

**Foreign Direct Investment (FDI) in Romania
as of 31 December 2007**

The statistical survey was conducted by the National Bank of Romania and the National Institute of Statistics. The major goal of the survey was to determine the stock of FDI as of 31 December 2007 based on the stock extant at the beginning of 2007 and on the flows during 2007 of resident direct investment enterprises.

METHODOLOGICAL ISSUES

Foreign direct investment: long-term investment relationship between a resident entity and a non-resident one; it usually involves a significant degree of influence from the investor on the management of the direct investment enterprise in which he/she invested.

Foreign direct investment is considered the following: paid-up capital and the reserves related to a non-resident investor owning at least 10 percent in the subscribed share capital of a resident enterprise, the loans between the investor and the direct investment enterprise as well as the reinvested earnings.

Foreign direct investor: legal entity, private person 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 the subscribed share capital or voting power, or the endowment capital in case of unincorporated entities (branches). A participation 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.

Reverse direct investment: the investment relationship opposite to the foreign direct investment between a resident direct investment enterprise and a foreign direct investor, where the former holds a participation of below 10 percent of the share capital of the foreign direct investor.

FDI components:

- **Equity capital** includes subscribed and paid-up capital, both in cash and through in-kind contributions, held by non-residents in resident enterprises, 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 former belongs to, less the loans extended by the direct investment enterprise either to the foreign direct investor or to another entity within the group of companies.

Types of FDI (by contribution to the equity flow in direct investment enterprises):

- ***Greenfield:*** establishment of enterprises by or together with foreign investors (*ex nihilo investment*);
- ***Mergers and acquisitions:*** partial or full takeovers of enterprises by foreign investors from residents;
- ***Corporate development:*** foreign direct investors' increase in the capital of direct investment enterprises.

RESULTS OF THE 2007 FDI STATISTICAL SURVEY

1. FDI net flows in 2007

FDI net flows amounted to **EUR 7,250 million** of which:

- The foreign direct investors' **equity stakes** in the share capital of direct investment enterprises worth **EUR 2,220 million** (31 percent of net FDI flows). Out of this amount, in-kind contributions represent EUR 80 million, i.e. 1.1 percent of total net flows;
- The **net reinvested earnings** in amount of **EUR 1,327 million** (18 percent of net FDI flows). Calculation of the net reinvested earnings also took into account the net loss of EUR 2,292 million incurred by direct investment enterprises that reported losses at the end of fiscal 2007; the above-mentioned amount was subtracted from the net earnings reinvested by profitable direct investment enterprises.
- The **net credit** received from direct foreign investors, including from within the group, ran at **EUR 3,703 million**, or 51 percent of net FDI flows.

2. FDI stock as of 31 December 2007

The **FDI stocks at end-2007** reached **EUR 42,770 million**, the amount including revaluation due to the exchange rate or price developments and also accounting restatements.

Equity stakes and reinvested earnings of direct investment enterprises increased at the end of 2007 up to **EUR 31,501 million** (74 percent of net FDI final stock), and the total **net credit** received by the direct investment enterprises from the foreign direct investors, including the group, reached **EUR 11,269 million** (26 percent of net FDI final stock). Net credit includes both the medium- and long-term loans and the short-term loans granted by the foreign investors to the direct investment enterprises in Romania, directly and through other nonresident members of the group.

2.1. FDI by main economic activity

By economic activity (according to NACE Rev. 1), the bulk of FDI went to manufacturing (32.9% of total), out of which the largest recipients were: metallurgy (7.5%), food, beverages and tobacco (5.2%), oil processing, chemicals, rubber and plastic products (4.4%), transport means (3.6%) and cement, glassware, ceramics (3.5%).

Other activities that have attracted significant foreign direct investment are financial intermediation and insurance, which include banking and insurance and account for 23.3% of total FDI stock, wholesale and retail trade (14%), construction and real estate (7.8%), telecommunications (6.5%) and services rendered to enterprises (4.5%). Despite their large potential, certain sectors, such as textiles, wearing apparel, leather goods (1.7%), as well as hotels and restaurants (0.6% of total FDI), still hold a rather small share of FDI.

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Distribution by main economic activity

	EUR million	
	Value	% of total FDI
TOTAL, of which:	42,770	100.0
Industry	17,409	40.7
<i>Mining</i>	2,046	4.8
<i>Manufacturing, of which:</i>	14,071	32.9
- metallurgy	3,219	7.5
- food, beverages and tobacco	2,207	5.2
- oil processing, chemicals, rubber and plastic products	1,870	4.4
- transport means	1,546	3.6
- cement, glassware, ceramics	1,511	3.5
- wood items, including furniture	1,023	2.4
- computers, electrical apparatus, radio and TV sets, communications	818	1.9
- textiles, wearing apparel, leather goods	737	1.7
- machinery and equipment	537	1.3
- other	603	1.4
<i>Electricity, heating, natural gas, water</i>	1,292	3.0
Financial intermediation and insurance	9,961	23.3
Wholesale and retail trade	5,970	14.0
Construction and real estate	3,329	7.8
Post and telecommunications	2,784	6.5
Services rendered to enterprises *)	1,940	4.5
Transport	529	1.2
Hotels and restaurants	270	0.6
Other	578	1.4

*) Rent of machinery and equipment and other activities rendered to enterprises

2.2. FDI - tangible and intangible assets

Given the substantial contribution to the economic growth of tangible and intangible assets, as well as the stable, persistent character they confer upon FDI, the survey aimed at determining the weight of these investment categories final destinations in the FDI balance at end-2007, as well as their distribution by main economic activity.

It notes that tangible and intangible assets worth EUR 21,398 million account for 50% of total FDI, thus 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	21,398	50.0
Industry	11,447	26.8
<i>Mining</i>	1,654	3.9
<i>Manufacturing, of which:</i>	8,744	20.4
- metallurgy	1,923	4.5
- food, beverages and tobacco	1,358	3.2
- transport means	1,182	2.8
- oil processing, chemicals, rubber and plastic products	1,093	2.5
- cement, glassware, ceramics	805	1.9
- wood items, including furniture	739	1.7
- computers, electrical apparatus, radio and TV sets, communications	479	1.1
- textiles, wearing apparel, leather goods	468	1.1
- machinery and equipment	289	0.6
- other	408	1.0
<i>Electricity, heating, natural gas, water</i>	1,049	2.5
Wholesale and retail trade	3,099	7.2
Construction and real estate	2,131	5.0
Post and telecommunications	1,948	4.5
Financial intermediation and insurance	1,517	3.5
Services rendered to enterprises *)	370	0.9
Transport	310	0.7
Hotels and restaurants	249	0.6
Other	327	0.8

*) Rent of machinery and equipment and other activities rendered to enterprises

2.3. FDI by development region

From a territorial point of view, FDI went mainly to Bucharest-Ilfov region (64.3%), other development regions benefiting from significant FDI inflows were CENTER region (8.3%), SOUTH region (6.9%), SOUTH – EAST region (5.7%) and WEST region (5.5%).

**Foreign direct investment in Romania
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Distribution by development region**

	EUR million	
	Total	
	Value	% of total FDI
TOTAL, of which:	42,770	100.0
BUCHAREST	27,516	64.3
CENTER	3,541	8.3
SOUTH	2,942	6.9
SOUTH -EAST	2,448	5.7
WEST	2,365	5.5
NORTH - WEST	1,907	4.5
SOUTH - WEST	1,379	3.2
NORTH -EAST	672	1.6

2.4. FDI 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 of origin

EUR million

	Total	
	Value	% of total FDI
TOTAL, of which:	42,770	100
Austria	9,161	21.4
The Netherlands	6,988	16.3
Germany	5,020	11.7
France	3,759	8.8
Greece	3,192	7.5
Italy	2,617	6.1
Switzerland	2,191	5.1
Cyprus	2,015	4.7
Turkey	822	1.9
Hungary	738	1.7
Luxembourg	633	1.5
USA	581	1.4
Belgium	477	1.1
Spain	474	1.1
United Kingdom	395	0.9
British Virgin Islands	384	0.9
Sweden	366	0.9
Czech Republic	341	0.8
Canada	256	0.6
Israel	185	0.4
Lebanon	179	0.4
Poland	125	0.3
Gibraltar	112	0.3
EBRD (European Bank for Reconstruction and Development)	103	0.2
Other *	1,656	4.0

**) countries whose investment is lower than EUR 100 million*

Top 5 countries by the share of total FDI stock as at 31 December 2007 are: Austria (21.4% of total stock at the end of 2007, down from 23% a year earlier), the Netherlands (16.3%, slightly down from 17.1% in 2006), Germany (11.7%, increasing from 10.1%), France (8.8% compared with 8% in 2006), and Greece (7.5% staying flat year on year).

3. FDI types

The flow of equity capital in FDI enterprises is divided into greenfield, mergers and acquisitions and corporate development (see methodological issues).

FDI in 2007 by type of investment and by main economic activity is shown below:

	Greenfield		Mergers and acquisitions		Corporate development	
	EUR million	%	EUR million	%	EUR million	%
TOTAL, of which:	385.05	17.3	233.38	10.5	1,601.52	72.2
Industry, of which	166.83	7.5	140.65	6.3	242.40	10.9
<i>Mining</i>	0.00	0.0	0.00	0.0	4.12	0.2
<i>Manufacturing</i>	160.64	7.2	140.65	6.3	306.19	13.8
<i>Electricity, heating, natural gas, water</i>	6.19	0.3	0.00	0.0	-67.91	-3.1
Financial intermediation and insurance	156.07	7.0	50.30	2.3	856.72	38.6
Wholesale and retail trade	7.91	0.4	0.98	0.00	180.79	8.1
Construction and real estate	14.92	0.7	32.84	1.5	160.24	7.2
Post and telecommunications	0.00	0.0	0.00	0.0	7.89	0.4
Other	39.32	1.7	8.61	0.4	153.48	7.0

The accumulation of foreign direct investment in enterprises established as greenfield investment companies, called *greenfield enterprises* was highlighted in order to assess the lasting impact of greenfield investment on the economy.

The distribution of the FDI stock in greenfield enterprises by main economic activity at end-2007 was as follows:

	TOTAL FDI EUR million	of which:	
		Foreign direct investment in greenfield enterprises	
		EUR million	%
TOTAL, of which:	42,770	23,667	55.3
Industry, of which	17,409	7,316	42.0
<i>Mining</i>	2,046	147	7.2
<i>Manufacturing</i>	14,071	6,625	47.1
<i>Electricity, heating, natural gas, water</i>	1,292	544	42.1
Financial intermediation and insurance	9,961	4,685	47.0
Wholesale and retail trade	5,970	5,393	90.3
Construction and real estate	3,329	2,327	69.9
Post and telecommunications	2,784	1,430	51.4
Other	3,317	2,516	75.9

4. Income from FDI

In 2007 earnings from FDI stood at EUR 4,350 million. Of these, the most important part (EUR 4,084 million, 94% of total income respectively) is income from equity stakes including distributed dividends and reinvested profits in 2007.

Reinvested earnings amounting EUR 1,327 million accounted for 30% of total incomes, down 5.0% from 2006, while distributed **dividends** worth EUR 2,757 million made up 63% of total incomes.

Net income on **interest received** by foreign direct investors on loans granted to their enterprises in Romania remains low at only EUR 266 million, accounting for 6% of incomes.

5. Exports and imports of FDI enterprises

The activity of foreign direct investment enterprises as a whole had a positive impact on Romania's trade balance, its contribution to total exports and total imports being 70.8% and 59.2% respectively.

	EUR million			
	Exports (FOB)		Imports (CIF)	
	FDI enterprises	% of total sector	FDI enterprises	% of total sector
TOTAL, of which:	20,563	70.8	29,675	59.2
Industry, of which:	18,273	77.5	18,111	78.2
• <i>Manufacturing</i>	17,349	77.2	17,252	78.2
Wholesale and retail trade	1,876	62.7	9,646	47.7
Other	414	16.8	1,918	28.5

NOTE: Exports and imports are aggregated by the activity of companies, according to NACE Rev. 1 Excluding exports and imports of NACE divisions (release 1): 75 Public administration and 96/97 Household activities.

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A number of 5,918 enterprises were subject to comprehensive survey, including enterprises with 20 or more employees (5,760 entities), all credit institutions with foreign capital (38 entities), all insurance undertakings with foreign capital (32 entities), as well as enterprises referred to as atypical (all foreign direct investment enterprises whose turnover or share capital is of at least RON 30 million, i.e. 88 entities).

Representativeness at the level of development region and NACE division is ensured by direct investment enterprises subject to comprehensive survey holding 91 percent of total FDI stock as at 31 December 2007.

Out of the direct investment enterprises that were not subject to comprehensive survey (around 37,800) a sample comprising 1,119 entities was selected. The total number of entities subjected to the survey (comprehensively + sample) equaled 7,037.

Based on the coefficients of variation arising from the extension of data reported by the enterprises included in the sample, the final results of the FDI survey at end-2007, stocks and flows, have an error margin of ± 3 percent, a probability of 97% percent being warranted.

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