, the economic agents - firms and consumers, gives the global character risk. The risk - cause who determined this situation is, in fact, a plurality of risks previously products: the decline real estate market in U.S. caused by sub-prime crisis with reflection of the increasing indebtedness¹⁶¹.

The unfolding of the crisis as a financial crisis, of liquidity, has occurred in the III quarter of 2007 in which, the estimated costs for the financial system were \$ 59 billion; began in the U.S. mortgage lending crisis, whether being at the top, in the strong decreased of the credit. In the II phase of the financial crisis, with its expansion to other segments of the credit¹⁶², have become visible at the whole financial world and, first, to the integrated economies¹⁶³. Entry into the third phase of the global financial crisis occurred on 15 September 2008 when the company Lehman Brothers, with a past marked by global notoriety, went into bankruptcy and Bank of America has accepted to buy Merrill Lynch Bank to avoid widening crisis¹⁶⁴.

Against the background of these developments, increased the risk of reducing the level of disorderly global imbalances; it was manifested from the beginning, like as the risk of disorderly adjustment of current account; the debt the U.S. has continued to increase, the current account deficit recorded in the last decade placing the U.S. in the net external debtor position (in 2007 was approx. 25% of GDP).

The size of the current account deficit and the perception that the U.S. debt will be close to unsustainable levels were the major factors of depreciation over 35% of the U.S. dollar against other currencies (since 2002). The risk of dollar depreciation has determined the disorderly reducing of the level of the global imbalances and a high instability of the financial markets worldwide with effects on global growth.

The depreciation of the dollar has led to decreasing the demand for U.S. goods imported. Because many developing countries constituted the foreign currency reserves in dollars, the depreciation has resulted in default and losses for these countries. Between 2006 and 2007 under the conditions of significant economic growth, the employment of labor situation has improved in a

160 Boujedra, F, "Analyse et méthodologie du risque pays dans le pays en développement", Laboratoire d'Economie d'Orléans, 2007, p.3

161 www.imf.org/

162 Bouchet, MH, IE et Risque-Pays dans la Globalisation, Global Finance Center, MSIC, Dec.2008, sl.16

163 www.un.org/

164 www.wall-street.ro/

number of economies; in the developed countries and those in transition, the unemployment has fallen and in some cases, the level of wages. Instead, in 2008, due to the decreasing global growth, the risk of unemployment increased for all the world economies - the most in the developed countries, the least in the emerging countries.

Regarding the inflation, the macroeconomic risk, even if the energy and food prices have increased pressures on the inflation, have remained relatively low, estimating a deceleration in relation to the first peaks recorded in 2006, followed by a relaxation, after which a steep increase in 2008, for all countries, most affected countries being the emerging and least the developed. In the U.S. the inflation dropped to less than 2%, in the context marked by slowing U.S. economy. The euro's appreciation has allowed the mitigation of the inflationary pressures due to the high world prices for energy and food products. In the transition economies, the inflation reached 5.6% in 2007 compared to 5% in 2006. The high energy and food prices have put pressures on the aggregate prices and on the share of these goods in the consumption basket.

Even the estimates show that the evolution rate of oil and food prices will not lead to the sustainable growth in inflation, however, the current wage determine the demands causing widespread tension on prices. The risk who involving the wage-price spiral triggering is specific, mainly, the emerging countries, where the effects of the overheating economy were felt.

In Europe, the economic activity was hindered by the multiple shocks: the high level of the inputs rate damaged the real income of the consumers; the inflation has risen to the highest levels of the past 10 years; the euro strength and the compression demand to the trading partners have pressed on exports; the tensions which the financial markets were forced have exerted a negative effect on the advanced countries but and the emerging countries.

Although the central banks have implemented the measures to mitigate the situation, however, the background problem was not resolved. The risk, as the cumulative effect, is represented of failures in the financial world and beyond, in the relations of the global economy.

The effects of involving were propagated on the developed European economies and, initially, to a lesser extent on Japan and on the other developed countries. The growth prospects for the advanced economies are low, respective 0.8% in 2008 and between -3.5% and -3% in 2009 following the 2010 to reach between 0 and 0.5%. A relatively better situation, according to IMF estimates, is forecasted for the U.S. in 2008 an increase of 1.1%, in 2009 a negative increased of 2.6% and an increase of 0.2% in 2010. The euro area will register for the years 2008, 2009 and 2010, a weaker compared with the U.S. but considerably better than the average of the developed countries (0.9%; -3.2%; 0.1%) in contrast, Japan will support the strongest effects of the crisis (-0.7%; -5.8%; -0.2%). The growth in the developing economies still remained sustained, reaching 6.9% in 2007 and estimates for 2008, 2009, 2010 are also favorable, respectively 6.1%; between 1.5% and 2.5%; between 3.5% and 4.5%. In the transition economies the growth remained accelerated due to the increased volumes of the basic products and the domestic demand. The developing countries, including the transition economies are affected by the financial and economic crisis, in particular by the increasing of the volatility on the domestic movables markets and the increasing external debt. In the short term, in the most developed countries, economic activity will stagnate and the consumption and the asset prices will fall. In the most emerging countries is projected the strong slowdown of the growth. Towards the end of 2009, economic activity will renewal at moderate rates.

3. The country risk on the crisis conditions

The global economy system marked by the globalization of the markets and the complexity of the phenomena which accompanies the rise, multiply the effects of the crisis is characterized at

present by the establishment and the systemic evolution of the following situations of uncertainty and the types of risk¹⁶⁵:

-the restriction of the credit markets, the falling stock market, the important variations of the exchange rate and prices of raw materials;

-if the direct-effects of the crisis on the economy will be smaller, the flexible monetary policy and the fiscal measures for revival may lead to a return in 2010;

-the decision from the developed countries but also the developing must be prepared for a potentially catastrophic scenario such as a weak economic growth which could lead to lower the world GDP at the lowest level after the Second World War;

-are facing at present with the systemic financial risks, the world economy must focus, at least in the short term, on the effective management of crisis and the mitigation the risks and the reactions to the rapid development; the main risks are: the monetary crisis and the crisis of the balance payments;

-the risks as the currency to be exposed to the pressure are dependent on the duration of the crisis;

-on the perspective, the issues and the effects crisis are differently understood and treated from country to country, therefore the logical details of various national media.

Given the methodology of calculation of COFACE Country Risk¹⁶⁶, that are reviewed and quantified the variables: the economic and political prospects of the country, the experience for the payment of COFACE (as insurer of commercial loans) and the business climate, 155 countries world are evaluated, with 7 classes for the risk: A1, A2, A3, A4, B, C, D.

Beginning to the trigger the first oil crisis in the years 1972-1973, marked by a steep decrease on the economic growth worldwide 1974 and 1975, the international development environment (with economic, political, etc..variables) was marked by an another oil crisis, then an economic recession in the U.S. (1991-1993), the Internet bubble in 2000 and the present sub-prime crisis.

In terms of temporal and spatial, the credit crisis, triggered in January 2008 in the U.S. and Spain, took the following route: March 2008 - UK and Ireland and then Canada, Mexico, Italy, Japan; June 2008 - South Africa, Vietnam; September 2008 - Iceland, France; January 2009 - Germany, Belgium, Ecuador, Chile, Ukraine, Slovenia, Romania, Hungary, Croatia, UAE, Singapore, Russia, China, etc.

Component of the country risk, the growth property prices has been, in 2000-2007, higher values in the UK, Spain, France and Italy, and negative values in Japan and Germany; another component - the debt/income individuals had the highest values in the UK, Spain, USA and Japan. The bank credit to private sector relative to GDP (%) followed, over the period 2001-2008, a constant evolution in the U.S., increasing slightly in the UK, sustained growth in Spain. In the emerging European countries, as regards the loans development, have decreased in 2008 compared to 2007, however, remained at large values in Romania and Bulgaria, and lower in Hungary and the Czech Republic; the share of the foreign currency loans in total loans reached the highest rates in the Baltics and Bulgaria, the lower in Poland and the Czech Republic. Another indicator for the country risk evaluation is the external debt of companies which has followed an upward trend during 2006-2008 in all the countries of emerging Europe, but differentiated; the highest absolute values of the indicator were recorded in Poland and Turkey, reaching 2008 in each of these countries, at over \$ 120 billion and the lowest in Bulgaria and the Baltics.

Regarding the evolution of the index of payment incidents in 2008, for the first 11 months, Spain has reached the record of 131% followed by Ireland 70%, U.S. 66% UK 64% France 42% Japan 40%, Italy 36 %, Germany 25% (world average is 47%). This negative trend has resulted in the increased risk related to certain sectors of economic activity, as follows (tab.1):

165 <http://web.worldbank.org/>, Perspectives pour l'économie mondiale 2009: Risques et incertitudes.

166 www.coface.ro, C.Ionescu, Coface Country Risk Conference, 21.01.2009.

It is noted that the U.S. auto industry, textiles and clothing from all the countries are most affected by the crisis, being listed with the highest risks; the least affected by the crisis in telecommunications are all the countries, primarily in Japan, then chemical industries, steel, paper from the U.S. and Japan and the U.S. pharmaceutical industry. Even if the situation is as follows, by the propagation effects in the relational systems developed by companies in upstream and downstream, and due to the transnationalization of business, the degree of integration of these, the risks are transmitted over all the variables global economic and non-economic systems.

Tab.1

Country/ Rating	US	UK	Spain	Irland	Japon	Germany	France	Italy
A+	-	-	-	-	Telecom.	-	-	-
A	Telecom. Steel Paper Farma. Chemical	Telecom.	Telecom.	Telecom.	Chemical Steel Paper	Telecom.	Telecom.	Telecom.
A-	Telecom. equip. Equip.ind. Electron. comp.	Steel Farm. Chemical	Steel Farm. Chemical	Steel Farm. Chemical	Retail Equip.ind. Auto	Steel Farm. Chemical	Steel Farm. Chemical	Steel Farm. Chemical
B+	Retail	Retail Equip.ind. Telecom. equip.	Retail Equip.ind. Telecom. equip.	Retail Equip.ind. Telecom. equip.	Farm. Electron. comp. Telecom. equip.	Retail Equip.ind. Telecom. equip.	Retail Equip.ind. Telecom. equip.	Retail Equip.ind. Telecom. equip.
B	-	Electron. comp. Air transport	Electron. comp. Air transport	Electron. comp. Air transport	-	-	-	-
B-	IT	Paper IT	Paper IT	Paper IT	Textiles	Electron. equip. Air transport	Electron. equip. Air transport	Electron. equip. Air transport
C+	Building Air transport	Auto Building	Auto Building	Auto Building	Air transport IT Building	Paper IT	Paper IT	Paper IT
C	-	-	-	-	-	Auto Building	Auto Building	Auto Building
C-	Textiles	Textiles	Textiles	Textiles	-	Textiles Clothing	Textiles Clothing	Textiles Clothing
D	Auto	-	-	-	Clothing	-	-	-

According ONDD agency in the calculation of the country risk, are considered two sectors of activity: export operations and direct investment, reflected by the following types of risk, each of them, except for the commercial risk (scoring from A to C) assessed on scale 1-7: export operations (political risks in the short-term, political risks on long-term, risks related to political affairs, the commercial risk); direct investment (the risk of war, the risks of expropriation and due to government decisions, transfers risks).

Given the political risks on the short term, maximum (7) conferred some countries such as North Korea, Erythree, Guinea, Liberia, Maldives, Somalia, etc., 6 risk level is related to countries like Iraq, Afghanistan, Pakistan, etc.. On the opposite side are the most developed countries of the world and the developing countries with relatively stable political systems, with a high degree of predictability in the short term decision. The political risks on the medium or long term record different risks compared to the previous, so if for example, Colombia is assessed with a political risk of short-term for 2, medium term or long it is 4, as for the case of Albania (from 3 to 6), Argentina (from 4 to 7), Bolivia (from 3 to 7), Croatia (from 3 to 5), Indonesia (from 2 to 5), Kyrgyzstan (from 3 to 7), Latvia (from 1 to 4), Moldova (from 4 to 7), Romania (from 1 to 4), etc.. The political risks related to the specific business reach values close to the political risks on the short term. The commercial risks presents maximum (C grade) in countries such as: South Africa, Albania, Iraq, etc. but also in Argentina, Spain, Estonia, Iceland, Romania, etc.. On the opposite side in A group placed few countries in the world, including Singapore, Slovakia,

Switzerland, Taiwan. The risks related to the direct investments, selecting some of the world, the situation is as follows (tab.2):

Tab.2

Country	Germany	Saudi Arabia	Bangladesh	Bosnia-Herzegovin	Bulgaria	China	Nord Korea	US	Ungaria	India	Israel	Japon	Moldova	Romania	Rusia	Somalia
Risk of war	1	3	4	3	1	2	6	1	1	2	4	2	3	1	3	7
Risks of expropr. and due to gov. decisions	1	3	5	4	1	4	6	1	1	3	2	1	3	1	4	7
Risk of transfer	1	2	4	6	3	2	7	1	2	3	3	1	6	3	3	7

In the relatively stable national averages in terms of political and economic, these types of risks are minimal; they provide the security of the business development on profitable long term; if, however, are matters of legislative or institutional risk of transfer can be achieved. The most affected by these area risks are the countries with outbreaks of war or political convulsions and the least are the developed countries with market economy. Analyzing the evolution of the country risk in the January-March 2009, according to estimates COFACE for a few selected countries, see (tab.3):

Tab.3

Country	Rating developm in developed great country G-20	Country	Rating developm in developed - medium and small size country	Country	Rating developm in developing great country G-20	Country	Rating developm in european emerging country
Australia	A1-A2	Netherlands	A1-A1	Argentina	B-C	Bulgaria	A4-B
Canada	A1-A2	Swiss	A1-A1	Brazil	A4-A4	Poland	A3-A3
France	A1-A2	Belgium	A1-A2	China	B-A3	Estonia	A2-A4
Germany	A1-A2	Danmark	A1-A2	India	A4-A3	Hungary	A2-A4
Italy	A2-A3	Greece	A2-A3	Indonesia	C-B	Romania	A4-B
Japon	A1-A2	Ireland	A1-A3	Mexico	A4-A4	Slovenia	A2-A2
UK	A1-A3	Iceland	A1-A4	Rusia	B-C	Czech R.	A2-A2
US	A1-A2	Portugal	A2-A3	Saudi Arabia	B-A4	Slovakia	A2-A3
		Spain	A1-A3	South Africa	A3-A3	Lithuania	A3-A4
		Norway	A1-A2	South Korea	A2-A2	Latvia	A3-B
		Sweden	A1-A1	Turkey	A4-B		

According to these evaluations, all the developed great countries have made in the first quarter of an impairment rating of the country, the most powerful UK; the U.S. is on the list of attention for a new depreciation. This situation was predictable taking into account the moment and the place of the outbreak triggered the crisis. The propagation has occurred in other medium and small size developed countries, of which Iceland is the most heavily affected, followed by Spain and Ireland. On the large group of developing countries members of the G-20, there are three situations: stationary or regress to the American countries Argentina, Brazil, Mexico; the improvement of the risk country for the Asian countries China, India, Indonesia, Saudi Arabia; the regression for the European country - Russia and Turkey. The increasing confidence in the business environment of the 4 major Asian countries takes place against the backdrop of the sustained economic growth for the two first and dues by the natural potential for the last; in fact, most of the Gulf has been a reduction of the country risk, given the initial crisis context, to increase the prices of the raw materials. The emerging European countries have seen the most, the depreciation of the country risk, most on Estonia and Hungary; Poland, Slovenia and Czech Republic have maintained over the period.

This paper emphasizes only a small portion of the dimensions and the forms of the phenomenon economic crisis reflected in the evolution of the country risk. In this context, it is significant that in an international environment marked by crisis, particularly and in the first on the developed countries, the psychological impact of the country risk is minimized but, the dynamics of the global economy is based on his knowledge.

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