

## FOREIGN DIRECT INVESTMENTS IN ROMANIA

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*Abstract. Foreign direct investment is defined as an investment involving a relationship on long term and reflects the interest and long-term control of a resident entity in an economy on an economic entity residing in another economy. Regarding the obvious advantages brought by the Foreign Direct Investments, such as economic development, technological transfer, new jobs creations, etc, it is important to analyze the Foreign Direct Investments flow in our country. The evidence is showing that the net flow of the FDI has reached his peak of the last six years. Considering the main types of FDI, it was registered that, like greenfield and mergers and acquisitions, tend to be low. But, the flow of FDI for business development has registered high figures and became the most important component. The main sectors that were able to attract the FDI flow were trading, financial sectors, industry of manufacturing goods, petrochemical sector, machinery and equipment, electronics and IT sector. Also, the income generated by the FDI flow registered changes but not so important.*

*Keywords: Foreign Direct Investments, economic development, technology transfer, economical sectors, employment.*

### Introduction

Foreign direct investment is a lasting investment relationship between a resident entity and a non-resident entity; As a rule, implies the use by the investor of significant managerial influence in the undertaking in which he invested.

Foreign direct investment is the paid-up share capital and reserves held by a non-resident investor holding at least 10 per cent of the voting rights or subscribed share capital of a resident enterprise, the loans between that investor or the group of which he is a resident and the resident enterprise invested, as well as the reinvested profit.

According to the methodology for the compilation of FDI (BPM6), foreign direct investment and capital investment as well as credits from non-resident companies whose voting power or shareholding in the resident company is less than 10%, but which are part of a direct investor's group in that resident company (sister companies).

At the same time, foreign direct investment and resident companies are indirectly affected by the non-resident investor, namely resident subsidiaries and associates, where the non-resident investor owns at least 10 percent of the subscribed share capital (FDI grade II).

The direct foreign investor is a legal person, a natural person or a group of persons acting in concert, holding at least 10 percent of the votes or the subscribed share capital (i.e. the capital of endowment / work of entities without legal personality) in an enterprise located outside its own country of residence.

An enterprise regarded as a direct foreign investment is a resident enterprise, with or without legal personality, in which a non-resident investor owns at least 10 percent of the voting rights or the subscribed share capital, respectively the capital of the endowment / work capital of enterprises

without legal personality (branches). The holding of at least 10 percent of the votes or of the subscribed share capital, respectively of the endowment / labor capital, is of prime importance in establishing the direct investment relationship.

Foreign direct investment components are equity, i.e. subscribed and paid-in share capital, both in cash and in-kind contributions held by non-residents in resident companies, as well as the related share of reserves and net credit: loans received by the foreign direct investment enterprise of the foreign direct investor or of the group of non-resident firms to which it belongs, less the loans granted by the foreign direct investment enterprise directly to the foreign investor or to another firm within that group of companies.

If investments are differentiated by the contribution of foreign direct capital flows to foreign direct investment enterprises then the following types of foreign direct investment are distinguished: greenfield (establishment of enterprises by or with foreign investors); mergers and acquisitions: full or partial take-over of enterprises by foreign investors from residents; business development: increasing foreign capital holdings in foreign direct investment enterprises; restructuring of enterprises: the foreign investors investing foreign direct investment with losses, in order to make them profitable.

#### **Data and method**

The net FDI flow in 2015 reached the level of EUR 3 461 million, structured as follows: equity contribution of foreign direct investors in foreign direct investment enterprises in Romania amounting to EUR 3 595 million. Equity capital consists of equity investments in FDI companies of EUR 3,085 million, plus reinvested earnings of EUR 510 million. The reinvested earnings result from the 2015 dividend yield of EUR 6,038 million of the dividends distributed by FDI to the company in the amount of EUR 2,399 million in profits in 2015, was diminished by the losses of FDI enterprises that ended the year with losses of EUR 3,129 million. The way of calculating the profit reinvested by the FDI enterprises is in line with the international methodology (BPM6).

Net credit of foreign direct investment enterprises in the relationship with direct foreign investors and their group of companies with a negative value of EUR 134 million (the negative value of the net parent-daughter credit is the result of the repayments of loans received from investors or the group together with the new credit granted by FDI to foreign investors and non-resident companies in their group) were higher in 2015 than credit inflows from foreign direct or group investors together with credit repayments to foreign investors, including companies from the group). The net credit comprises both medium and long-term and short-term loans. The analysis of these data highlights the following: the net FDI flow in 2015 was mainly directed towards trade (€ 1,000 million) and financial intermediation and insurance (€ 926 million). The manufacturing industry also benefited from a large inflow of FDI (EUR 745 million); the main foreign direct investment activities were transport means (532 million euro), crude oil processing, chemical products, rubber and plastics and machinery, machinery and equipment with 183 million euro each, as well as the manufacture of computers, other electronic, optical and electrical products with 133 million euros.

The most significant equity holdings (capital increases) are in manufacturing (EUR 887 million), financial intermediation and insurance (EUR 709 million) and construction and real estate transactions (EUR 621 million). It is noticed that the capital investments in the manufacturing sector were mainly intended to cover the significant losses of this sector, namely EUR 805 million.

It is the second consecutive year in which the net credit contribution of enterprises direct investment in the relationship with foreign direct investors and companies within their group is negative, but the gap between withdrawals and credit repayments has decreased from -425 million euros to -134 million. Only two sectors of activity benefited from financing via net mother-daughter loans higher than EUR 100 million, i.e transport (EUR 320 million) from manufacturing and trade

(EUR 257 million). In the other sectors of activity, the amount of credits received from direct foreign investors and from group companies is reduced or exceeded by credit repayments in the balance.

If we take into account the sales of the direct foreign investments there are some aspects to point out. The final FDI balance at 31 December 2015 was EUR 64,433 million. This result was obtained by adding to the initial balance the net inflow of FDI as well as the other components leading to the change in the balance, respectively the positive / negative value differences from the revaluations of the foreign currency assets due to the change of the exchange rate and the prices of certain assets, tangible assets, from accounting re-accounting of the value of the various components of the original balances and from the corrections of the data from the previous statistical reports.

Own equity (including reinvested earnings) of investment firms foreign direct investment at the end of 2015 amounted to EUR 45,098 million (70.0 percent of the final FDI balance), and the net credit received by them from foreign direct investors, including within the group, was 19,335 million, representing 30.0 percent of the final FDI balance.

It can be differentiated several types of foreign direct investments. The share of equity investments in FDI, amounting to EUR 3 085 million, a component part of the equity contribution, is differentiated into greenfield, mergers and acquisitions, enterprise development, and enterprise restructuring.

In 2015, greenfield and merger and acquisition (M & A) investments followed the trend in recent years, registering a very low level. Thus, greenfield investments contributed only EUR 96 million to the investment flow in equity shares of FDI enterprises, while mergers and acquisitions led to a marginal reduction of this investment flow (-5 million EUR).

The predominant share of the equity capital flow in 2015 was provided by business developments of EUR 1,742 million, representing 56 percent of the holdings, and by business restructuring by EUR 1,252 million, or 41 percent of holdings.

To assess the long-term impact of greenfield investments on the economy, foreign direct investment (balances) have also been highlighted in greenfield-based companies called greenfield enterprises. The balance of foreign direct investment in greenfield businesses, worth € 36,484 million, represents 56.6 percent of the FDI balance.

From the point of view of the distribution of the main economic activities, direct foreign investments in greenfield enterprises were mainly oriented towards manufacturing (30.3 percent of the FDI balance in greenfield enterprises). Other branches where these investments have a significant share are: trade (16.6%), construction and real estate transactions (15.7%) and professional, scientific, technical and administrative activities and support services (9.8% ).

Most of the foreign direct investment in greenfield enterprises is concentrated, as is the whole of FDI, in the BUCHAREST-ILFOV region (56.0% of FDI balance in greenfield enterprises); Followed by CENTRAL region by 11.9 percent, WEST region by 10.7 percent and SOUTH-MUNTENIA by 6.2 percent.

Considered by the magnitude of foreign direct investment in greenfield enterprises, the order of their country of origin differs in part from the order established by the origin of the total FDI balance. Thus, the largest investments in greenfield enterprises come from the Netherlands (21.5 percent), followed by Germany (16.9 percent), Austria (11.2 percent) and Italy with 7.6 percent FDI balance in greenfield enterprises.

Net income earned by foreign direct investors in 2015 recorded the amount of EUR 3 746 million. Net earnings consist of net earnings equity interests and net interest income. Net earnings from equity investments represent the profits earned FDI enterprises, worth EUR 6,038 million, reduced by losses. Registered by FDI enterprises in the amount of EUR 3,129 million and is located

for 2015 at the level of EUR 2 909 million.

By reducing the net income from equity investments to the value of dividends distributed in 2015 to foreign direct investors (amounting to EUR 2 399 million) the amount of reinvested profits for all FDI enterprises is obtained in the amount of EUR 510 million, calculated according to the international methodology for determining reinvested earnings (BPM6).

Net interest income received by foreign direct investors for loans to their Romanian companies, both directly and through others non-resident companies within the group recorded a level of 837 million euro.

### **Conclusions**

The net FDI flow in 2015 was mainly directed towards trade and to financial and insurance intermediation industry. Processing sector also benefited from a substantial inflow of FDI. Within it the main foreign direct investment beneficiary activities were means of transport, crude oil processing, chemicals, rubber and plastics and machinery, machinery and equipment, as well as manufacture of computers, other electronic, optical and electric products. The most important equity participations (capital increases) are in the manufacturing sector, financial intermediation and insurance, and construction and real estate transactions. It is noticed that the capital participations in the manufacturing industry were intended in particular to cover the significant losses incurred by this sector. It is for the second year in which the net credit contribution of enterprises direct investment in the relationship with foreign direct investors and companies within the their group is negative, but the gap between withdrawals and repayments loans declined. Only two activity sectors benefited from funding via the net mother-daughter loan, respectively means of transport from the manufacturing and trade. In the other sectors activity, the value of credits received from foreign direct investors and from companies of the group is reduced or exceeded by credit repayments in the balance.

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