

## NATIONAL BANK OF ROMANIA

### FOREIGN DIRECT INVESTMENT IN ROMANIA

as of 31 December 2004

The National Bank of Romania and the National Institute of Statistics conducted a survey on foreign direct investment (FDI) in Romania as of 31 December 2004 based on the stock of the resident direct investment enterprises extant at the beginning of 2004 and the flows stemming from the fiscal 2004.

The survey provides the necessary data for determining the amount of FDI and analysing FDI by key national economy activity (CANE divisions Rev. 1), by development region and country of origin.

Moreover, information was gathered in relation to the amount of FDI in the form of tangible and intangible assets (allowing for several analyses on FDI durability), the reinvested portion from net earnings, the contribution of loans to FDI, as well as the in-kind contribution to FDI (in case of non-financial commercial companies).

Furthermore, the survey results underlie the adjustment of FDI data included in the 2004 balance of payments (flows), as well as of the data regarding Romania's international investment position at end-2004 (stocks); the survey results help estimate reinvested earnings and in-kind contribution for 2005 (flows and stocks).

#### *METHODOLOGICAL ISSUES*

- **Foreign direct investment:** long-term investment relationship between a resident entity and a non-resident one; it usually implies that the investor exerts a significant degree of influence on the management of the direct investment enterprise.

**Direct investment:** the paid-up capital and the reserves due to an investor owning at least 10 percent of an enterprise's subscribed share capital, the loans extended by the investor to the enterprise subject to investment, as well as the reinvested earnings.

- **Foreign direct investor:** legal entity, natural entity or group of entities acting jointly and owning at least 10 percent of the subscribed share capital (or of endowment

capital, in case of unincorporated entities) or at least 10 percent of voting power in an enterprise located outside the country of residence.

- **Direct investment enterprise:** an incorporated or unincorporated enterprise where a foreign investor owns at least 10 percent of paid-up capital or voting power, or the endowment capital, in case of unincorporated entities (branches). Owning at least 10 percent of subscribed share capital or voting power, or of endowment capital, is the prerequisite for the establishment of the direct investment relationship.
- **FDI components:**
  - **Equity capital** includes subscribed and paid-up capital, both in cash and through in-kind contributions, held by non-residents in resident companies, as well as the related share in reserves; in case of branches, the available endowment capital shall be taken into account correspondingly.
  - **Net credit**, namely the direct investment enterprise's **borrowings** from the foreign direct investor or from the group of non-resident companies that the latter belongs to, less the **loans extended** by the direct investment enterprise either to the foreign direct investor or another entity within the group of companies.

## *RESULTS OF THE 2004 FDI SURVEY*

### *1. Net flow and stock of FDI*

**Net FDI inflows** in 2004 amounted to EUR 5,183 million, and consisted of the following:

- The foreign direct investors' **equity stakes** in the share capital of direct investment enterprises in Romania worth EUR 3,032 million (58 percent of net FDI flow). Out of this amount, the in-kind contribution equalled EUR 79 million, which is tantamount to 2 percent of total net flow;
- The **reinvested net earnings** that stood at EUR 1,452 million (28 percent of net flow). Calculation of reinvested net earnings also took into account the net loss amounting to EUR 702.5 million incurred by direct investment enterprises that concluded fiscal 2004 with losses; the above-mentioned amount was subtracted from the net earnings reinvested by profitable direct investment enterprises;

- The **net credit received** by direct investment enterprises from foreign direct investors – including those within the group – worth EUR 699 million, i.e. 13 percent of the net FDI flow.

**The FDI stock at end-2004** reached **EUR 15,040 million** following the addition of net FDI inflow and value adjustments (stemming from revaluations resulting from exchange rate and price movements) to the initial FDI stock.

At the end of 2004, **equity stakes** in direct investment enterprises stood at EUR 12,007 million (80 percent of the FDI final stock), while total **net credit** received by such enterprises from foreign direct investors, including intra-group relations, amounted to EUR 3,033 million. Net credit includes the short-, medium-, and long-term loans extended by foreign investors to their enterprises in Romania, both directly and through other non-resident companies that are members of the group.

## ***2. FDI distribution by main economic activity***

By economic activity, the bulk of FDI went to manufacturing (46 percent of total investment), with metallurgy (13 percent), food, beverages and tobacco industry (7 percent) and transport means (6 percent) holding significant shares.

Significant FDI was channelled into retail and wholesale trade (15 percent), financial intermediation and insurance (banking and insurance accounted for 11 percent of total FDI), and telecommunications (11 percent). Despite their large potential, certain sectors, such as textiles, leather, and wearing apparel (3 percent), as well as hotels and restaurants (0.2 percent), still hold a rather small share of FDI.

**Foreign direct investment in Romania**  
**as of 31 December 2004**

**Distribution by main economic activity**

EUR million

	<b>Value</b>	<b>% of TOTAL</b>
<b>TOTAL, of which:</b>	<b>15,040</b>	<b>100.0</b>
Industry	8,101	53.8
Mining	1,225	8.1
Manufacturing	6,876	45.7
- metallurgy	1,981	13.2
- food, beverages and tobacco	1,109	7.4
- transport means	860	5.7
- cement, glassware, ceramics	603	4.0
- wood items, including furniture	507	3.4
- textiles, wearing apparel, leather goods	503	3.3
- computers, electrical apparatus, radio and TV sets, communications	434	2.9
- crude oil processing, chemicals, rubber and plastic products	387	2.6
- machinery and equipment	274	1.8
- other	218	1.4
Trade	2,185	14.5
Financial intermediation and insurance	1,711	11.4
Post and telecommunications	1,589	10.6
Services rendered to enterprises *)	848	5.6
Construction	166	1.1
Transport	160	1.1
Hotels and restaurants	29	0.2
Other	251	1.7

\*) Real estate transactions, leasing and services rendered mainly to enterprises

### 3. FDI and tangible and intangible assets

Given the significant contribution to economic growth of tangible and intangible assets (lands, buildings, machinery and equipment, transport means, software, and the like), as well as the stable, lengthy character they confer upon FDI, the survey was aimed at determining the weight of these investment categories final destinations in the FDI balance at end-2004, as well as the distribution thereof by main economic activity.

It is readily noticeable that tangible and intangible assets worth EUR 9,082 million account for 60 percent of total FDI, thereby inducing a significant degree of foreign investment durability.

#### Foreign direct investment in Romania as of 31 December 2004

#### Tangible and intangible assets Distribution by main economic activity

EUR million

	Tangible and intangible assets	
	Value	% of TOTAL FDI
<b>TOTAL, of which:</b>	<b>9,082</b>	<b>60.4</b>
Industry	5,464	36.4
Mining	1,003	6.7
Manufacturing	4,461	29.7
- metallurgy	1,248	8.3
- food, beverages and tobacco	736	4.9
- transport means	586	3.9
- cement, glassware, ceramics	414	2.8
- crude oil processing, chemicals, rubber and plastic products	375	2.5
- textiles, wearing apparel, leather goods	337	2.2
- wood items, including furniture	275	1.8

- computers, electrical apparatus, radio and TV sets, communications	213	1.4
- machinery and equipment	160	1.1
- other	117	0.8
Post and telecommunications	1,116	7.4
Trade	1,114	7.4
Financial intermediation and insurance	680	4.5
Services rendered to enterprises *)	336	2.2
Transport	107	0.7
Construction	67	0.4
Hotels and restaurants	61	0.4
Other	137	1.0

\*) Real estate transactions, leasing and services rendered mainly to enterprises

#### ***4. FDI distribution by development region***

From a territorial point of view, FDI went mainly to Bucharest-Ilfov region (56 percent); other development regions benefiting from significant FDI inflows were the SOUTH-EAST region (11.6 percent), the SOUTH region (8.5 percent), and the WEST region (7.3 percent).

EUR million

	<b>Value</b>	<b>% of TOTAL</b>
<b>TOTAL, of which:</b>	<b>15,040</b>	<b>100.0</b>
BUCHAREST	8,426	56.0
SOUTH-EAST	1,752	11.6
SOUTH	1,273	8.5
WEST	1,093	7.3
CENTRE	1,038	6.9
NORTH-WEST	1,035	6.9
SOUTH-WEST	405	2.7
NORTH-EAST	18	0.1

### 5. FDI distribution by country of origin

The distribution took into account the country of origin of the direct holder of at least 10% in the resident direct investment enterprises' share capital, according to the "immediate country" principle.

#### Foreign direct investment in Romania as of 31 December 2004

##### Distribution by country

EUR million

	Value	% of TOTAL
<b>TOTAL, of which:</b>	<b>15,040</b>	<b>100.0</b>
The Netherlands	2,456	16.3
Austria	2,355	15.7
France	1,552	10.3
Netherlands Antilles	1,316	8.8
Germany	1,300	8.6
Greece	1,233	8.2
Italy	724	4.8
U.S.A.	650	4.3
Cyprus	605	4.0
Switzerland	446	3.0
Sweden	277	1.8
Hungary	268	1.8
Turkey	222	1.5
Belgium	207	1.4
Other	1,429	9.5

## **6. Incomes from FDI**

The incomes derived from FDI amounted to EUR 2,083 million in 2004, with incomes from equity stakes made up of distributed dividends and reinvested earnings throughout fiscal 2004 accounting for 97 percent of total incomes, i.e. EUR 2,020 million.

**Reinvested earnings** amounting to EUR 1,452 million accounted for 70 percent of total incomes, while **distributed dividends** worth EUR 568 million accounted for 27 percent of total incomes.

Net income on **interest received** by foreign direct investors on loans extended to their enterprises in Romania remained low, only EUR 66 million, accounting for 3 percent of incomes.

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The survey sample comprised 6,712 direct investment enterprises, of which 3,170 enterprises made up the comprehensive part thereof (all enterprises with 50 employees or more were included in the survey), while 3,542 enterprises (with less than 50 employees) were selected at random from a sample base of approximately 35,000 foreign direct investment enterprises.

The final results of the FDI survey have an error margin of  $\pm 1.68$  percent.

The survey methodology was drawn up by NBR experts, while NIS specialists were in charge of sample extraction, on-site survey implementation and determining data extension coefficients.