

FOREIGN DIRECT INVESTMENT IN ROMANIA
as of 31 December 2005

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 2005 based on the stock of the resident direct investment enterprises extant at the beginning of 2005 and the flows stemming from the fiscal 2005.

The survey provides the data necessary for determining the amount of FDI and analysing FDI by key national economy activity (CANE divisions Rev. 1), 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 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 2005 balance of payments (flows), as well as of the data regarding Romania's international investment position at end-2005 (stocks); the survey results help estimate reinvested earnings and in-kind contribution for 2006 (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). A holding of 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 accordingly.
 - **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.
 - **Types of FDI** (by contribution to the development and renewal of economic assets in the FDI recipient country):
 - **Greenfield:** investment in established enterprises developed by or together with foreign investors, in the form of start-up investment;
 - **Brownfield:** investment in enterprises which were subject to partial or full takeovers by foreign investors from residents, with more than 50 percent of the tangible and intangible assets realised after the takeover.
 - **Partial or full takeover of enterprises:** investment in enterprises which were subject to partial or full takeovers by foreign investors from residents, with more than 50 percent of the tangible and intangible assets realised before the takeover.

RESULTS OF THE 2005 FDI SURVEY

1. Net flow and stock of FDI

Net FDI inflows amounted to EUR 5,213 million in 2005 and consisted of the following:

- The foreign direct investors' **equity stakes** in the share capital of direct investment enterprises in Romania worth EUR 2,688 million (51.6 percent of net FDI flow). Out of this

amount, the in-kind contribution equalled EUR 13 million, which is tantamount to 0.2 percent of total net flow;

- The **net reinvested earnings** that stood at EUR 1,164 million (22.3 percent of net flow). Calculation of net reinvested earnings also took into account the net loss amounting to EUR 1,169 million incurred by direct investment enterprises that closed fiscal 2005 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 1,361 million, i.e. 26.1 percent of the net FDI flow.

The FDI stock at end-2005 reached EUR 21,885 million following the addition of net FDI inflow and value adjustments (from revaluations resulting from exchange rate and price movements) to the initial FDI stock.

At the end of 2005, **equity stakes and reinvested earnings** in direct investment enterprises stood at EUR 17,490 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 4,395 million (20 percent of the FDI final stock). 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 (according to CANE Rev. 1), the bulk of FDI went to manufacturing (37.3 percent of total investment), with metallurgy (8.2 percent), food, beverages and tobacco (6.5 percent) and transport means (5.1 percent) holding significant weights.

Significant FDI was channelled into retail and wholesale trade (15 percent), financial intermediation and insurance (banking and insurance accounted for 14.5 percent of total FDI), and telecommunications (10.9 percent). Despite their large potential, certain sectors, such as textiles, leather, and wearing apparel (2.6 percent), as well as hotels and restaurants (0.2 percent), still hold a rather small share of FDI.

At end-2005, by type of FDI, greenfield investment worth EUR 9,237 million made up 42.2 percent of FDI stock, the remainder being accounted for by takeovers.

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Distribution by main economic activity

EUR million

	Total		of which greenfield*:	
	Value	% of TOTAL	Value	% of total FDI
TOTAL, of which:	21,885	100.0	9,237	42.2
Industry	10,689	48.8	2,846	13.0
Mining	1,602	7.3	101	0.5
Manufacturing , of which	8,170	37.3	2,693	12.3
- metallurgy	1,791	8.2	186	0.8
- food, beverages and tobacco	1,427	6.5	740	3.4
- transport means	1,112	5.1	407	1.9
- crude oil processing, chemicals, rubber and plastic products	896	4.1	-2	0.0
- cement, glassware, ceramics	704	3.2	76	0.3
- wood items, including furniture	615	2.8	294	1.3
- textiles, wearing apparel, leather goods	575	2.6	462	2.1
- computers, electrical apparatus, radio and TV sets, communications	404	1.8	288	1.3
- machinery and equipment	348	1.6	97	0.4
- other	298	1.4	145	0.8
Electricity, heating, natural gas, water	917	4.2	52	0.2
Trade	3,279	15.0	2,354	10.8
Financial intermediation and insurance	3,176	14.5	1,493	6.8
Post and telecommunications	2,396	10.9	1,419	6.5
Services rendered to enterprises **	1,679	7.7	831	3.8
Transport	289	1.3	107	0.5
Construction	179	0.8	76	0.3
Hotels and restaurants	42	0.2	9	0.0
Other	156	0.8	102	0.5

*) Greenfield investment in companies with 50 or more employees

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

3. FDI and tangible and intangible assets

Given the substantial contribution to economic growth of tangible and intangible assets, as well as the stable, persistent 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-2005, as well as the distribution thereof by main economic activity.

It is readily noticeable that tangible and intangible assets worth EUR 12,901 million account for 59 percent of total FDI, thereby inducing a significant degree of foreign investment durability.

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Tangible and intangible assets Distribution by main economic activity

EUR million

	Tangible and intangible assets	
	Value	% of total FDI
TOTAL, of which:	12,901	59.0
Industry	7,630	34.9
Mining	1,182	5.4
Manufacturing, of which:	5,688	26.0
- metallurgy	1,385	6.3
- food, beverages and tobacco	969	4.4
- transport means	817	3.7
- crude oil processing, chemicals, rubber and plastic products	704	3.2
- cement, glassware, ceramics	465	2.1
- wood items, including furniture	372	1.7
- textiles, wearing apparel, leather goods	361	1.7
- computers, electrical apparatus, radio and TV sets, communications	232	1.1
- machinery and equipment	199	0.9
- other	184	0.9
Electricity, heating, natural gas and water	760	3.5
Post and telecommunications	1,887	8.6
Trade	1,720	7.9
Financial intermediation and insurance	708	3.2
Services rendered to enterprises *	499	2.3

Transport	182	0.8
Construction	105	0.5
Hotels and restaurants	61	0.3
Other	109	0.5

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

4. FDI distribution by development region

From the territorial point of view, FDI went mainly to Bucharest-Ilfov region (60.6 percent); other development regions benefiting from significant FDI inflows were the SOUTH-EAST region (8.4 percent), the CENTRE region (7.4 percent), and the WEST region (6.8 percent).

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Distribution by development region

EUR million

	Total		of which greenfield:	
	Value	% of TOTAL	Value	% of total FDI
TOTAL, of which:	21,885	100.0	9,237	42.2
BUCHAREST	13,264	60.6	6,456	29.5
SOUTH-EAST	1,838	8.4	212	1.0
CENTRE	1,610	7.4	885	4.0
WEST	1,491	6.8	792	3.6
SOUTH	1,388	6.3	367	1.7
NORTH-WEST	1,257	5.8	541	2.5
SOUTH-WEST	745	3.4	129	0.6
NORTH-EAST	292	1.3	-145	-0.7

5. FDI distribution by country of origin

The distribution took into account the country of origin of the direct holder of at least 10 percent in the resident direct investment enterprises' share capital on an "immediate country" basis.

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Distribution by country

EUR million

	Total		of which greenfield:	
	Value	% of TOTAL	Value	% of total FDI
TOTAL, of which:	21,885	100.0	9,237	42.2
The Netherlands	4,266	19.5	2,941	13.4
Austria	3,379	15.4	1,080	4.9
Germany	2,339	10.7	1,361	6.2
Greece	1,864	8.5	407	1.9
France	1,828	8.4	381	1.7
Switzerland	1,557	7.1	316	1.4
Italy	1,500	6.9	659	3.0
Cyprus	815	3.7	306	1.4
USA	567	2.6	357	1.6
Hungary	424	1.9	122	0.6
Turkey	412	1.9	117	0.5
Sweden	315	1.4	251	1.2
Belgium	277	1.3	229	1.0
Czech Republic	276	1.3	48	0.2
British Virgin Islands	243	1.1	216	1.0
Luxembourg	218	1.0	53	0.3
EBRD (European Bank for Reconstruction and Development)	161	0.7	8	0.0
Spain	140	0.6	58	0.3
IFC (International Financial Corporation)	121	0.6	2	0.0
South Africa	114	0.5	0	0
Other*	1,069	4.9	325	1.6

*) countries whose investment is lower than EUR 100 million

6. Incomes from FDI

The incomes derived from FDI amounted to EUR 2,352 million in 2005, with incomes from equity stakes made up of distributed dividends and reinvested earnings throughout fiscal 2005 accounting for 96.3 percent of total incomes, i.e. EUR 2,265 million.

Reinvested earnings amounting to EUR 1,164 million accounted for 49.5 percent of total incomes, while **distributed dividends** worth EUR 1,101 million took 46.8 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 87 million, accounting for 3.7 percent of incomes.

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The survey sample comprised 6,576 direct investment enterprises, of which 3,243 enterprises made up the comprehensive part thereof (all enterprises with 50 employees or more were included in the survey), while 3,333 enterprises (with less than 50 employees) were selected at random from a sample base of approximately 35,700 foreign direct investment enterprises.

The final results of the FDI survey have an error margin of ± 3 percent.