The evolution of macro-risk in EU11 area seen from Business Intelligence side

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Abstract: This paper is a reinterpretation of the work done of the authors several years ago and it underlines the political risk of the countries that are member of the EU11 (European Union segmented at 11 countries that have geographical and strategic similar positioning) zone shaped by the World Bank in the year 2013.
The research paper is targeted to underline the evolution between the peak of the crisis financial output's slope and the result of the reforms implemented at the level of the European Central Bank and at the level of external regulators like the European Commission, the International Monetary Fund and the World Bank. The authors followed this path redundant to the fact that the three of them have specific backgrounds, from ecology, corporate governance and business related, and for that the authors tried to develop a path that shows the development of general risk at country level and macro-zone level using also Business Intelligence practices.

Key words: economic risk, country risk, financial risk, emerging economies, business intelligence' practices

JEL codes: F02, 011, P27

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1. Introduction

During the second decade of the 21st century it looks like the global environment became more and more scarce in offering a solution that could help the socio-economic perspective develop into a wider area of expertise for the catching up process. To see the development of the countries that form the EU11 it was mirrored the development of the political, economic and financial risk over a period of two years, mirroring the year 2011 and the year 2013 and also when data will be available in a future research with the year 2015.

The economic environment from European countries led to the development of entities with the purpose to create a linear flow between existent entities, in the production process these entities being regulated, supervised and consulted to assure the role of free practice on the labor market and unrestricted capital flow.

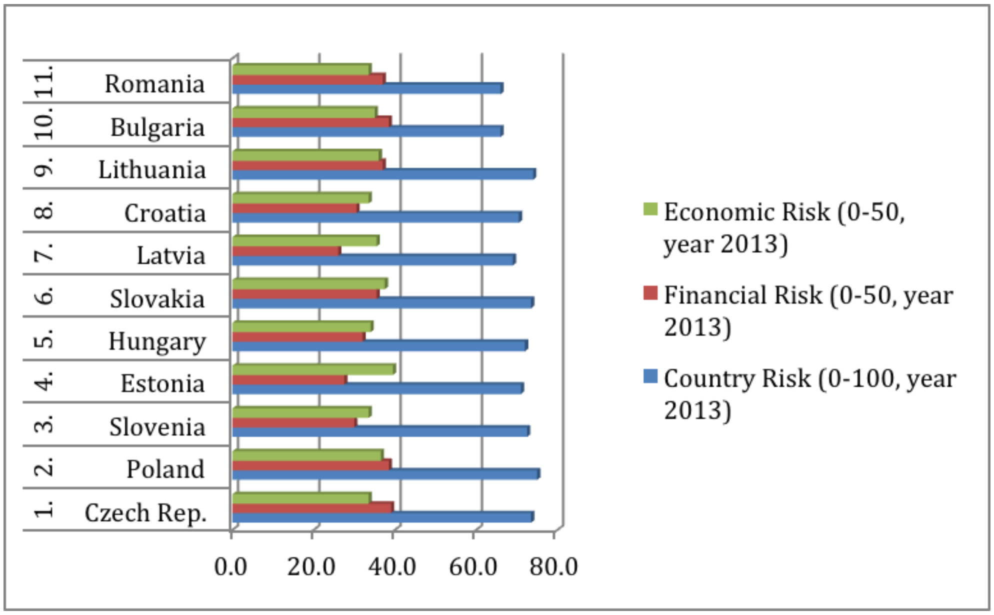
In this part of the paper there will be challenged and developed the case of 11 biggest emergent economies from Central and Eastern Europe, also called the EU11 economic area by a report started at the beginning of the year 2013 by the World Bank composed of: Romania, Bulgaria, Lithuania, Croatia Latvia, Slovakia, Hungary, Estonia, Slovenia, Poland and Czech Republic (Bodislav, 2013a).

The authors are developing and highlighting trends between similar situation observed in developing areas around the world, but mainly focusing on the situation of the European Union and especially underlining the World Bank's molded area, the EU11 zone. We also try to show what pressures are developed by the deployment of debt and political affiliation towards a more extreme side of the social progress of our global economy. Studies on this subject were developed starting from the '80s by niched companies that gather intelligence for main rating agencies like Standard & Poor's, Moody's or others and they develop their rating models regarding what information is offered by companies like PRS Group Incorporated, so our insight is more on the academic side and try to complete what the corporate side offers, this way the big picture is offering the entire piece of information on risk deployment in the EU11 area, not only a particular vantage point.

2. Risk development in EU11

Multicultural diversity is the engine for the sharpest pressures for acceptance created into emergent economies, these being the secondary result of privatizations in developing countries or of countries that are newly entered in the democratic system of leadership (Carstensen, Toubal, 2004) and these being explained also by the inputs of capital (Foreign Direct Investments), fact that was observed in the evolution of multinationals that entered markets and developed a large market share (Bodislav et al., 2014), for example Czech Republic, Poland and Hungary (for a high level of FDI) and Romania, Bulgaria and Croatia for a low level market penetration and market share (Bodislav, 2013a). These small entries are combined with the pressure of political instability from those countries that have a negative rate of solving problems, this way involving the country risk and resulting in multinationals and subsidiaries that enter into partnerships with limited responsibility, creating this way partnership relations between the country of origin and the host country, creating a macro-hedging system on risked capital in the hosting economy (Bodislav, 2013b).

Figure 1. Country Risk vs. Financial Risk vs. Economic Risk in Emerging Countries in Central and Eastern Europe/EU11 economic area



Source: data analyzed by the author in February 2015, database offered by PRS Group Incorporated (company specialized in Intelligence country analysis)

Table 1. Composite risks of emerging countries from Central and Eastern Europe

No.	Countries	Country Risk (0-100, year 2013)	Financial Risk (0-50, year 2013)	Economic Risk (0-50, year 2013)
1.	Czech Rep.	73,5	39,0	33,5
2.	Poland	75,0	38,5	36,5
3.	Slovenia	72,5	30,0	33,5
4.	Estonia	71,0	27,5	39,5
5.	Hungary	72,0	32,0	34,0
6.	Slovakia	73,5	35,5	37,5
7.	Latvia	69,0	26,0	35,5
8.	Croatia	70,5	30,5	33,5
9.	Lithuania	74,0	37,0	36,0
10.	Bulgaria	66,0	38,5	35,0
11.	Romania	66,0	37,0	33,5

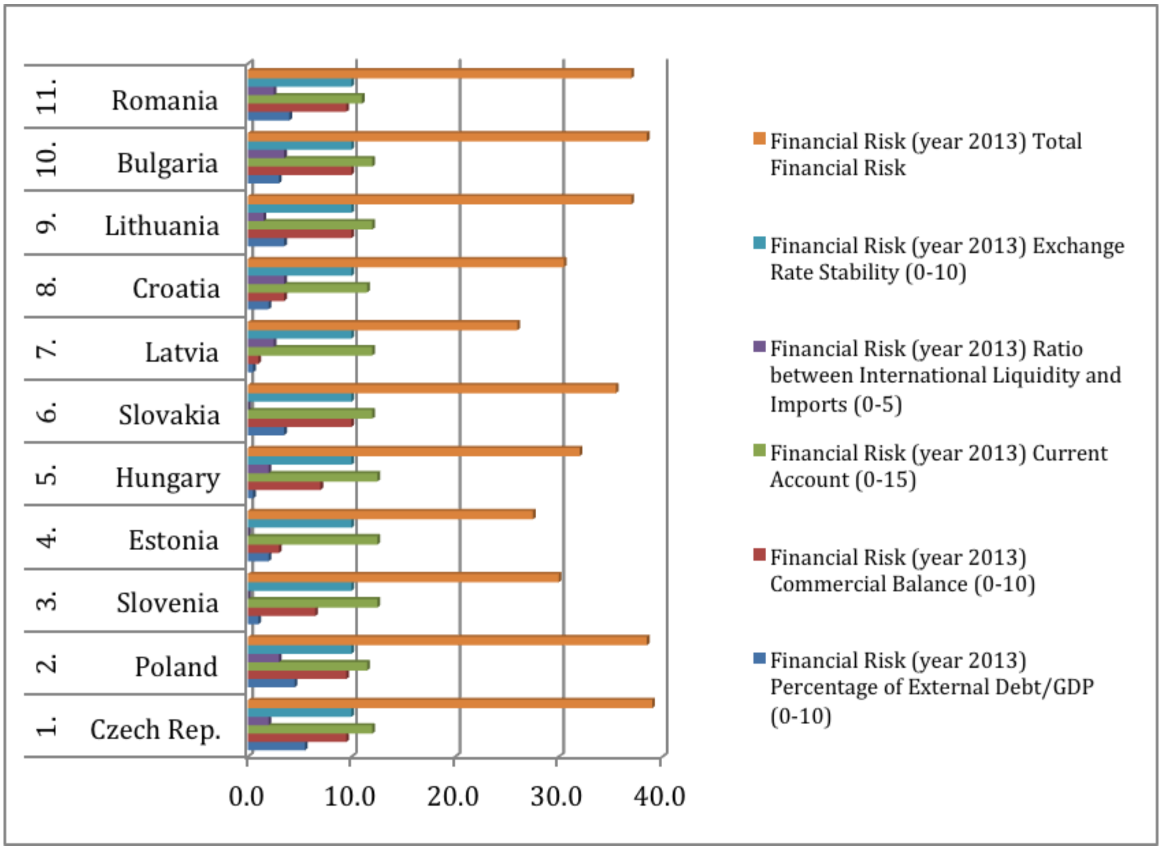
Source: data analyzed by the author in February 2015, database offered by PRS Group Incorporated

It is easily observed that in Eastern and Central Europe/EU11 at political/country level the best developed countries are the Czech Republic, Poland and Slovenia fact that could be observed into their way of creating regulations and promoting themselves on the external market, further we will see that these countries are regional champions at attracting FDI and at obtaining the lowest interest rates in the region on Wall Street (Bodislav et al., 2014).

For financial level, which includes the development of the financial sector in that country and the model of doing business or by offering/attracting new players on the financial sector deployment, leaders in the region are the Czech Republic followed by Slovakia and Bulgaria and lagging could be considered Latvia, Estonia and Slovenia, a surprise validated by the relation of these three countries with the former USSR (Bodislav, 2013a). The surprise of the top is created by Romania because it is lagging at all other indicators or rankings but is situated close to the podium on the financial sector's development, coming strong on the 4th place.

At economic level, the champions are Estonia, Slovakia and Poland, countries that have established some positive strikes on not bending the rule of borrowing money from international financial institutions, but the real regional problem comes from the bottom of the list, the four losers of the region are: Croatia and Romania are two countries that rank extremely poor at economic level and Czech Republic and Slovenia, which in 2011 were in the top 3 countries in the EU11 as economic risk champions (Bodislav, 2013b).

Figure 2. Financial Risk in emerging countries from Central and Eastern Europe/EU11 area



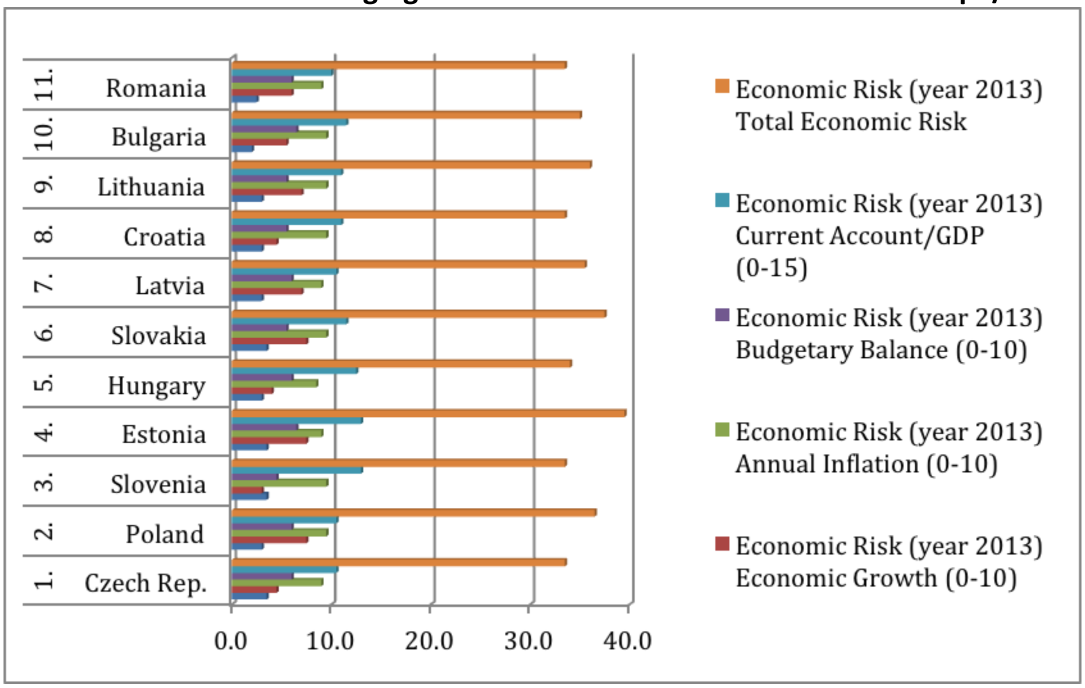
Source: data analyzed by the author in February 2015, database offered by PRS Group Incorporated

3. The value of the internal microeconomic mechanism

Going further on researching the Financial Risk of countries from Central and Eastern Europe we could deconstruct the financial risk into (Bodislav, 2013b, PRS, 2015): **Percentage of External Debt to GDP:** champions are the Czech Republic, Poland and Romania that have the lowest percentage and the perspective is neutral, while Hungary and Latvia are the countries with the worst perspective; **Commercial Balance:** champions of the region are Slovakia, Lithuania (Lithuania was on the 11th position in the area in 2011 – Bodislav, 2014) and Bulgaria while Latvia has the worst perspective because it is a net importer and it hasn't got any resources to ignite exports; **Current Account:** Slovenia, Estonia and Hungary are the champions because they have built their image on growing their budgetary surplus, while Romania is the country with the worst deploy of financial forces (Moroianu, Belingher, 2011); **Ratio between**

International Liquidity and Imports: Croatia and Bulgaria seem to be the countries with the best perspective on their international liquidity and imports, but this situation is not created by their evolution, but by their geographical position, the worst countries are Slovenia, Estonia and Slovakia because they are not nodes in the European transportation infrastructure and it hasn't got any resources that could be used as a competitive advantage and last year's results are the worst possible for these three countries (Bodislav, 2014); **Exchange Rate Stability:** All countries ranked the same.

Figure 3. Economic Risk in emerging countries from Central and Eastern Europe/EU11 area



Source: data analyzed by the author in February 2015, database offered by PRS Group Incorporated

Regarding the Economic Risk, it is deconstructed in the following sub-indicators (Bodislav, 2013a):

1. **GDP per capita:** Czech Republic, Slovenia, Estonia and Slovakia are the champions in the region while Romania and, especially, Bulgaria are in serious lag for catching up the countries in the region and those in EU28;
2. **Economic Growth:** Poland, Estonia and Slovakia are the champions in the region during time, especially after their liberation under the communist regime, while Slovenia is on its worst behavior in the last three years;
3. **Annual Inflation:** Poland, Slovenia and Slovakia are the countries with the smallest inflation and best perspectives for expected inflation, while Hungary has the worst perspective after the Viktor Orban' government's approach to nationalize all foreign companies;

4. **Budgetary Balance:** Estonia and Bulgaria are the countries with the best perspective on the budgetary balance, while Slovenia is on the slope to a future shutdown;
5. **Current Account to GDP ratio:** Slovenia and Estonia are the countries that entered a growth slope becoming region champions, meanwhile Romania is the counter example because it has the tendency to increase spending on imports with a rate bigger than the growth rate of the GDP.

After evaluating the situation seen in emergent economies in the Central and Eastern Europe and countries newly known as the EU11 from the latest reports offered by the World Bank, these have in common the fact that they are well-positioned in Europe's heart and they are trying to put themselves into the center of Europe's commercial flow and try to resist geo-political and economic exogenous and endogenous influences. Another component that shows the continuous development of the global economy and the capital flow between countries is the Americanization of some countries by implementing some work techniques created in the US and by attracting some legal and regulating components to grow the multinational companies that are in full global expansion.

4. Conclusion

The EU11 economic area is a nexus of countries that have as main goal narrowing the gap between Western developed countries and the Euro-emergent countries (Bodislav et al., 2014), the overall perspective being on an ascending slope for some of them and the bigger picture being drawn with a grey perspective, because these days talks about the future of the European Union include the rendering of possible scenarios that aren't bright for the Union itself and governance innovation is needed for shaping the *United States of Europe* (Bodislav, 2014).
Their future is unclear and unseen pressure is near peak point because of the newly developed situations from Crimeea and its independence (Russia's pressure on Ukraine), the development of a Hungarian path regarding its relations with the body of the European Union, Bulgaria's and Turkey's developing relations with Russia and also Greece's new approach on macroeconomics and economic policy.
All of these macroeconomic issues and geo-strategic pressures are doubled by the uncertain future of commodities, especially the leverage created by the US, Saudi Arabia and Russia regarding the unclear trends of oil prices, which on the long run could ruin the risk inherited, developed and maintained by the EU11 area niched by the World Bank.

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