Country risk dynamics of Romania in the post-EU accession period

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Abstract. *This paper analyzes what is the evolution of the country risk following the adhesion of Romania to the European Union. Such an analysis is crucial for investors who would like to enter the Romanian market, for decision makers in the public sector, and for international banks. The evolution of the Romanian economy was reflected by ratings given by Standard and Poor's, Fitch, Moody's and Japan Credit Rating Agency for the long term foreign sovereign debt, starting from 1997 and it is fundamental to understand the reasons for the up and down movements of the ratings and how they have influenced investors perception over the social, political and economic development of the country after the accession into the European Union. The methodology used is a combination of extensive literature survey and analysis of data. In addition, the paper presents an indicator meant for assessing the prospective of success or failure for a company trying to enter a new market by using an associative strategy. It was tested on a number of samples of 40 companies selected from Bucharest Stock Exchange. In order to take the right decision concerning the optimal market entry strategy, managers may use a software application, "AnBilanţ", created by a Romanian research team. The paper enumerates several conclusions about Romania's country risk, and, consequently, its economic growth and attractiveness for investors. Joining the European Union in 2007 has undoubtedly had a positive effect on the exposure of Romania's country risk. Nevertheless, acquiring the EU membership was not sufficient for economic continuous growth. Fiscal measures undertaken thereafter and reforms initiated by Romania increased investor confidence in the Romanian business environment and led to a general positive trend in sovereign rating. Nonetheless, administrative and judicial institutions do not function effectively, corruption remains systemic and regulatory level trading environment is high. On long-term Romania's has to take steps to fight against a serious demographic downturn and the environmental damage, with high restoration costs for water, air, soil.*

Keywords: *country risk; market entry, rating agencies; Romania.*

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Introduction

For more than a decade, after a slow start in the nineties, Eastern Europe enjoyed high economic growth thanks to domestic demand, credit boom, and capital influx into the increasingly more financially integrated region from highly liquid international markets. A large part of these inflows was intermediated by the local affiliates of occidental banks, which had come to control most local banking systems. The emerging Europe was hit by the financial crisis that followed the fall down of Lehman Brothers in September 2008. Many emerging economies from Eastern Europe, such as Hungary, Romania, Latvia and Ukraine, had then to ask to the International Monetary Fund (IMF) for assistance.

The article analyses what was the evolution of the country risk in the years following the adhesion of Romania to the European Union. The country risk is a collection of risks associated with investing in a foreign country. These risks include political risk, exchange rate risk, economic risk, sovereign risk and transfer risk, which is the risk of capital being locked up or frozen by government action.

The years 2007-2008

The accession of Romania to the European Union on 1 January 2007 entailed clear benefits, such as increased flows from the structural funds and more attractive business environment, developing capital markets, increasing foreign investment, access to the European labor market.

After long periods of fixed exchange rate, in 2007, a great fluctuation of the hard currencies exchange rate occur in Romania. A high currency appreciation was recorded in mid-August 2007, followed by a strong devaluation in late 2007. This was an effect, on the one hand, to rising food prices due to the drought that has affected agriculture, and on the other hand to the global economic crisis caused by the falling of real estate markets in the US and the UK and to the soar of inflation in the EU.

The global economic crisis has affected Romania since 2008, when the GDP fell more than 7%, the unemployment rate has doubled and the local currency, leu, has lost more than 15% against the euro currency. In the period before the crisis, the value of many local companies has grown to irrational levels, while after 2008, as an outcome of the worldwide trend, there was an accelerated reduction of their value. Furthermore, when the global crisis hit Romania, the influx of capital stopped, GDP fell more than 7% in 2009, unemployment almost doubled and the exchange rate weakened by more than 15 percent against the euro.

In the years before the financial and economic crisis, the number of companies increased sharply. After 2008, their value has experienced a considerable decrease as a result of the worldwide trend. Investors' perceptions of risk associated with investments in the capital market in Romania deteriorated in 2010 due to concerns about sovereign debt. Meanwhile, the stock market was characterized by high volatility, and the majority of shares were devalued by 70-80%. In 2008, the inflow of FDI attracted by Romania registered a value of 9.024 billion euro, which was very close to the peak registered in 2006, being only 36 million less compared with that historical record of 9.06 billion euro.

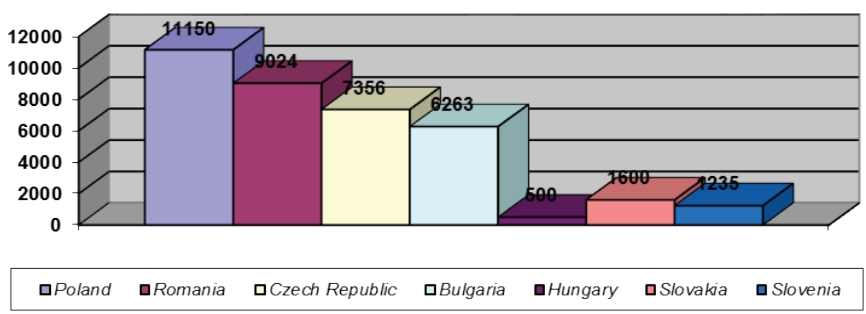

Figure 1. FDI evolution in Romania in the regional context, in 2008 (million euro)

Source: www.wiiw.ac.at

The ratings given by the Standard and Poor's, Fitch, Moody's and Japan Credit Rating Agency for the long term foreign sovereign debt, starting from 1997 have been the following:

	S&P's		Fitch		Moody's		JCR	
2012	BB+ (reaffirmed on May 25th 2012) Stable outlook	⇔	BBB- (reaffirmed on June 28th 2012) Stable outlook	⇔	Baa3 (reaffirmed on December 22nd 2011) Negative outlook (June 29th 2012)	⇔	BBB- (reaffirmed on December 28th 2011) Stable outlook	⇔
2011	BB+	⇔	BBB-	⇔	Baa3	⇔	BBB-	⇔
2010	BB+	⇔	BB+	⇔	Baa3	⇔	BBB-	⇔
2009	BB+	⇔	BB+	⇔	Baa3	⇔	BBB-	⇔
2008	BB+ BBB- (Jan.-Oct.)	⇩ ⇔	BB+ BBB (Jan.-Nov.)	⇩ ⇔	Baa3	⇔	BBB- BBB (Jan-Dec.)	⇩ ⇔
2007	BBB-	⇔	BBB	⇔	Baa3	⇔	BBB	⇔
2006	BBB-	⇔	BBB BBB- (Jan.-Aug.)	⇧ ⇔	Baa3 Ba1 (Jan.-Sept.)	⇧ ⇔	BBB BBB- (Jan.-Nov.)	⇧ ⇔
2005	BBB- BB+ (Jan.-Sept.)	⇧ ⇔	BBB-	⇔	Ba1 Ba3 (Jan.-Mar.)	⇧ ⇔	BBB- BB+ (Jan.-Sept.)	⇧ ⇔
2004	BB+ BB (Jan.-Sept.)	⇧ ⇔	BBB- BB (Jan-Nov.)	⇧ ⇔	Ba3	⇔	BB+ BB (Jan.-Nov.)	⇧ ⇔
2003	BB BB- (Feb.-Sept.) B+ (Jan.-Feb.)	⇧ ⇧ ⇔	BB BB- (Jan.-Dec.)	⇧ ⇔	Ba3 B1 (Jan.-Dec.)	⇧ ⇧	BB	⇔
2002	B+ B (Jan-Apr.)	⇧ ⇔	BB- B+ (Jun.-Oct.) B (Jan.-Jun.)	⇧ ⇧ ⇔	B1 B2 (Jan.-Dec.)	⇧ ⇔	BB BB- (Jan.-Dec.)	⇧ ⇔
2001	B B- (Jan.- Jun.)	⇧ ⇔	B	⇔	B2 B3 (Jan.-Dec.)	⇧ ⇔	BB-	⇔
2000	B-	⇔	B B- (Jan.-Nov.)	⇧ ⇔	B3	⇔	BB-	⇔
1999	B-	⇔	B- B (Jan. – Mar.)	⇩ ⇔	B3	⇔	BB-	⇔
1998	B- B+ (May - Oct.)	⇩ ⇩	B BB- (Jan.-Dec.)	⇩ ⇔	B3 (Nov.-Dec.) B1 (Sept.-Nov.) B3 (Aug.-Sept.)	⇩ ⇧ ⇩	BB- BB+ (Apr.-Dec.)	⇩ ⇔
1997	BB-		BB-	⇔	Ba3		-	

Figure 2. Sovereign ratings

Source: Romanian Minister of Finance

So, all four agencies have slowly improved the sovereign ratings of Romania throughout the years of transition to market economy, as an effect of the creation of a competitive economic environment, privatization of the former stated-owned companies, and developing of the democratic institutions, due to the power shift of political forces. The membership to N.A.T.O. and the accession to the European Union were the events that boosted the trust of investors in the economic potential of Romania, and, accordingly, the country's ratings.

The years 2008-2010

Before 2009, the most significant foreign capital in Romania consisted of direct foreign investment (especially capital ownership as a result of privatization), and other investments (such as loans from parent banks), while investment portfolio were generally low. After the start of the global financial crisis, the contribution of FDI was drastically reduced as reflected by Figure 3, regardless of the fact that Romania has remained an attractive business destination.

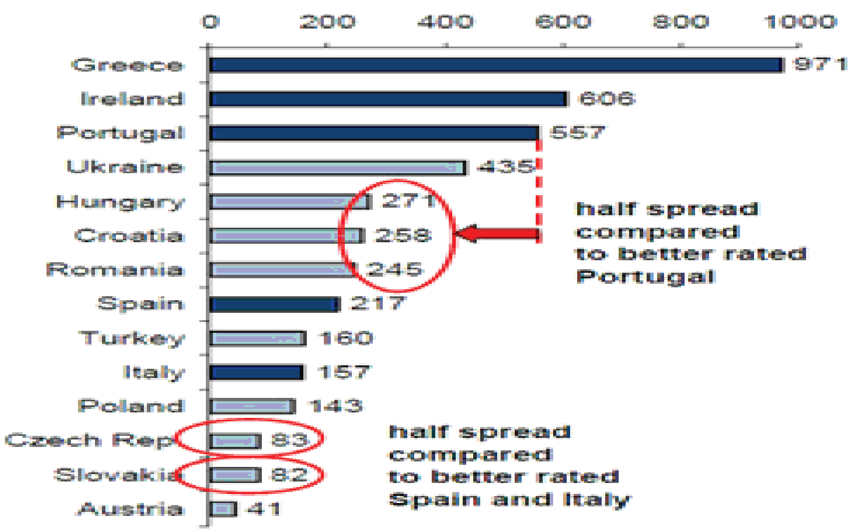

Figure 3. FDI evolution in the regional context, in 2010

Source: Bloomberg, Erste Group Research

In 2008 and 2009, the cumulative effects of the crisis based on relative change in real GDP, provides the following recorded values (see Figure 4).

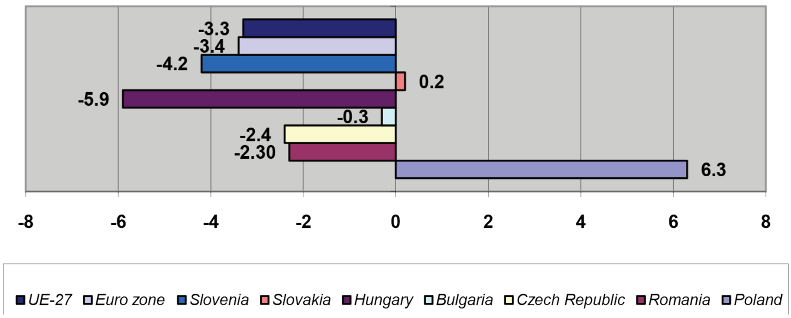

Figure 4. Relative changes in real GDP in 2010 for EU developing countries

Source: European Commission, 2014

In 2009, most liquid shares were devalued by 70-80%, which was one of the most significant drops in the capital markets of the EU. The Government started to have difficulties in paying pensions and salaries for civil servants. As a result, in March 2009, the government received a loan of € 12.9 billion from the IMF as part of a coordinated package of € 20 billion financial assistance. That moment marked a decrease in the rating of the country of Romania. As such, Moody was the only rating agency evaluating Romania with a stable outlook, favorable investment while Fitch and Standard and Poor's placed Romania in the category „junk" in the fall of 2008 as a result of the current account deficit.

Under these circumstances, the National Bank of Romania has asked the international rating agencies to assess the country risk, in order to obtain loans from international markets. The access to the international financial markets could have opened up new funding opportunities for Romania, either by issuing Eurobonds or through syndicated loans. Romania National Bank intervened in the international capital markets in order to increase the hard currencies exchange reserves and, hence, to meet the requirements of the agreements with the IMF to attain a certain level of foreign reserves. The stand-by agreement with the IMF was conditioned by the implementation of fiscal and monetary policies, including fiscal discipline, macroeconomic stability in the context of compliance and performance criteria, improved investor sentiment, stabilizing the foreign exchange market, sustainability and consistency of the economic policies, support the banking sector and its consolidation, including the recommencement of lending activity, both as for individuals and legal entities.

The positive effect of concluding this agreement was felt in March 2010, when the rating outlook of Romania was upgraded to “stable” by Standard and Poor’s, followed by Fitch Ratings in April 2010. Moody’s Investors Service was the only agency that has continued to classify Romania among the countries ‘investment grade’.

Under these circumstances, the current account deficit was reduced by more than half to about 4 percent of GDP and the structural fiscal deficit also declined. Pressures on the exchange rate have decreased in intensity while reserves have stabilized. Financial markets have reacted to all this by reducing pressure on sovereign spreads, which by the end of 2010 fell by almost 600 bps from their peak levels during the crisis.

Romania was among the best performing countries in the world in terms of reduction of country risk in the third quarter of 2010. Thus, Romanian sovereign bond risk fell by 21.5 points to a level of less than 300 points. At the same time, several European Union countries registered increases the risk of the country, such as Ireland and Greece, which increases up to 640, respectively 1023 points.

In the first half of 2010, BET index recorded significant fluctuations in growth - 27% in the first quarter, and decreased by 20% within 3 months. The steepest declines were recorded in the first two months of 2009, when the BET declined 34.5%. BET then returned to an upward trend with 61.7% more than the previous year.

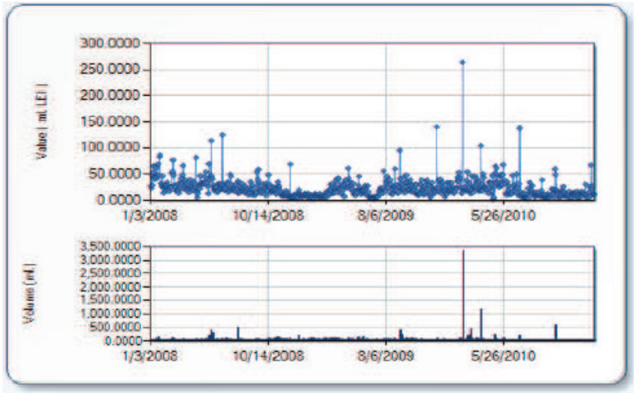

Figure 5. Evolution of the volume of transactions on the BSE in 2008-2010

Source: Bucharest Stock Exchange, www.bvb.ro

In March 2011, Romania requested a successor Stand-By Arrangement (SDR 3.1 billion, 300 percent of quota) to continue the economic adjustment initiated under the 2009 SBA. The main objectives of the new program, jointly supported by the European Union, were to provide precautionary support against external shocks and to advance economic adjustment.

The years 2011-2013

The year 2011 marked a crucial step in the evolution of Romania's sovereign rating; the country began to feel the positive effects of the Stand-by Agreement approved in 2009.

A new precautionary financial assistance program for Romania was officially closed in October 2013 for a total amount of EUR 4 billion, equally divided between the EU and the IMF by the end of September 2015. This is the third program financial assistance granted to Romania by the EU, after the one in 2009-2011 reimbursed in full, and one in 2011-2013 which provided preventive care 5 billion euro, of which 1.4 billion from the EU and the authorities decided not to use, due to the improved economic and financial situation.

The effects were made visible in the review's positive rating for Romania's international rating agencies.

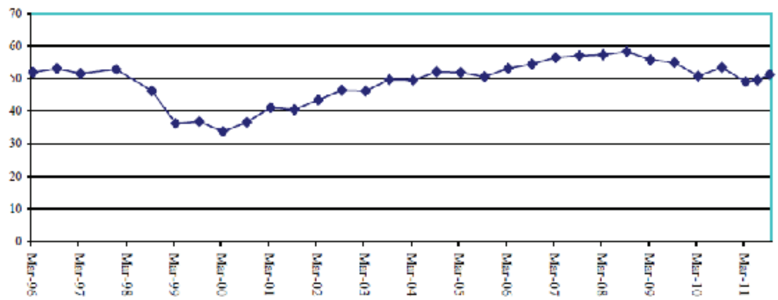

Figure 6. The dynamics of Romania's country rating, according to Euromoney

Source: Processed data from the database of Euromoney Country Risk.

Including bonds of Romania in the GBI index - EM: consequence of the financial assistance program provided by the European Commission and the IMF

The country's economic performance, thanks to fiscal changes of the legislation, and implementation of many structural reforms, contributed to a significant improvement of investment environment. The most important international recognition of the level of performance achieved by Romania came from the bank JP Morgan, which in 2013 included the Romanian bonds in emerging markets index. JP Morgan officials said their decision was based on the fact that Romania has met the conditions for market liquidity. With a market capitalization of US $3,482 bn (as of January 11th, 2013), Romania's potential weight was estimated to be 0.54% in the flagship GBI-EM Global. However one has to note that the Romanian bonds included in the index rate of only 0.5% in the GBI-EM, while Hungarian bonds account for 5.5% and Poland for 10%. The increasing of the attractiveness of Romanian international bonds had immediate consequences:

- Low cost of financing for the Ministry of Finance with more than 1 percentage point in one month;

- The national currency has appreciated considerably, allowing the Ministry of Finance to borrow at record low interest on financial markets. The Ministry of Finance has managed to attract capital from the primary market sources to yield 1.17 percentage points lower than the yield obtained at the auction of 13 December 2012, which demonstrates investor confidence in Romania's macroeconomic development.

Current period

2013 recorded an encouraging evolution of the current account deficit judged against the level recorded in the same period a year before; the most important aspect that supported this increase is the contraction of the trade deficit, which fell in the analyzed period from EUR -5.7 bill. to EUR -0.65 bill. Lowering Romania's current account deficit has reduced the country's dependence on international funding. GDP has also grown steadily and the perspectives for 2014 are also good (see Figure 6).

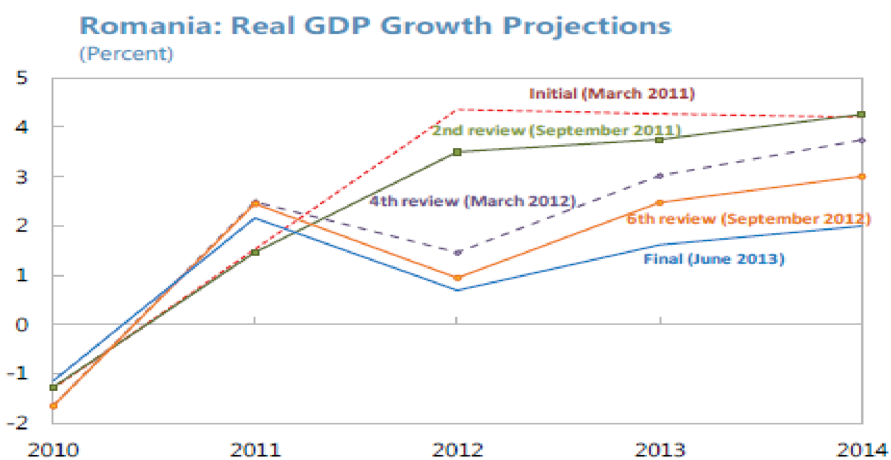

Figure 7. Romania, Real GDP Growth Projections (IMF Report, 2014)

An aspect that has contributed to improving the rating of the country of Romania was the absorption of EU funds, which had substantial grown in 2013, although it still remained as the lowest of the EU member states. In late January 2014, Romania managed to absorb 11.3 billion euro, representing a rate of 41.4% cumulative absorption of structural funds, cohesion and agricultural allocated for the period 2007-2013 (Table 1).

Table 1. EU funds absorption for Romania

Date	EAFRD	% of total EAFRD	SCF	% of total SCF	Grand total	% of total
Mar-09	*171*	*2.1%*	*87*	*0.5%*	*258*	*0.9%*
Dec-10	1436	17.7%	368	1.9%	1804	6.6%
Mar-11	*1552*	*19.1%*	*548*	*2.9%*	*2100*	*7.7%*
Dec-11	2209	27.2%	1066	5.5%	3275	12.0%
Dec-12	3323	40.9%	2204	11.5%	5527	20.2%
Dec-13	4538	55.9%	6430	33.7%	10968	40.1%
Jan-14	4861	**59.8%**	6462	**33.9%**	11323	**41.4%**

Legend

EAFRD: European Agricultural Fund for Rural Development

SCF: Structural and Cohesion Funds

Total EAFRD	8124
Total SCF	19058
Total Funds	27337

Source: European Commission: Romania, Balance-of-payments assistance program mission report (21 January - 4 February 2014).

In the fourth quarter of 2013, the strong growth in Romania was in contradiction with the collapse of the governmental coalition. Consequently, Fitch confirmed the rating of investment grade for sovereign debt of Romania (BBB-, with a stable outlook), while in November 2013 S&P revised the growth prospect rating of Romania (from 'stable' to 'positive').

Table 2. Romania country ratings in 2014 (Fitch Ratings, Moody's, S&P)

Rating	Foreign currency	Local currency
Moody's	*Baa3*	*Baa3*
S&P	*BB+*	*BB+*
Fitch	*BBB-*	*BBB*

According to the Fitch estimates, in 2014, Romania's macroeconomic risks will remain balanced: even if final data on agricultural and industrial production for 2013 are better than expected, lending is still limited. Internationally, Romania remains vulnerable to negative developments on the international financial markets and slow growth in the euro area. An implementation of prudent policies, which contributed to a substantial reduction in spreads, will be crucial in maintaining investor confidence.

The conclusions of the 2014 IMF Report on Romania indicate that financial assistance from the IMF and European Union Romania ensured macroeconomic stability and policy credibility needed for a positive review or rating of the country to "investment grade".

Moody's (2014) draws similar conclusions, i.e. that the rating of Baa3 for the government bonds was determined by the fiscal consolidation achieved in the last two years despite slow growth in GDP, but remains constrained by low economic growth.

The report also states that the integration of Romania in the group of developed European economies will generate revenue and productivity gains in the medium term. In the short term, however, Romania's economic recovery could be hampered by its exposure to the volatility of financial markets in Europe and the growth rate of GDP is likely to remain lower than other Member States with similar rating outside the European Union next year.

Euromoney Country Risk ECR-survey (2014) shows that the rating of Romania, has been on the rise since the start of 2013 and has continued to improve in the first months of this year, reaching 48.9 maximum 100 points, ahead of Hungary. After Romania has regained 69th place out of 186 nations included in the top global ECR, which means five places higher than the position held in June 2013, Romania is currently only two places under the third category rating of five levels calculated by the ECR, which would equate to a rating between BB + and A-, according to the rating methodology used by Moody's. Romania is more risky than other countries in Central and Eastern Europe, like Czech Republic, Estonia, Slovakia and Poland that have higher scores awarded by ECR. The country is menaced by uncertainty related to the presidential election this year.

The visit of the IMF and the European Commission in Romania between January 21 and February 4, 2014 marked the end of the review of the Stand-By Agreement. The failure to meet the target of reducing the arrears of state-owned companies in the last quarter of 2013 was the main accusation made by the mission; otherwise the assessment was generally favorable. The mission announced that if no progress is being made to reduce arrears (in particular those from SOEs of rail transport sector), the IMF will not approve the agreement in April 2014.

In 2014, one can expect a fiscal slippage, and a depreciation of the national currency as a result of the election year. However, it is unlikely that the rating of the country will be downgraded, due to political disturbances, for three reasons:

- the European Union and International Monetary Fund will vigilantly monitor the continuity of government policies;
- in the event of a change in the governmental coalition, it is unlikely that Romania's major political parties will support a change in current policies that prove to be beneficial at macroeconomic level;
- these macro-economic benefits, as reflected in the growth of Romania, in the fiscal outlook and in the balance of payments, have strengthened the investors' confidence in Romania and, hence, they will limit the capital outflows in response to political developments.

Solutions to improve the rating of Romania

In order to fall in the category of emerging markets, Romania needs a number of structural improvements conditioned by a sound public debt management. The Stand-by Agreement includes measures to strengthen the progress made in the previous program and increase predictability of the Romanian state, through a solid presence on the financial market by issuing bonds according to a certain calendar, and consultations with market participants.

Building a sovereign market infrastructure is another important objective, through the introduction of an automated platform for primary issuance of bonds, an electronic system for monitoring transactions on the secondary market, in order to optimize the functioning of the domestic financial market. These measures should improve the market efficiency and help the Ministry of Finance to put up the yield curve of government bonds.

Romania's main troubles are: the slow accessing European funds for investment projects, inefficient energy and transport sector and pressures on public finances, mainly due to a lower tax base, increased health costs and poor performance of SOEs.

Standard and Poor recommends Romania to continue reforms and the budget deficit under control, to improve the rating. In addition, S&P believes that structural reforms undertaken so far should help to rebalance the economy and would allow a solid growth medium. The sovereign rating could suffer if the government will fail to continue the structural reforms and fiscal consolidation.

To take advantage of the opportunities offered by the economic relations with the EU, the government will need to continue structural reforms and make more efficient the SOEs, at the same time as maintaining fiscal cautiousness in the medium term. Decreasing health care costs would also be a wise solution to improve the sovereign rating. Comparative advantages of Romania at the sectorial level are various, but they are put in shade by drawbacks like the subsistence agriculture, tourism lacking a network of highways, a developing but chaotic IT sector, unsupported by adequate education and research). Romania will continue to benefit from the gradual liberalization of world trade and of the trade integration in the EU (although joining the euro area is projected for 2019). Romania's long-established reliance on exports of goods in sectors with intensive labor could become a burden on medium and long term. On short-term it is likely that Romania can maintain the good position currently held on the efforts made by companies with headquarters in developed countries to move non-core activities in locations with small costs in order to increase profitability. But as the wage level increases, Romania will face tough competition from China, India and other emergent countries and the solution cannot be other than to move the production and exports on a higher position in the value chain.

Usefulness of the country risk analysis. “AnBilanţ” software.

The risk management area has more and more become important for any company willing to enter new markets. The country risk rating is essential for investors who wish to conquer new markets or to deinvest from dangerous states. A useful instrument for assessing the prospective of success or failure for a company trying to enter a new market by using an associative strategy is I, a risk indicator defined as follows:

$$I = N \text{ x } F \text{ x } \frac{1+R_T}{1+R_O} \text{ x } \frac{1+RCE_T}{1+RCE_O} \text{ x } \frac{V_{\text{company X}}}{CS_{\text{company X}}}$$

where the factors are:

-the country-risk of the target-market rating (N)

-the degree of cultural and organizational compatibility (F)

-the inflation rate for the target-market (R_T)

-the inflation rate for the country of origin (R_O)

-the rate of economic growth for the target-country (RCE_T)

-the rate of economic growth for the country of origin (RCE_O)

-the social capital of the X firm, the patrimonial entity that is used for settling an associative strategy ($CS_{\text{X firm}}$)

-the economic value of the enterprise ($V_{\text{X firm}}$), if the company is listed at the stock exchange, than $V_{\text{X firm}}$ is the market value.

For anuanced analysis, one can apply the logarithm over I and the result is

$$I^* = \lg I = \lg \left(N \text{ x } \frac{1+R_T}{1+R_O} \text{ x } \frac{1+RCE_T}{1+RCE_O}\right) + \lg \left(F \text{ x } \frac{V_{\text{company X}}}{CS_{\text{company X}}}\right).$$

The first term reflects the degree of risk of the target region/country, while the second characterizes the microeconomic risk. After testing the indicator over a sample of 40 companies listed on the Bucharest Stock Exchange, the conclusion was that the right values of the indicator are:

-if $I^* < 0$ and the country risk is more than 6, the factors which characterize the external environment being in normal limits, than the company envisaged for association is either less evaluated, or almost bankrupt, vulnerable, able to be taken over very easily

-if $I^* > 5$, under the same circumstances, than the company envisaged for association has a very good financial situation.

Therefore, five intervals of values for the I^* indicator have been settled.

Table 3. The evaluation of the microeconomic environment analyzed in rapport with the values on the grid of I^*

The values of $I^* = \lg(I)$	The evaluation of the microeconomic environment	The optimal entry strategy
$I^* < 0$	The microeconomic environment likely to be entirely taken over	Direct greenfield investment
$0 < I^* < 1,6$	The microeconomic environment likely to be entirely taken over by a buy of the majority of stocks and joining the management team	Acquisition
$1,6 < I^* < 2$	The microeconomic environment likely to be taken over at a equal rate to that of the partner	Mergers, acquisitions
$2 < I^* < 5$	The microeconomic environment favorable for economic cooperation	Licensing, franchising, strategic alliances
$I^* > 5$	The microeconomic environment hard to be approached through a partnership but favorable for trading operations	Export

Source : Gheorghiu, 2009

In this context, a Romanian team formed by three researchers (Anda Gheorghiu, Ion Daniel, Anca Gheorghiu), has created a software application "AnBilanţ" designed to be an helpful instrument in order to take the right decision concerning the global market entry and to choose the most advantageous strategy, such as export, franchising, licensing, merger/acquisition or building a shining new industrial unit from scratch.

AnBilanţ is a user-friendly and trustworthy tool in the decision process, especially in the case when the company intended to be acquired is not listed at a stock market, and, consequently, it should be thoroughly evaluated by using one of the classical assessment methods like Discounted Cash Flow or Adjusted Net Asset method.

As AnBilanţ is developed under Visual Basic 6 as an executable and runs under Windows operating system, it is able to identify and interrelate with various types of data files or Database Management Systems (i.e. software systems that allows users to save retrieve and modify information) such as Microsoft Access, dBase, FoxPro, Visual FoxPro, Paradox, SQL Server, etc; it allows the access to documents and Internet/Intranet applications.

The application is structured in four areas, specifically:

I. The input area of comparative parameters between the target market and the country of origin, to be exact:

N-the country-risk of the target-market rating with values between 1-10 (10 for financially solid countries

F- the degree of cultural and organizational compatibility (F), with values between 0.1 (incompatibility) and 100 (full compatibility)

R_T - the inflation rate for the target-market

R_O - the inflation rate for the country of origin

RCE_T - the rate of economic growth for the target-country

RCE_O - the rate of economic growth for the country of origin

r -the discount rate, i.e. the rate at which costs and estimated future incomes of the investment are discounted to calculate the present value of it

g- dividend perpetual growth rate.

II. The area that displays the values calculated according to the Discounted Cash Flow method (DCF) and Adjusted Net Asset method (ANC). After selecting the amount considered by the assessor as the most appropriate the software automatically calculates the indices I and I *= log (I), which asses the market environment of the target country / region and deliver the strategic investment recommendation.

III. The area of financial analysis applied to items selected from the balance sheet or profit and loss account, accompanied by graphic illustration of the dynamics of the economic factors.

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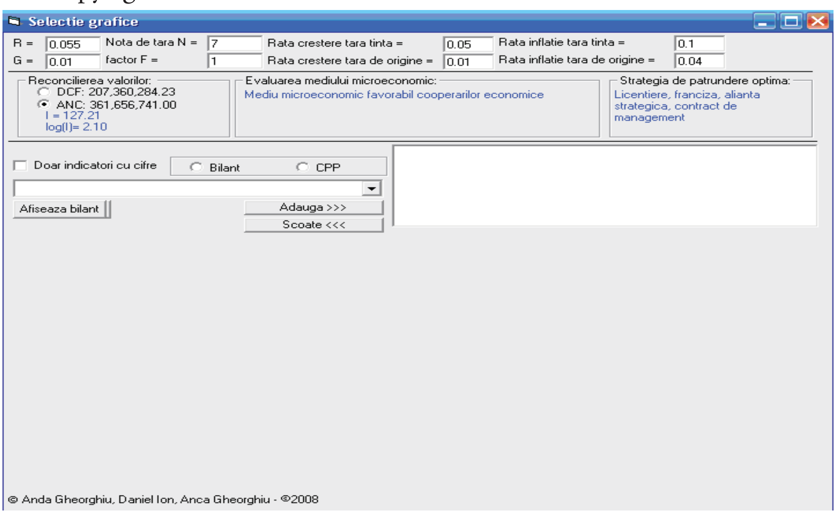

Figure 8. The visual appearance of the application AnBilanţ

Source: Gheorghiu, 2009

Conclusions

Romania's country risk assessments by international agencies have revealed that joining the European Union in 2007 has undoubtedly had a positive effect on the exposure of Romania's country risk. Nevertheless, acquiring EU membership was not sufficient for economic continuous growth. Fiscal measures undertaken thereafter and reforms initiated by Romania in this period increased investor confidence in the Romanian business environment and led to a general positive trend in sovereign rating.

Romania's development prospects at the institutional level and with regard to the regulatory framework are not clear. EU integration has made solid improvements in the business environment. Nonetheless, administrative and judicial institutions do not function effectively, corruption remains systemic and regulatory level trading environment is high. The potential for improvement in the regulatory framework is limited by the weakness of the state apparatus. However, national policies the government can facilitate progress, provided there is political will in choosing the best direction.

On long-term Romania's development will definitely be influenced by two major factors: a serious demographic downturn that has deepened in recent years (decreasing population, including as a result of deployment abroad a few number million people in the active workforce, coupled with an aging population), with direct effects on social insurance budget and environmental damage, with high restoration costs for water, air, soil, etc.

Continuing the trend of Romania's macroeconomic development, confirmed by a higher grade of country rating will allow the state to fulfill its management strategy established by the government for 2012 – 2014, through extending the maturity of government securities by issuing bonds principally on medium and long term. This will reduce the financing needs, namely to reduce the volume of refinancing bonds and consequently the risk of refinancing.

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