

## Foreign Direct Investment (FDI) in Romania as of 31 December 2008

*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 2008 based on the stock outstanding at the beginning of 2008 and on the flows during 2008 into 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 in 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 less than 10 percent in 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 2008 FDI STATISTICAL SURVEY***

***1. FDI net flow in 2008***

***FDI net flows*** amounted to **EUR 9,496 million** of which:

- The foreign direct investors' **net equity** worth **EUR 4,873 million** (51.3 percent of net FDI flows). **Net equity** is the result of subtracting the **net loss** in amount of EUR 392 million from **equity stakes** in amount of EUR 5,265 million. **Net loss** was computed by subtracting **EUR 2,696 million** as distributed dividends in 2008 and **EUR 4,108 million** as FDI losses in 2008 from the FDI net profit in the year under review, amounting to **EUR 6,412 million**. Calculations are made in accordance with the international methodology for determining the profits reinvested by FDI enterprises.
- **Net credit** received from direct foreign investors, intra-group included, ran at **EUR 4,623 million**, or 48.7 percent of net FDI flows.

***2. FDI stock as of 31 December 2008***

**The FDI stock at end-2008** reached **EUR 48,798 million**, 14 percent higher than the 2007 FDI final stock, the amount including revaluations due to the exchange rate or price developments and also accounting restatements.

**Equity stakes** (reinvested earnings included) of direct investment enterprises at end-2008 increased 10 percent versus the same year-ago period, standing at **EUR 34,892 million** (71.5 percent of net FDI final stock). Total **net credit** received by direct investment enterprises from foreign direct investors, intra-group included, reached **EUR 13,906 million**, up 23 percent year on year (28.5 percent of net FDI final stock). Net credit includes both the medium- and long-term loans and the short-term loans granted by foreign investors to their direct investment enterprises in Romania, either directly or through other nonresident members of the group.

***2.1. FDI stock by main economic activity***

By economic activity (according to NACE Rev. 2), the bulk of FDI went to manufacturing (31.3 percent of total), out of which the largest recipients were: metallurgy (6.9 percent), food, beverages and tobacco (4.6 percent), oil processing, chemicals, rubber and plastic products (4.3 percent), transport equipment (4 percent) and cement, glassware, ceramics (3.6 percent). Despite their large potential, certain sectors – such as textiles, wearing apparel and leather goods – still hold a rather small share, i.e. 1.6 percent of total FDI.

Other activities that have attracted significant foreign direct investment are financial intermediation and insurance, which include banks, non-banks and insurance companies and account for 20.5 percent of total FDI stock, construction and real estate (12.6 percent), trade (12.4 percent), IT and communications (6.7 percent).

### Foreign direct investment in Romania as of 31 December 2008

#### Distribution by main economic activity

	EUR million	
	Value	% of total FDI
<b>TOTAL, of which:</b>	<b>48,798</b>	<b>100.0</b>
Industry	20,138	41.3
<i>Mining</i>	2,158	4.4
<i>Manufacturing, of which:</i>	15,236	31.3
- food, beverages and tobacco	2,210	4.6
- cement, glassware, ceramics	1,762	3.6
- wood items, including furniture	891	1.8
- manufacture of computer, electronic and optical products	689	1.4
- machinery and equipment	967	2.0
- metallurgy	3,391	6.9
- transport equipment	1,932	4.0
- oil processing, chemicals, rubber and plastic products	2,115	4.3
- textiles, wearing apparel, leather goods	794	1.6
- other manufacturing	485	1.1
<i>Electricity, natural gas, water</i>	2,744	5.6
Administrative and support service activities	1,617	3.3
Agriculture, forestry and fishing	707	1.4
Trade	6,060	12.4
Construction and real estate	6,155	12.6
Hotels and restaurants	181	0.4
IT and communications	3,283	6.7
Financial intermediation and insurance	10,026	20.5
Transports	500	1.0
Other	131	0.4

#### 2.2. FDI - tangible and intangible fixed assets

Given the substantial contribution of tangible and intangible assets to economic growth, 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-2008, as well as their distribution by main economic activity.

It should be noted that tangible and intangible assets, whose end-2008 balance stood at EUR 22,046 million, account for 45 percent of total FDI, thus inducing a significant degree of foreign investment durability.

**Foreign direct investment in Romania  
as of 31 December 2008**

**Tangible and intangible fixed assets  
Distribution by main economic activity**

	EUR million	
	<b>Tangible and intangible fixed assets</b>	
	Value	% of total FDI
<b>TOTAL</b>	<b>22,046</b>	<b>45.2</b>
Industry	12,336	25.3
<i>Mining</i>	1,839	3.8
<i>Manufacturing, of which:</i>	9,072	18.6
- metallurgy	1,942	4.0
- food, beverages and tobacco	1,534	3.1
- transport equipment	1,289	2.6
- oil processing, chemicals, rubber and plastic products	1,173	2.4
- cement, glassware, ceramics	1064	2.2
- wood items, including furniture	602	1.2
- textiles, wearing apparel, leather goods	527	1.1
- machinery and equipment	386	0.8
- manufacture of computer, electronic and optical products	290	0.6
- other manufacturing	265	0.6
<i>Electricity, natural gas, water</i>	1,425	2.9
Trade	2,736	5.6
Construction and real estate	2,364	4.8
IT and communications	1,854	3.8
Financial intermediation and insurance	1,567	3.2
Administrative and support service activities	381	0.8
Transport	327	0.7
Agriculture, forestry and fishing	276	0.6
Hotels and restaurants	149	0.3
Other	56	0.1

**2.3. Foreign direct investment stock distribution by development region**

From a territorial point of view, FDI went mainly to Bucharest-Ilfov region (62.7 percent), other development regions benefiting from significant FDI inflows being CENTER region (8.3 percent), SOUTH-EAST region (7.3 percent), SOUTH region (7 percent) and WEST region (5.4 percent).

NORTH-EAST region is the least attractive to foreign investors, making up for a meager 2.3 percent of foreign direct investment, also on account of large companies incurring significant losses.

The analysis of regional FDI dispersion should also take into consideration that the statistical research located FDI by registered office, which is not always the same as the business place.

**Foreign direct investment in Romania  
as of 31 December 2008  
Stock distribution by development region**

**EUR million**

	Total	
	Value	% of total FDI
<b>TOTAL, of which:</b>	<b>48,798</b>	<b>100.0</b>
BUCHAREST	30,594	62.7
CENTER	4,146	8.5
SOUTH-EAST	3,551	7.3
SOUTH	3,411	7.0
WEST	2,626	5.4
NORTH-WEST	2,108	4.3
SOUTH-WEST	1,226	2.5
NORTH-EAST	1,136	2.3

**2.4. Foreign direct investment stock 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".

**Foreign direct investment in Romania  
as of 31 December 2008**

**Stock distribution by country of origin**

**EUR million**

	Total	
	Value	% of total FDI
<b>TOTAL, of which:</b>	<b>48,798</b>	<b>100.0</b>
Austria	9,186	18.8
The Netherlands	8,402	17.2
Germany	7,509	15.4
France	4,294	8.8
Italy	3,585	7.3
Greece	3,154	6.5
Switzerland	2,298	4.7
Cyprus	1,896	3.9
Luxembourg	1,107	2.3
Hungary	878	1.8
USA	869	1.8
United Kingdom	727	1.5
Spain	604	1.2
Turkey	578	1.2
Czech Republic	354	0.7
Finland	250	0.5
Belgium	233	0.5
Canada	219	0.4
Sweden	206	0.4
Israel	197	0.4
Gibraltar	193	0.4
British Virgin Islands	180	0.4
Lebanon	159	0.3
EBRD (European Bank for Reconstruction and Development)	152	0.3
Other *	1,568	3.3

\*) countries which invested less than EUR 150 million

Top 5 countries by the share of total FDI stock as at 31 December 2008 are: Austria (18.8 percent of total stock at the end of 2008, down from 21.4 percent a year earlier), the Netherlands (17.2 percent, up from 16.3 percent in 2007), Germany (15.4 percent, up from 11.7 percent), France (8.8 percent, the same as in 2007), and Italy (7.2 percent versus 6.1 percent, thereby replacing Greece in top 5 countries of FDI origin).

### 3. FDI types

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

During 2008, *corporate development* accounted for 66.8 percent of FDI equity (EUR 3,517 million), *mergers and acquisitions (M&A)* made up 32 percent of equity (EUR 1,683.5 million), while only 1.2% of FDI, i.e. EUR 64.2 million, went into *greenfield investment*.

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-2008 was as follows:

	TOTAL FDI EUR million	of which:	
		Foreign direct investment in greenfield enterprises	
		EUR million	% in total FDI/economic activity
<b>TOTAL, of which:</b>	<b>48,798</b>	<b>24,707</b>	<b>50.6</b>
Industry, of which:	20,138	7,180	35.7
<i>Mining</i>	2,158	341	15.8
<i>Manufacturing</i>	15,236	6,515	42.8
<i>Electricity, natural gas, water</i>	2,744	324	11.8
Financial intermediation and insurance	10,026	3,953	39.4
Construction and real estate	6,155	4,284	69.6
Trade	6,060	5,226	86.2
IT and communications	3,283	1,596	48.6
Other	3,136	2,468	78.7

### 4. Income from FDI

Direct foreign investors' net revenues in 2008 amounted to EUR 2,938 million, down 32.5 percent year on year. Net earnings from equity made up the largest part, i.e. EUR 2,304 million or 78.4 percent of total net revenues.

Net earnings from equity represent the net profits obtained by FDI enterprises, amounting to EUR 6,412 million, minus the losses incurred by FDI enterprises worth EUR 4,108 million.

Subtracting EUR 2,696 million as distributed dividends in 2008 from the net income from equity (EUR 2,304 million) indicates a net loss on all FDI in the amount of EUR 392 million, calculated according to the international methodology for determining reinvested earnings.

Net income from interest paid to foreign direct investors on loans granted to their enterprises in Romania is rather subdued, i.e. merely EUR 634 million, accounting for 21.6 percent of total net income.

### **5. Exports and imports of FDI enterprises**

The overall activity of foreign direct investment enterprises had a positive impact on Romania's trade balance, contributing 73.0 percent to total exports and 62.6 percent to total imports.

The export/import activities of FDI enterprises refer to companies investigated exhaustively (over 20 employees). Export/import data economy-wide, taken into consideration in determining the relative size, are reported by operators having exceeded the reporting thresholds for 2008 set for Intrastat declarations.

	EUR million			
	Exports (FOB)		Imports (CIF)	
	FDI enterprises	% of total sector	FDI enterprises	% of total sector
<b>TOTAL, of which:</b>	<b>21,126.6</b>	<b>73.0</b>	<b>32,715.4</b>	<b>62.6</b>
Industry, of which:	18,560.2	83.4	20,492.8	83.2
Manufacturing	17,165.3	83.1	19,206.7	83.0
Trade	1,985.5	53.8	10,358.3	48.8
Other	580.9	19.3	1,864.3	32.9

*NOTE: Exports and imports are aggregated by the companies' core business, according to NACE Rev. 2, excluding exports and imports of NACE divisions: 84 Public administration and 97/98 Household activities.*

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*A number of 6,473 foreign direct investment enterprises were subject to a comprehensive survey, including enterprises with 20 or more employees (6,242 entities), all credit institutions with foreign capital (40 entities), all insurance undertakings with foreign capital (34 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. 157 entities).*

*Representativeness at the level of development region and NACE division is ensured by direct investment enterprises subject to the comprehensive survey holding 87.3 percent of total FDI stock as at 31 December 2008.*

*The direct investment enterprises that were not subject to the comprehensive survey (around 36,900) were represented by a sample comprising 1,050 entities. The total number of entities subjected to the survey (comprehensively + sample) equaled 7,523.*

*The final results of the FDI survey at end-2008 (stocks and flows) have an error margin of  $\pm 3$  percent, a probability of 97 percent being warranted.*

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