

## Statistical Survey on Foreign Direct Investment (FDI) in Romania for 2006

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 amount of FDI as of 31 December 2006 based on the stock extant at the beginning of 2006 and on the flows during fiscal 2006 of resident direct investment enterprises.

### 1. Net flows of FDI in 2006

Net FDI flows amounted to EUR 9,059 million, up 74 percent year on year, of which:

- equity stakes were worth EUR 4,159 million, accounting for 46 percent of net FDI flows;
- net reinvested earnings in amount of EUR 2,673 million, making up 30 percent of net flows;
- net credit received from foreign investors ran at EUR 2,227 million, holding 24 percent of net FDI flow.

### 2. FDI stock at end-2006

The FDI stock at end-2006 reached EUR 34,512 million, up 58 percent year on year, of which:

- equity stakes in amount of EUR 27,016 million, making up 78 percent of the stock;
- net credit received from foreign direct investors was EUR 7,496 million, i.e. 22 percent of the stock.

#### 2.1. FDI distribution by main economic activity

By economic activity (according to NACE Rev. 1), the bulk of FDI went to manufacturing (34.2 percent of total investment), with metallurgy (8.3 percent), food, beverages and tobacco (5.5 percent), oil processing, chemicals, rubber and plastics (4.5 percent), and transport means (4.1 percent) holding significant weights.

|   | FDI stock<br>at end-2006 |                   | of which tangible and<br>intangible fixed assets |                   |
|---|--------------------------|-------------------|--|-------------------|
|   | EUR<br>mn.               | % of<br>TOTAL FDI | EUR<br>mn.                                       | % of<br>TOTAL FDI |
| <b>TOTAL, of which:</b>                         | <b>34,512</b>            | <b>100</b>        | <b>17,174</b>                                    | <b>49.8</b>       |
| Industry, of which:                             | 15,155                   | 44.0              | 9,973  | 28.9              |
| <i>Mining</i>                                   | 2,105                    | 6.1               | 1,359  | 3.9               |
| <i>Manufacturing</i>                            | 11,782                   | 34.2              | 7,588  | 22.0              |
| <i>Electricity, heating, natural gas, water</i> | 1,268                    | 3.7               | 1,026  | 3.0               |
| Financial intermediation and insurance          | 7,678                    | 22.2              | 1,212  | 3.5               |
| Wholesale and retail trade                      | 4,209                    | 12.2              | 2,218  | 6.4               |
| Post and telecommunications                     | 2,831                    | 8.2               | 1,636  | 4.8               |
| Construction and real estate                    | 2,200                    | 6.4               | 1,183  | 3.4               |
| Other activities                                | 2,439                    | 7.0               | 952  | 2.8               |

Significant FDI was channelled into financial intermediation and insurance, banking and insurance included (22.2 percent of total FDI), wholesale and retail trade (12.2 percent), telecommunications (8.2 percent), construction and real estate (6.4 percent), and services rendered to enterprises (4.1 percent).

Tangible and intangible fixed assets, with a stock of EUR 17,174 million at end-2006, accounted for 50 percent of total FDI, thus inducing a considerable degree of foreign investment durability.

Substantial FDI in tangible and intangible fixed assets was recorded in: industry (28.9 percent of total FDI), namely manufacturing (22 percent of total FDI, special mention deserving metallurgy on 5.5 percent of total FDI), wholesale and retail trade (6.4 percent), telecommunications (4.8 percent), which largely overlap the fields benefiting from most of FDI.

## 2.2. Types of FDI

|   | FDI stock<br>EUR mn. | of which      |             |                        |
|---|----------------------|---------------|-------------|------------------------|
|   |                      | Greenfield    |             | Mergers & acquisitions |
|   |                      | EUR mn.       | %           | %                      |
| <b>TOTAL, of which:</b>                         | <b>34,512</b>        | <b>16,725</b> | <b>48.5</b> | <b>51.5</b>            |
| Industry, of which:                             | 15,155               | 4,912         | 32.4        | 67.6                   |
| <i>Mining</i>                                   | 2,105                | 156           | 7.4         | 92.6                   |
| <i>Manufacturing</i>                            | 11,782               | 4,645         | 39.4        | 60.6                   |
| <i>Electricity, heating, natural gas, water</i> | 1,268                | 111           | 8.8         | 91.2                   |
| Financial intermediation and insurance          | 7,678                | 2,929         | 38.1        | 61.9                   |
| Wholesale and retail trade                      | 4,209                | 3,819         | 90.7        | 9.3                    |
| Post and telecommunications                     | 2,831                | 1,653         | 58.4        | 41.6                   |
| Construction and real estate                    | 2,200                | 1,594         | 72.5        | 27.5                   |
| Other activities                                | 2,439                | 1,818         | 74.5        | 25.5                   |

At end-2006, by type of FDI, greenfield investment was channelled primarily into manufacturing (13.4 percent of total FDI), particularly food, beverages and tobacco (3.3 percent), textiles, wearing apparel, leather products (1.8 percent), transport means (1.6 percent), oil processing (1.5 percent), woodworking (1.5 percent). Other sectors in which greenfield investment held considerable weights were trade (11.1 percent), financial intermediation and insurance (8.5 percent), construction and real estate (4.6 percent).

### 3. Turnover of foreign direct investment enterprises

Turnover of foreign direct investment enterprises totalling EUR 74,309.9 million took 43.2 percent of turnover reported by Romanian enterprises. The activities that were accountable for the highest turnover figures were industry, namely manufacturing (55.4 percent and 59 percent respectively of the sector's turnover), post and telecommunications (77.5 percent), trade (39.9 percent) and services rendered to enterprises (36.9 percent).

|                                    | EUR million                           |                           |
|------------------------------------|---------------------------------------|---------------------------|
|                                    | Turnover                              |                           |
|                                    | Foreign direct investment enterprises | % of total economy/sector |
| <b>TOTAL, of which:</b>            | <b>74,309.9</b>                       | <b>43.2</b>               |
| Industry, of which:                | 36,176.0                              | 55.4                      |
| • <i>Manufacturing</i>             | 28,582.5                              | 59.0                      |
| Wholesale and retail trade         | 25,868.1                              | 39.9                      |
| Post and telecommunications        | 3,562.9                               | 77.5                      |
| Services rendered to enterprises*) | 2,862.6                               | 36.9                      |
| Construction and real estate       | 2,301.7                               | 16.6                      |
| Other activities                   | 3,538.5                               | 22.4                      |

\*) Car and equipment rentals, and other services rendered mainly to enterprises

NOTE: Excluding activities for which turnover is not calculated as balance-sheet indicator (financial intermediation, insurance), and it does not entirely reflect the activity in that particular field (education, healthcare) or that particular field cannot attract FDI (public administration, undifferentiated goods- and services-producing activities of private households for own use).

### 4. Exports and imports of foreign direct investment enterprises

|                            | EUR million                           |                           |                                       |                           |
|----------------------------|---------------------------------------|---------------------------|---------------------------------------|---------------------------|
|                            | Exports (FOB)                         |                           | Imports (CIF)                         |                           |
|                            | Foreign direct investment enterprises | % of total economy/sector | Foreign direct investment enterprises | % of total economy/sector |
| <b>TOTAL, of which:</b>    | <b>18,733.8</b>                       | <b>72.5</b>               | <b>23,767.9</b>                       | <b>58.6</b>               |
| Industry, of which:        | 16,999.9                              | 75.9                      | 15,895.8                              | 76.3                      |
| • <i>Manufacturing</i>     | 15,839.7                              | 75.2                      | 14,914.6                              | 76.3                      |
| Wholesale and retail trade | 1,437.7                               | 52.8                      | 5,788.8                               | 42.7                      |
| Other activities           | 296.3                                 | 41.8                      | 2,083.3                               | 33.8                      |

NOTE: Exports and imports are aggregated by the basic activity of companies, according to NACE rev. 1. The figures exclude exports and imports related to the activities of divisions NACE 75 Public Administration and 96/97 Undifferentiated goods- and services-producing activities of private households for own use.

The activity of foreign direct investment enterprises as a whole has a favourable impact on Romania's trade balance, its contribution to exports and imports being 72.5 percent and 58.6 percent respectively.

### 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 foreign direct investment enterprises' share capital** on an "immediate country" basis.

The top-five countries in order of their weights in FDI stock as at 31 December 2006 were the following: Austria (23 percent compared with only 15.4 percent a year earlier), the Netherlands (17.1 percent, down from 19.5 percent in 2005), Germany and France (10.1 percent and 8 percent respectively, staying flat on a year earlier), and Greece (7.8 percent, down slightly year on year).

|                          | EUR mn.       | % of TOTAL   |
|--------------------------|---------------|--------------|
| <b>TOTAL, of which:</b>  | <b>34,512</b> | <b>100.0</b> |
| Austria                  | 7,942         | 23.0         |
| The Netherlands          | 5,887         | 17.1         |
| Germany                  | 3,473         | 10.1         |
| France                   | 2,766         | 8.0          |
| Greece                   | 2,680         | 7.8          |
| Switzerland              | 2,372         | 6.9          |
| Italy                    | 2,322         | 6.7          |
| Cyprus                   | 1,674         | 4.8          |
| Hungary                  | 663           | 1.9          |
| United States of America | 628           | 1.8          |
| Other                    | 4,105         | 11.9         |

### 6. FDI distribution by development region

From a territorial perspective, FDI went mainly to Bucharest-Ilfov region (64.3 percent); other development regions receiving significant FDI inflows were the SOUTH-EAST region (7.7 percent), the CENTRE region (7.4 percent), the SOUTH region and the WEST region (on 6.5 percent and 5.6 percent respectively).

|                         | EUR million   | % of TOTAL   |
|-------------------------|---------------|--------------|
| <b>TOTAL, of which:</b> | <b>34,512</b> | <b>100.0</b> |
| BUCHAREST               | 22,205        | 64.3         |
| SOUTH-EAST              | 2,653         | 7.7          |
| CENTRE                  | 2,559         | 7.4          |
| SOUTH                   | 2,228         | 6.5          |
| WEST                    | 1,948         | 5.6          |
| NORTH-WEST              | 1,570         | 4.6          |
| SOUTH-WEST              | 938           | 2.7          |
| NORTH-EAST              | 411           | 1.2          |

## METHODOLOGICAL ISSUES

- **Foreign direct investment:** long-term investment relationship between a resident entity and a non-resident one; it usually implies 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 this investor and the enterprise he/she invested in, 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 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 development and renewal of economic assets in the FDI recipient country):**
  - **Greenfield:** investment in the establishment and development of enterprises by or together with foreign investors, in the form of greenfield investment;
  - **Mergers and acquisitions:** partial or full takeovers of enterprises by foreign investors from residents, and their subsequent development.

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**A number of 6,472 enterprises were subject to comprehensive survey, including enterprises with 20 or more employees (6,336 entities), all credit institutions with foreign capital (34 entities), all insurance undertakings with foreign capital (29 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 – 73 entities).**

**Representation at the level of development region and NACE division is ensured by direct investment enterprises subject to comprehensive survey holding 94 percent of total FDI stock as at 31 December 2006.**

**Out of the direct investment enterprises that were not subject to comprehensive survey (around 35,500), a sample comprising 853 entities was selected. The total number of entities subjected to the survey (comprehensively + sample) equalled 7,325.**

**Based on 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-2006, stocks and flows, have an error margin of  $\pm 3$  percent, a probability of 97 percent being warranted.**