

FOREIGN DIRECT INVESTMENT¹ IN NORWAY UP TO END-1998

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This article presents new and updated figures on the stock of foreign direct investment (FDI) in Norway at the end of 1998. The stock of FDI in Norway, as measured here, showed an increase of NOK 30bn from 1997, reaching NOK 198bn at end-1998. Share capital owned by foreign investors accounted for NOK 8bn of the increase, while other types of equity capital rose by a good NOK 5bn. Loans from foreign investors grew by more than NOK 16bn. The survey shows that FDI has increased at a faster pace the last two years. EU countries and the US are becoming increasingly dominant, with a share of nearly 92% of FDI in Norway at end-1998. Invested capital from the Netherlands made the largest contribution to growth the last two years, and the country accounted for NOK 50bn of the stock of FDI at end-1998. This must be seen in connection with the fact that investors from other countries in some cases channel their investment in Norway through Dutch subsidiaries, probably due to favourable tax rules. More than 40% of the capital was invested in oil activities. The survey also shows that the return on direct investment was slightly lower in 1998 than one year earlier.

Table 1 Foreign direct investment¹ in Norway in the period end-1989 to end-1998. Figures in billions of NOK

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Total	64.1	73.2	94.8	94.5	102.4	113.7	123.3	139.1	168.1	198.2
Equity capital	41.4	45.5	51.6	51.5	52.0	59.0	65.5	82.0	110.3	123.9
Of which share capital	16.0	17.8	18.6	19.3	20.3	21.1	20.6	22.1	26.7	34.8
Net claims	22.7	27.7	43.2	43.0	50.4	54.7	57.8	57.1	57.8	74.3
Gross claims	23.5	29.1	50.6	51.4	58.2	64.5	69.2	70.1	73.3	92.2
Gross debt	0.8	1.4	7.4	8.4	7.8	9.8	11.4	13.0	15.5	17.9

¹ Foreign direct investment includes the investor's share of equity capital in the enterprise as well as the investor's claims and liabilities in relation to the company. The definition has changed slightly over time, resulting in some breaks in the time series.

The surveys cover Norwegian enterprises in which the foreign investor owns 10% or more of the ownership capital. The figures represent the book values of the enterprises. In those cases where the Norwegian company has subsidiaries, the figures are based on consolidated accounts. The statistics cover slightly more than 3 000 enterprises, approximately the same number as in earlier years. On the basis of new information from the enterprises, some revisions have been made to the 1997 figures compared with the figures published earlier.

¹ In line with international guidelines, a direct investment is defined as a cross-border investment made by an investor with a view to establishing a lasting financial interest in an enterprise and exerting a degree of influence on that enterprise's operations. These surveys are limited to an investment in which the investor owns 10 per cent or more of the ownership capital.

Of the total increase in invested capital of NOK 30.1bn in 1998, companies included in the surveys in both 1997 and 1998 accounted for NOK 22.7bn, whereas the net effect due to changes in companies (wind-ups/disinvestment/new business start-ups) was an increase of NOK 7.4bn. Corresponding figures for 1997 showed that companies included in the surveys in both 1996 and 1997 contributed to an increase of NOK 5.2bn, while new companies minus wind-ups and disinvestment, etc. contributed as much as NOK 23.8bn to the increase that year.

Invested capital – geographical distribution

EU member states increased their stock of FDI in Norway by NOK 30.2bn in 1998, to NOK 135.9bn at the end of the year, accounting for 68.6% of total

Table 2 Foreign direct investment¹ in Norway in the period end-1989 to end-1998. Geographical distribution. Figures in billions of NOK

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Total	64.1	73.2	94.8	94.5	102.4	113.7	123.3	139.1	168.1	198.2
EU countries	25.1	30.8	52.1	46.2	50.0	58.6	67.5	74.4	105.7	135.9
Denmark	2.0	1.6	2.3	3.1	4.2	5.5	6.4	6.5	7.1	9.3
UK	0.2	-0.3	5.1	4.0	5.5	14.6	8.2	10.8	13.3	19.1
Germany	3.0	3.3	4.2	3.7	3.8	4.1	4.6	4.8	4.8	5.6
Netherlands	3.5	3.6	5.0	6.0	6.6	5.1	10.3	9.2	35.3	50.3
Sweden	10.0	12.5	19.5	17.0	17.9	15.8	20.7	20.3	23.2	28.2
Finland	0.6	2.4	2.8	2.6	2.4	2.4	2.6	4.7	4.6	6.9
France	5.2	7.3	10.9	7.7	8.1	8.0	8.1	11.2	10.3	11.6
Other EU countries	0.6	0.4	2.3	2.1	1.5	3.1	6.6	6.9	7.1	4.9
Switzerland	2.7	4.3	9.2	12.3	11.1	10.8	10.7	6.3	6.7	6.7
US	32.7	33.3	24.5	23.3	24.1	28.0	30.8	43.7	42.6	45.4
Japan	2.2	3.3	3.9	4.9	4.9	4.8	4.8	4.7	4.0	3.5
Other countries	1.4	1.5	5.1	7.8	12.3	11.5	9.5	10.0	9.1	6.7
OECD countries	63.2	72.2	89.8	86.9	90.2	102.5	114.0	129.3	159.4	192.5

¹ See Table 1, footnote 1

foreign investment in Norway. The US, which recorded an increase in invested capital of NOK 2.8bn in 1998, accounted for 22.9% (NOK 45.4bn) at the end of the year. All in all, FDI in Norway from EU countries and the US rose by NOK 33.0bn, while other countries reduced their stock by NOK 2.9bn in 1998. The Nordic countries accounted for 22.4% of FDI in Norway at the end of 1998. The increase in invested capital from EU countries in 1998 is largely due to invested capital from the Netherlands, which alone accounted for nearly half of the growth. As a result of developments in recent years, the Netherlands ranked, in terms of value, as

the largest investor country at the end of 1998. This is because investors based in other countries have in some cases channelled their investment in Norway through subsidiaries in the Netherlands, probably due to favourable tax rules.

At the end of 1998 the five largest investor countries (the US, Sweden, France, the Netherlands and the UK) accounted for 78.0% of total FDI in Norway, compared with 74.2% in 1997.

Invested capital – sectoral distribution

Table 3 shows FDI in Norway distributed by the Norwegian company's sector. A new international

Table 3 Foreign direct investment¹ in Norway in the period end-1989 to end-1998. Sectoral distribution. Figures in billions of NOK

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Total	64.1	73.2	94.8	94.5	102.4	113.7	123.3	139.1	168.1	198.2
Mining and quarrying	36.7	41.8	44.7	42.2	45.1	57.2	59.2	72.5	72.5	85.0
Manufacturing	5.5	5.6	7.9	8.9	9.3	10.1	12.0	13.6	31.4	37.3
Construction	0.9	0.9	2.3	1.9	2.3	1.3	1.9	1.2	3.2	3.0
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods and										
Hotels and restaurants	8.3	9.1	14.1	14.5	16.3	16.3	17.8	19.0	20.1	22.9
Transport, storage, post and telecommunications	0.7	0.6	1.7	2.0	2.9	1.3	1.6	2.7	4.5	5.4
Financial intermediation and insurance, real estate, renting and commercial services	11.2	14.1	22.7	24.3	25.9	27.0	30.3	29.2	34.2	39.2
Other sectors	0.8	1.1	1.4	0.7	0.6	0.5	0.5	0.9	2.2	5.4

¹ See Table 1, footnote 1

Standard Industrial Classification was introduced at the end of the year, and the conversion has involved fairly considerable changes in the sectoral distribution compared with previously published figures. One factor that should be noted is that some large investments in recent years have come about through the establishment of a holding company in Norway by the foreign investor, which means that the holding company is recorded as owner of the acquired enterprise. The investment is thus classified as a holding company and, consequently, is not included under the relevant industry of the acquired company. According to the Standard Industrial Classification, a holding company is classified under "other commercial services" which is included in the next to last group in Table 3.

Foreign investment in the sector Mining and quarrying (which primarily consists of oil production companies) continues to dominate the data, accounting for 42.9% at the end of 1998 (NOK 85.0bn). The oil sector's share has been reduced slightly compared with earlier years, although investment in nominal terms has shown a steady increase.

FDI in North Sea oil extraction has traditionally been concentrated on a few companies with a limited geographical ownership spread. Nearly half of the capital invested in the industry comes from investors in the US or conglomerates of US companies that are based in countries outside the US. The UK and France are also major investors.

Return²

Foreign investors' return on direct investment is

² See Table 4, footnote 2

Table 4 Foreign investors' return¹ on direct investment² in Norway in the period 1989 to 1998. Figures in billions of NOK

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Total return ¹	9.0	12.0	15.2	7.9	9.3	14.5	15.6	20.2	22.8	20.0
Retained earnings ³	1.7	4.0	4.2	-8.7	-7.3	4.0	4.8	7.3	10.0	4.3
Dividend payments	5.9	6.7	8.1	14.3	14.5	8.0	7.9	9.8	10.1	11.9
Net interest income	1.4	1.3	2.9	2.3	2.1	2.5	2.9	3.1	2.7	3.8

¹ The return is defined as the investors' share of retained earnings – ie the share of earnings which has not been distributed as dividends, but ploughed back into the company – plus dividend payments and net interest income. The annual surveys are not intended to provide profitability assessments of the companies included in the survey. The surveys are only intended

² See Table 1, footnote 1

to provide certain macro data for use in official statistics.

³ Retained earnings comprise after-tax profits adjusted for dividend payments during the accounting year (regardless of when the dividend is allocated).

defined as the investors' share of earnings which has been reinvested in Norwegian companies plus the share of dividend payments during the accounting year (regardless of when the dividend is allocated) and net interest income. The annual surveys are not intended to provide profitability assessments of the companies included in the survey. A complete profitability analysis would also have to include other accounting data as well as more detailed analyses of internal conditions in the individual companies that are not expressed in the final accounts.

The surveys are only intended to provide certain macro data for use in official statistics.

Foreign investors' return on direct investment in Norway, as defined here, amounted to NOK 20.0bn for the 1998 accounting year. Table 4 shows that retained earnings (the share of earnings which has not been distributed as dividends, but ploughed back into the company) are estimated at NOK 4.3bn, which in isolation means that foreign claims on Norway rose by the same amount. As shown in Table 4, the total return was slightly lower in 1998 than in previous years. Since both dividend payments and net interest income have increased, it is retained earnings that have declined. The underlying data show a drop in operating income for some of the larger enterprises in 1998 compared with the last few years. Higher dividend payments (normally allocated the previous year) also result in lower retained earnings.

Of the total return, the oil sector accounted for NOK 11.5bn in 1998 (57.5%), compared with NOK 12.3bn (53.9%) in 1997. The oil sector accounted for NOK 5.8bn of total dividend payments in 1998, compared with NOK 6.3bn in 1997.