

## ANALYSIS OF THE POLITICAL COMPONENT OF THE COUNTRY RISK FOR ROMANIA

Florentina Cristina BÂLDAN<sup>1</sup>

Faculty of Economics, University of Pitesti, [baldan.cristina@gmail.com](mailto:baldan.cristina@gmail.com)

***Abstract:** The paper aims at analysing the political component of the country risk for Romania. In the first part of the research I presented a few theoretical aspects of the country risk, and I subsequently presented the situation of the political component of the country risk for Romania in the worldwide and European context according to the Marsh Political Risk Map Report for the 2013-2015 period. In relation to the macroeconomic analysis of the country, in 2015, the European Commission conducted, for the first time, a thorough analysis of Romania's situation, following which this country was ranked second in terms of macroeconomic imbalances. According to this category, Romania is a country with macroeconomic imbalances which require monitoring and political actions.*

**Key words:** country risk, political risk, macroeconomic analysis, macroeconomic imbalance

**JEL Classification Codes:** E60, E63

### 1. INTRODUCTION

The “country risk” concept is relatively new: it emerged in the 1970s and acquired notoriety in the next decade, becoming an essential factor for all forms of international economic cooperation: trade, investments, insurances, etc. At international level, this concept se enjoys broad interest, which attests its importance and utility (I. Isaic-Maniu, 2003).

In Romania, the “country risk” notion has become widely used lately, both by politicians, by participants to the economic life, as well as by simple people, who are preoccupied with economic realities. Although it is highly mediatised, the notion is often used improperly, which reflects certain confusions related to the country risk and the political risk, or to the risk classes, one of the main factors contributing to these confusions being the theoretical divergences in the specialised literature (C. Păun&L. Păun, 1999).

The country risk is the risk of substantiation of losses due to the macroeconomic and political developments in the respective country.

Broadly speaking, the country risk expresses the likelihood of financial losses in international business, which losses are generated by certain macroeconomic and/or political events occurred in the analysed country.

Consequently, the question that arises is related to the purpose (usefulness) of the country risk assessment and analysis. In practice, it is believed that the country risk assessment and analysis are very useful for the substantiation of decisions made in relation to the investments of transnational corporations or by other foreign investment generating factors (I. Isaic-Maniu, 2003).

---

<sup>1</sup> Associate Professor PhD.

The nature of the economic, social and political events highlights the existence of the economic risk, the social risk, and the political risk as country risk components.

*The political risk* is the likelihood that a sovereign state fails to fulfil its commitments deriving from international loans due to political reasons. These reasons take many forms, such as: wars, foreign military occupations, coups d'état, etc.

*The social risk* is the exposure to losses in international transactions, caused by social events (riots, religious divisions, etc.).

At the level of the European Union, the values of social indicators such as: the at-risk-of-poverty rate, the persistent at-risk-of-poverty rate, the relative median at-risk-of-poverty gap, the material deprivation rate, the severe material deprivation rate have risen in recent years, the economic crisis that has affected all countries in different proportions (D. Pîrvu&F. Ion, 2014).

*The economic risk* is the exposure to losses in international transactions, caused by economic events (for example: decreases in the revenues from exports, the sudden import increase, currency-related restrictions, etc.).

*International Country Risk Guide* groups the country risk components into three main categories: the political, the economic, and the financial one. Based on these risk categories, we can determine the aggregated risk rating for the country in question.

For the determination and analysis of the rating of each risk category, specific components are taken into account.

For the political risk assessment, the followings are considered: the governmental stability; the social and economic conditions; the investment profile; the internal conflicts, the external conflicts; corruption; military policies; religion and politics; law and order; ethnical tensions; democratic responsibility; the quality of bureaucracy (C. Păun&L. Păun, 1999).

All these components allow for the assessment and rigorous analysis of the country risk based on a flexible methodology, taking into account the specificity of each country as well.

## **2. SITUATION OF THE POLITICAL COMPONENT OF THE COUNTRY RISK FOR ROMANIA IN THE WORLDWIDE CONTEXT**

In relation to the political risk worldwide and to its evolution in the past two years, I presented below the political risk charts, for each country, according to the Marsh reports for 2013 and 2014 (<http://usa.marsh.com/Portals/9/Documents/Political%20Risk%20Map%202013.pdf>).

In relation to our country, the score obtained for the political component of the country risk was between 6.25 and 7.5.

One of the causes of this value could be that of the connections, or of the location of our country in the vicinity of certain states with a quite high political risk. Among them, there is Russia, whose rating was 17, i.e. high, in 2013.

The situation of the political component of the country risk for 2014 was also presented in a Marsh report, similar to the above-mentioned one, and Romania's situation was similar to that in the previous year ([http://usa.marsh.com/Portals/9/Documents/Political\\_Risk\\_Map\\_MARSH\\_MAPLECROFT\\_2014.pdf](http://usa.marsh.com/Portals/9/Documents/Political_Risk_Map_MARSH_MAPLECROFT_2014.pdf)).

Thus, we can see that Europe is a peaceful area from the political point of view. In relation to the analysis of the political component of the country risk worldwide.

For the population's safety, the development of the states and the avoidance of conflicts, preoccupations were noticed over time, for the control of the political country risk, with the purpose of avoiding conflicts, etc.

For example, the evolution of the control of the political component of the country risk for the 2004 - 2014 period is presented below.

According to the research, the political component of the country risk at global level increased in the analysed period: 2004 - 2014, from 12.3% to 20.7%.

### 3. SITUATION OF THE POLITICAL COMPONENT OF THE COUNTRY RISK FOR ROMANIA, IN THE EUROPEAN CONTEXT

According to the *Marsh Political Risk Map report for 2015*, the increase in the geopolitical tensions, political violence and separatist movements, together with the falling raw material prices increase political risks and are the main obstacles to direct foreign investments (figure 1).

The study evaluates 178 countries based on three categories: political, macroeconomic, and operational, being ranked by means of a value from 0 to 100, the political risk for each country on the European continent being presented as follows:



**Figure 1. The map of the political component of the country risk for the European countries**

Source: <http://www.ziuconstanta.ro/diverse/stiri-calde/iata-evaluarea-romaniei-harta-mondiala-a-riscului-politic-527928.html?imagini=1#scroll>

In relation to our country, it is mentioned that: "Romania's economy presents one of the most rapid growths in Central and Eastern Europe in the following years while household expenses start to recover. At the same time the government will spend more to back economic growth, the document shows. Because of slowing down exports the economy will try to find a domestic model. More action will be needed to remove corruption, to improve the absorption of European funds and to diversify the kind of products exported so that the country could return to the increase before the crisis. Romania has a score of 59.2 for short time economic risk, the press release mentions. For operational risk, Romania gets 58.8 points, ranking 50<sup>th</sup>. The country score is poor for the "logistic risk" component - 52.4 points. This partly reflects the underdeveloped road network of the country, where the lack of highways is a special problem. Although Romania has made progress in improving the transport network in past years, a low absorption rate for European funds will limit development in the years to come", the report points out.

In the region, Moldova, Ukraine and Serbia are viewed as countries with a high political risk, having scores under 49 points, and Bulgaria is ranked between 50 and 59 points.

At the same time, the study researchers claim that, in 2014, political violence was one of the main risks in Ukraine, Hong Kong, Near East, Thailand, and North Africa.

Other countries could be susceptible to unrest and violence in 2015, particularly where populations are increasingly concerned about the economy and/or a single leader has held power for decades. Evan Freely, Marsh's Global Credit & Political Risk Practice leader, added: "2015 is likely to bring a continuation of heightened political risk in many parts of the world. As such, multinational organizations need to stay ahead of the key issues impacting the countries and regions in which they operate and have broad, multi-hazard plans in place to protect their strategic interests."

Another problem identified by the report is the impact the fall of oil may have as raw material on countries depending on it. While a lower price may have positive impact in case of countries importing oil, a longer period of low prices could negatively affect countries based on oil imports. Iran, Angola, Chad, Venezuela and Equatorial Guinea are considered with increased risk for the deterioration of the political risk in case the price of oil continues to drop.

According to the report, 2017 will be a pivotal year for political risks as a number of international elections are scheduled. In addition to a new US president taking office in January and a possible referendum on the United Kingdom's EU membership, 2017 will see elections in France, Germany, Hong Kong, Iran, and South Korea, among others.

In Europe, Romania is included in the middle category of the countries with a score between 60 and 69 points, together with Latvia, Lithuania, Hungary, Croatia, Slovenia, Italy, Spain, and Portugal, according to the *Political Risk Map report for 2015* drawn up by Marsh, a global leader in insurance broking and risk management.

The only countries in Europe with points close to 100 are Switzerland, Denmark, Norway and Sweden.

In relation to the macroeconomic analysis of the country, in 2015, *the European Commission* carried out, for the first time, a thorough analysis of Romania's situation, following which this country was included into the second category in relation to the macroeconomic imbalances (table 1).

**Table 1. Summary of the decisions on the 2015 Macroeconomic Imbalance Procedure (MIP), adopted as at 25 February 2015**

	MIP Categories	2014	2015*
1	There are no imbalances	-	-
2	Imbalances which require policy actions and monitoring	BE, BG, DE, NL, FI, SE, UK	BE, NL, RO**, FI, SE, UK
3	Imbalances which require <b>decisive</b> policy actions and monitoring	HU	HU, DE
4	Imbalances which require <b>decisive</b> policy actions and <b>specific monitoring</b>	IE, ES, FR	IE, ES, SI
5	Excessive imbalances which require <b>decisive</b> policy actions and <b>specific monitoring</b> (for FR and HR, a decision on the activation of the excessive imbalance <b>procedure</b> will be made in May, after the PNR and PSC evaluation)	HR, IT, SI	<b>BG, FR, HR, IT</b> , PT**
6	Excessive imbalance procedure	-	-

Notes:

\* The bold fonts indicate a change compared to 2014

\*\* In 2014, PT was the beneficiary of a financial support programme, and RO the one of a preventive programme

Source: <http://www.ziare.com/economie/macroconomie/romania-in-randul-tarilor-din-ue-cu-dezechilibre-macroeconomice-onoare-vs-critici-1350174>

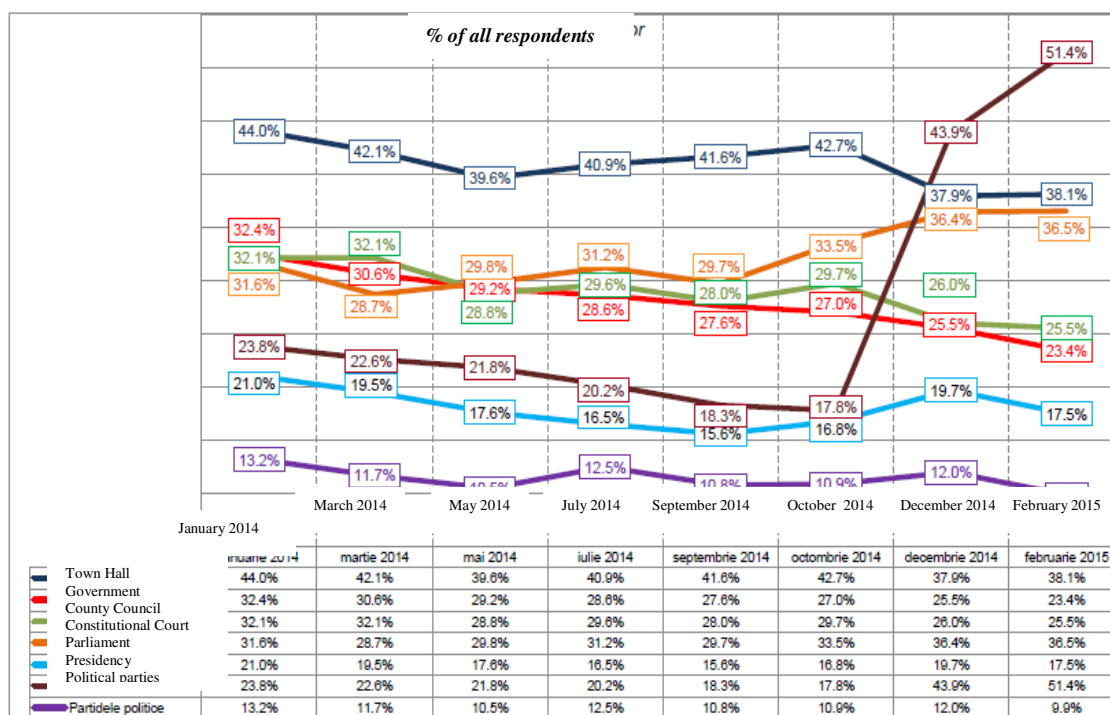
According to this category, Romania is a *country with macroeconomic imbalances*, which require policy actions and monitoring. This category includes 5 other country.

In relation to the investment profile, Romania has a *negative net situation of the international investments and a low medium-term export capacity*.

Moreover, from the *financial point of view, the sector is stable, but external and internal vulnerabilities remain in the banking sector (data taken over and modified)*.

From the point of view of the political stability, Romania got a score of 62.7 points, on a scale from 0 to 100, where a value below 49 means political instability. According to a Marsh report, Romania registered progress lately, but the dispute between the premier and president could slow down reaching political stability.

According to a research published by INSCOP on the evolution of confidence in various types of institutions in Romania, from January 2014 until February 2015, the data show, and it is also easy to notice that there are only two institutions whose confidence figures improved in the past year (the Presidency and the Constitutional Court), while the confidence figures of all the other political institutions declined mildly or moderately (figure 2).



**Figure 2. Confidence in the political institutions in Romania**

Source: <http://www.inscop.ro/wp-content/uploads/2015/03/INSCOP-Feb.2015-Incredere-institutii.pdf>

If we monitor the models of the increase and decrease in the confidence in institutions from January 2014 to February 2015, we can notice quite easily how the confidence in political

institutions is slightly decreasing in general, except the confidence in the presidential institution. The latter increased unexpectedly and abruptly, with the election of Klaus Iohannis, from 18% in October 2014 up to 45-50% in December and January 2015. Moreover, this growth rate is quite representative for how the idea of confidence in the political institutions in Romania functions.

The serious problems of democracy in Romania can easily be noticed in other data than the ones related to the confidence in the political institutions.

For example, certain data from *World Values Survey* show a major increase of non-democratic opinions in Romania from the 1990s until today. I analysed how Romanians answered two questions about essentially non-democratic governance ideas. The two questions were tested in 1994-1998, 2005-2009 and 2010-2014 and they are: "Do we need a strong leader, who does not need to worry about a parliament or the elections" and "Would it be better to have experts, not an elected government, to make decisions on what they believe it is better for the country".

**Table 2. The answers to the question "Political system: Having a strong leader" in all three analysed periods**

	TOTAL	Romania		
		1994-1998	2005-2009	2010-2014
<b>Political system: Having a strong leader</b>				
Very good	28	16	29	38
Fairly good	32	24	37	32
Bad	16	22	13	15
Very bad	11	23	5	9
No answer	5	15	2	1
Don't know	8	-	14	6
<b>(N)</b>	<b>4,518</b>	<b>1,239</b>	<b>1,776</b>	<b>1,503</b>

Source: <http://www.worldvaluessurvey.org/wvs.jsp>

**Table 3. The answers to the question "Political system: Having experts make decisions" in all three analysed periods**

	TOTAL	Romania		
		1994-1998	2005-2009	2010-2014
<b>Political system: Having experts make decisions</b>				
Very good	26	13	23	40
Fairly good	35	27	38	39
Fairly bad	16	22	15	11
Very bad	8	20	4	3
No answer	6	19	2	1
Don't know	9	-	19	5
<b>(N)</b>	<b>4,518</b>	<b>1,239</b>	<b>1,776</b>	<b>1,503</b>

Source: <http://www.worldvaluessurvey.org/wvs.jsp>

Thus, the agreement with the need for a strong leader who should not be accountable to the parliament or the society, through elections, increased from 40% in 1994-1998 to 70% in 2010-2014, and the agreement with the idea of being led by experts, not by an elected government, increased from 40% in 1994-1998 to almost 80% in 2010-2014 (table 2 & table 3).

Both these statements are applicable to a much higher extent to totalitarian political regimes than to democracies. Democracy implies a number of ideas and principles that do not allow for a governance (even an enlightened governance) without the agreement and control of the population, which can be made by direct vote or through the Parliament.

#### 4. CONCLUSIONS

Due to the fact that the political poles in Romania are balanced, the confidence in the institutions can always remain relatively constant or can decrease mildly, but the anti-democratic tendencies can grow amazingly, as shown in the above-mentioned figures. This gradual estrangement from the ideas of democracy is also caused by the fluctuation of the confidence in the political institutions of the Romanian State.

According to a report prepared by *Freedom House*, Romania's country scores for 2014 were as follows:

- Statute: free country
- Freedom rate = 2.0 points  
(1 = good, 7 = poor)
- Civil liberties = 2 points  
(1 = good, 7 = poor)
- Political rights = 2 points  
(1 = good, 7 = poor)

**Civil Liberties:** 49 / 60

- Personal Autonomy and Individual Rights: 12 / 16  
(1 spoor, 16 the best score)
- Rule of Law: 12 / 16
- Associational and Organizational Rights: 11 / 12
- Freedom of Expression and Belief: 14 / 16

**Political Rights:** 35 / 40 (+3)

- Electoral Process: 12 / 12 (+2)
- Political Pluralism and Participation: 14 / 16
- Functioning of Government: 9 / 12 (+1)

An increase is noticed in political rights by 3 points in 2014 compared to the previous year.

In conclusion, the political component of the country risk for Romania is determined by several factors, which combined, lead to a country rating, Romania's rating being 62.7 points, which include it in the middle category, where it has been for the past two years.

#### REFERENCES

1. Florentina Cristina Bâldan, *Country Risk Assessment*, Sitech Publishing House, Craiova, 2013, page 140.
2. I. Isaic-Maniu, *Measurement and statistical analysis of risk in Romania*, ASE Publishing House, Bucharest, 2003, page 134-136, 145-148, 151-152.
3. C. Păun, L. Păun, *Country risk*, Economic Publishing House, Bucharest, 1999, page 142.
4. Daniela Pîrvu, Florentina Ion, *The evolution of social indicators developed at the level of the European Union and the need to stimulate the activity of social enterprises*, Scientific Bulletin -

- Economic Sciences, Volume 13/ Issue 2, ISSN Online: 2344 – 4908, ISSN-L: 1583-1809, Pitești, 2014, page 3-11.
5. \*\*\*, <http://www.ordineazilei.ro/ancheta-si-reportaj/p/unde-se-plaseaza-romania-pe-harta-riscului-politic-marsh#sthash.NtC2UaT7.dpuf>
  6. \*\*\*, <http://www.wall-street.ro/articol/International/178085/harta-riscului-politic-romania-la-marginea-instabilitatii-politice.html>
  7. \*\*\*, <http://www.agerpres.ro/economie/2015/01/13/romania-este-plasata-in-categoria-de-mijloc-a-stator-europene-in-2015-pe-harta-riscului-politic-marsh-17-30-06>
  8. \*\*\*, [http://www.romaniatv.net/harta-riscului-politic-2015-romania\\_195191.html](http://www.romaniatv.net/harta-riscului-politic-2015-romania_195191.html)
  9. \*\*\*, [http://europa.eu/rapid/press-release\\_IP-15-4504\\_ro.htm](http://europa.eu/rapid/press-release_IP-15-4504_ro.htm)
  10. \*\*\*, <http://www.ziuaconstanta.ro/diverse/stiri-calde/iata-evaluarea-romaniei-harta-mondiala-a-riscului-politic-527928.html>
  11. \*\*\*, <http://www.ziare.com/economie/macroeconomie/romania-in-randul-tarilor-din-ue-cu-dezechilibre-macroeconomice-onoare-vs-critici-1350174>
  12. \*\*\*, <http://www.socialeast.ro/riscul-discursului-anti-democratic-din-romania>
  13. \*\*\*, <https://freedomhouse.org/report/freedom-world/2014/romania#.VRfQouF96Uk>
  14. \*\*\*, <http://dialoguesondutyofcare.com/2014/01/a-look-at-2014-global-political-and-security-risks/>
  15. \*\*\*, <http://www.inscop.ro/wp-content/uploads/2015/03/INSCOP-Feb.2015-Incredere-institutii.pdf>
  16. \*\*\*, <http://www.worldvaluessurvey.org/wvs.jsp>