2001

Annual Report 2001

NORGES BANK

Norges Bank (Central Bank of Norway)
Oslo, Norway 2002

Head Office:	Bankplassen 2
Postal address:	P.O. Box 11 79 Sentrum, N-0107 Oslo, Norway
Telephone:	+47 22 31 60 00
Telegram:	Hovedbank
Telex:	71 369 nbank n
Telefax:	+47 22 41 31 05
Postal giro:	501 5003
Reigstration no.:	0629/7
E-mail:	central.bank@norges-bank.no
Internet:	http://www.norges-bank.no

Central Bank Governor:	Svein Gjedrem
Deputy Central Bank Governor:	Jarle Bergo

Norges Bank's Printing Works and the Royal Norwegian Mint are located in Oslo and Kongsberg respectively.
This report was set, printed and bound at Reclamo Grafisk Senter AS, Oslo.
The text is set in 10 point Times and printed in offset on Arctic Volum Matt 115 grams paper.
Design: Grid Strategisk Design AS
Setting and printing: Reclamo Grafisk Senter AS
Cover photograph: Scanpix, Heiko Junge. Other photographs: Scanpix, Heiko Junge pp. 5, 9, 18, 21 22, 34, 36, 39, 45, 70, 71
ISSN 6078-1185

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Report of the Executive Board

Report of the Executive Board

Report of the Executive Board

In accordance with the Norges Bank Act, executive and advisory authority is vested in the Executive Board. It administers the Bank's activities and manages its resources. Pursuant to section 28 of the Act, the Executive Board shall prepare an annual report and annual accounts each year. In 2001, the Executive Board held 17 meetings and dealt with 161 matters. Two employee representatives supplement the Executive Board when administrative matters are discussed.

The Executive Board deals with a broad range of issues, with particular emphasis on the central bank's responsibilities in the areas of monetary policy, financial stability and investment management. The Executive Board has dealt with applications for licences and authorisations and has issued consultative submissions. In 2001, the Executive Board has also devoted considerable attention to the Bank's overall utilisation of resources. There has been extensive restructuring, especially in the area of cash handling. This has also led to changes in the Bank's range of tasks and the organisation.

In addition to ordinary Executive Board meetings, a number of seminars have been held dealing primarily with monetary policy and investment management. In the spring of 2001, the Executive Board visited the Central Bank of Sweden.

Monetary policy

The objective of monetary policy is to maintain price inflation at around 2.5 per cent, see the Government regulation of 29 March 2001. The inflation target of 2.5 per cent provides the framework for the conduct of monetary policy. The Executive Board makes decisions about the key interest rate (sight deposit rate) on the basis of the outlook for inflation, normally two years ahead.

Three times a year, the Bank publishes the Inflation Report which provides an analysis of the outlook for the Norwegian economy and of developments in price and cost inflation two years ahead. The Executive Board discusses the main aspects of the report before it is published and assesses the consequences for the formulation of monetary policy during the next few months. This assessment provides an important basis for the Executive Board's decisions regarding interest rate setting. The Executive Board discusses interest rate setting and other specific changes in the use of monetary policy instruments approximately every six weeks. The dates of monetary policy meetings are announced. At the monetary policy meetings, the Executive Board assesses developments in a number of different economic indicators, with special emphasis on substantial deviations from the assessments in the last Inflation Report. The Executive Board's decision is announced immediately after monetary policy meetings. The Bank's Governor or Deputy Governor provides an account of the background to the interest rate decision, also when the interest rate is not changed, at a press conference.

In 2001, Norges Bank's key interest rate, the sight deposit rate, remained unchanged at 7 per cent until 12 December, when the Executive Board decided to reduce the sight deposit rate by 0.5 percentage point. A more detailed account of monetary policy is presented in Part II, Chapter 1.

Financial stability

The Executive Board places considerable emphasis on stability in the financial sector. In 2001, Norges Bank prepared two reports containing an overview of trends in financial institutions, securities markets and systemically important payment systems. The analysis shows that enterprise debt-servicing capacity deteriorated, due in part to weaker cyclical trends and a decline in earnings. Bank lending to the household sector is generally not so vulnerable. Household debt in relation to income is still moderate, and fixed and financial assets have increased substantially. Although banks' earnings have been solid and losses have been low, increased cost control and adjustment of lending growth to underlying earnings and risk adjustment are required. In connection with the publication of this report, the Executive Board provides its assessment of financial stability in a letter to the Ministry of Finance.

The Act relating to Payment Systems gives Norges Bank authorising and supervisory authority for bank-operated systems based on common rules for clearing, settlement and funds transfer between credit institutions, i.e. interbank systems. In 2001, the Executive Board allocated the first licenses on the basis of this authority. A review of the documentation presented shows that the Norwegian payment system satisfies prevailing international standards.

Norwegian banks' foreign exchange settlement risk will be reduced as a result of a decision by the clearing and settlement bank CLS in the autumn of 2001 to include the Norwegian krone in its system. This will occur at the latest one year after the system has been established for the main international currencies, which is currently scheduled for the third quarter of 2002.

Series VII of Norwegian banknotes, which began with the 200-krone note in 1994, was completed when the new 1000-krone note was issued in 2001. The 200-krone and 100-krone notes will be upgraded to the same level as the 500-krone and 1000-krone notes in the series, which currently have security features that are in line with the most advanced features in other countries.

Investment Management

Norges Bank manages the Bank's foreign exchange reserves and is responsible for the operational management of the Government Petroleum Fund on behalf of the Ministry of Finance. Norges Bank also manages the Government Petroleum Insurance Fund on behalf of the Ministry of Petroleum and Energy. At end-2001, Norges Bank managed resources worth more than NOK 780 billion in international capital markets.

The Executive Board stresses that investment management in Norges Bank shall reflect a high level of professional expertise and integrity, with adequate control and risk management systems.

The Executive Board has defined the strategy and guidelines for management of the foreign exchange reserves.

Benchmark indices have been established to provide a basis for managing risk and measuring performance of operational management. Since 2001, parts of the foreign exchange reserves have been invested in equities.

The Ministry of Finance and the Ministry of Petroleum and Energy have established benchmark indices as a means of monitoring Norges Bank's operational management of the Government Petroleum Fund and the Government Petroleum Insurance Fund. In 2001, the actual return was –2.5 per cent and 5.7 per cent respectively. A more detailed account of investment management is provided in Chapter 4. The management of the Government Petroleum Fund is also described in a separate Annual Report.

The capital in the Government Petroleum Fund is increasing rapidly. This presents Norges Bank with considerable challenges. In 2001, the Ministry of Finance transferred more than NOK 250 billion to the Petroleum Fund. Additional countries have also been included in the investment universe for equities and a separate Environmental Fund has been established as part of the Petroleum Fund. It has been decided that bonds with credit risk will be phased in from 2002, and throughout 2001, substantial work has been carried out to ensure that this can be done safely and efficiently.

Use of resources

In 2001, the Bank restructured its organisation with a view to utilising resources more efficiently and increasing concentration on core activities. Den Kongelige Mynt AS was spun off into a separate, wholly-owned company on 1 January 2001, and on 1 July, cash handling activities were spun off into a separate company, Norsk Kontantservice AS (NOKAS). This company is owned by Norges Bank and several private banks. Norges Bank's ownership share is 33.5 per cent. The new company is responsible for a substantial portion of cash handling in Norway and is commissioned by Norges Bank to execute some of the central bank's statutory tasks in the area of cash handling. With the establishment of NOKAS, the remaining regional branches were closed.

The production of stamps at Norges Bank's Printing Works was discontinued in 2001 and the production of passports for the Directorate of Police will be phased out in 2003. In the future, the Printing Works will concentrate on the production of Norwegian banknotes.

It is the Executive Board's assessment that the human resource policy measures initiated have safeguarded the employees' interests. In 2000, applications for early retirement from nearly 100 employees at the branch offices and at head office were approved using various human resource policy measures, and in 2001, applications from another 80 employees were approved. The employees and their organisations have made a positive contribution to this process.

At end-2001, there were a total of 662 permanent and temporary employees at Norges Bank compared with 1 086 at end-2000. Spinning off NOKAS and the Royal Norwegian Mint AS reduced the number of positions by 384, while staff cuts at the Printing Works and head office accounted for the remainder.

Investment management has become an increasingly important part of the bank's operations in the last few years. The Executive Board places considerable emphasis on ensuring that the activity is given an appropriate regulatory framework to address the challenges involved in managing the Government Petroleum Fund. At end-2001, there were 105 employees in Norges Bank Investment Management compared with 91 employees one year earlier.

Svein Gjedrem Jarle Bergo

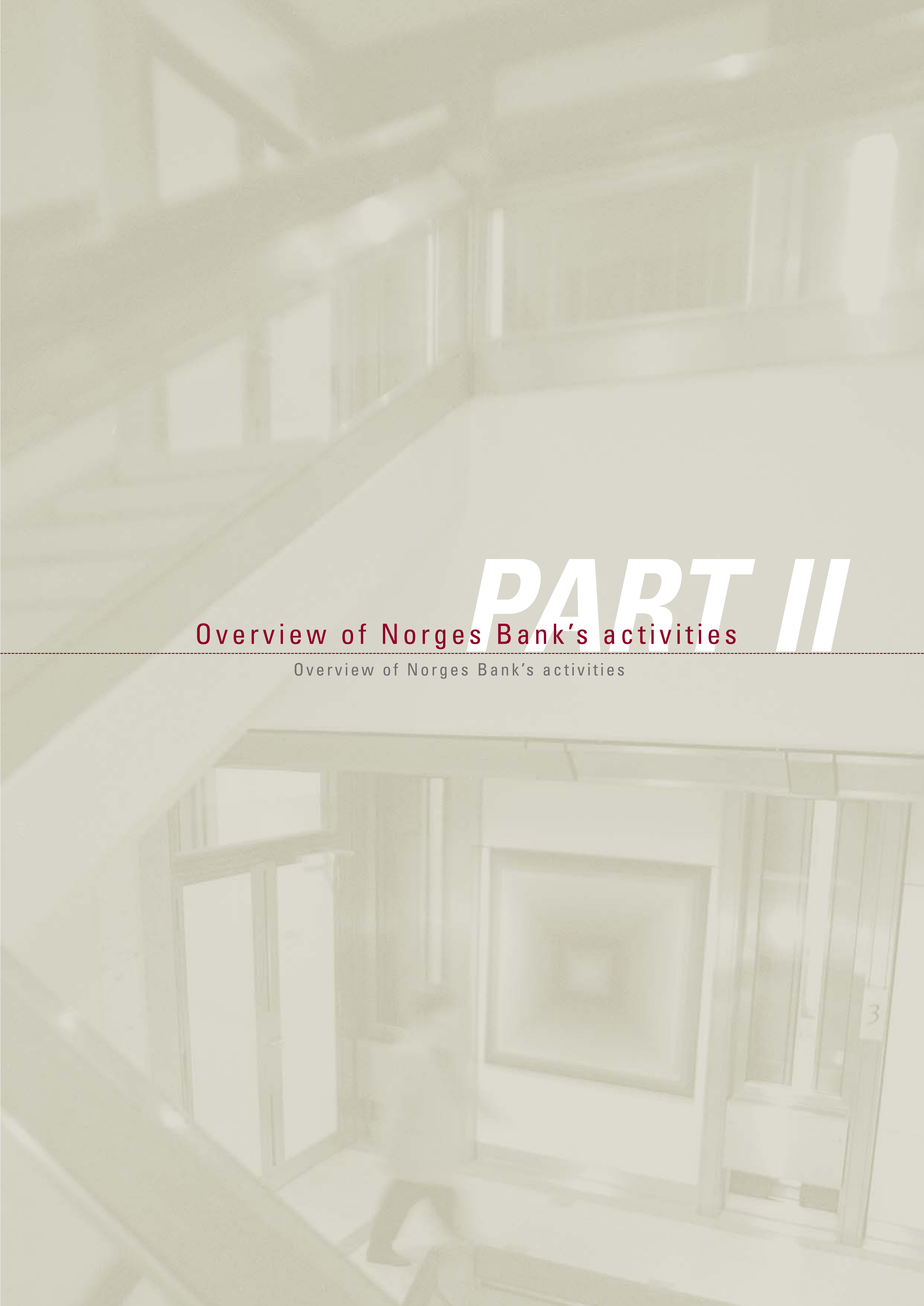
Sigbjørn Johnsen Sylvi Røssland Sørfonn Torgeir Høien

Vivi Lassen Trond R. Reinertsen

Sonja Blichfeldt Myhre
(employee representative)

Jan Erik Martinsen
(employee representative)

PART II



PART II

Overview of Norges Bank's activities

Overview of Norges Bank's activities

Chapter 1. Monetary policy

The objective of monetary policy

The legal basis for Norges Bank's activities is the Act on Norges Bank and the Monetary System of 24 May 1985 (Norges Bank Act). Section 2 defines the relationship to the government authorities, while Section 4 relates to decisions on changes to the exchange rate arrangement for the krone (see separate box). Pursuant to Sections 19 and 20, Norges Bank stipulates the conditions for and the interest rate on banks' deposits with and loans from the central bank.

Up until 29 March 2001, the mandate for monetary policy was laid down in the Exchange Rate Regulation, which was adopted by Royal Decree of 6 May 1994, pursuant to Section 4 of the Norges Bank Act. According to this Regulation, Norges Bank's conduct of monetary policy was to be aimed at maintaining a stable krone exchange rate against European currencies. The concept "European currencies" was defined as the euro from 1 January 1999. Norges Bank could not fine-tune the exchange rate. Attempts to fine-tune the exchange rate could undermine the credibility of monetary policy, and hence exchange rate stability, over time. Norges Bank therefore decided to orient monetary policy instruments with a view to achieving the fundamental preconditions for exchange rate stability. In order to achieve exchange rate stability against the euro, monetary policy instruments had to be oriented in such a way that price and cost inflation was brought down to the level aimed at by the European Central Bank (ECB). At the same time, monetary policy should not in itself contribute to deflationary recessions as this could undermine confidence in the krone.

Pursuant to Section 2, third paragraph, and Section 4, second paragraph, of the Norges Bank Act, the Government gave Norges Bank a new mandate for the implementation of monetary policy on 29 March 2001

Norges Bank Act Chapter I: General provisions

Section 1. Purposes and functions of Norges Bank
Norges Bank is the country's central bank. The Bank shall be an executive and advisory body for monetary, credit and foreign exchange policy. It shall issue banknotes and coin, promote an efficient payment system domestically as well as vis-à-vis other countries, and monitor developments in the money, credit and foreign exchange markets.

The Bank may implement any measures customarily or ordinarily taken by a central bank. To carry out its purposes the Bank may engage in any and all types of banking business and banking services.

Section 2. Relationship to the government authorities
The Bank shall conduct its operations in accordance with the economic policy guidelines drawn up by the government authorities and with the country's international commitments.

Before the Bank makes any decision of special importance, the matter shall be submitted to the ministry.

The Council of State may adopt resolutions regarding the operations of the Bank. Such resolutions may take the form of general rules or instructions in individual cases. The Bank shall be given the opportunity to state its opinion before such resolutions are passed. The Storting shall be notified of resolutions as soon as possible.

The Bank is a separate legal entity and is owned by the state. The Office of the Auditor General monitors the way the minister exercises his authority in accordance with the instructions laid down by the Storting.

Section 3. Statements by the Bank
The Bank shall state its opinion on matters that are put before it by the King or the ministry.

The Bank shall inform the ministry when, in the opinion of the Bank, there is a need for measures to be taken by others than the Bank in the field of monetary, credit or foreign exchange policy.

The Bank shall inform the public about the monetary, credit and foreign exchange situation.

Section 4. The monetary unit and its international value
The Norwegian monetary unit is one krone. The krone is divided into 100 øre.

The King makes decisions regarding the exchange rate arrangement for the krone and changes in the level of the krone.

Decisions regarding changes in the exchange rate arrangement for the krone and in the exchange rate of the krone shall be communicated to the Storting.

(see separate box). Norges Bank presented its views concerning the mandate in a submission of 27 March 2001 to the Ministry of Finance. The Bank had no objections to the formal procedure.

The operational objective of monetary policy is low and stable inflation. The inflation target is set at 2½ per cent. The objective implies that low and stable inflation is the best contribution monetary policy can make to the overriding objectives of stable developments in production and employment. Low and stable inflation is also a necessary precondition for achiving stable expectations concerning exchange rate developments.

The new guidelines could be applied without resulting in significant changes in the conduct of monetary policy, i.e. that low and stable inflation was also a necessary precondition for a stable krone exchange rate against the euro.

The implementation of monetary policy

Higher interest rates curb demand for goods and services and reduce inflation. An interest rate reduction has the opposite effect. If evidence suggests that inflation will be higher than 2½ per cent with unchanged interest rates, the interest rate will be increased. If it appears that inflation will be lower than 2½ per cent with unchanged interest rates, the interest rate will be reduced. It is equally important to avoid an inflation rate that is too low as it is to avoid an inflation rate that is too high.

Norges Bank's key rate is set on the basis of an overall evaluation of the inflation outlook. Since an interest rate change does not have an immediate impact on inflation, Norges Bank must be forward-looking when setting interest rates. The Bank's analyses indicate that a substantial share of the effects of an interest rate change occurs within two years. Two years is

Regulation on Monetary Policy

Established by Royal Decree of 29 March 2001
Pursuant to Section 2, third paragraph and Section 4, second paragraph of the Act of 24 May 1985 no. 28 on Norges Bank and the Monetary System

I

Section 1
Monetary policy shall be aimed at stability in the Norwegian krone's national and international value, contributing to stable expectations concerning exchange rate developments. At the same time, monetary policy shall underpin fiscal policy by contributing to stable developments in output and employment.

Norges Bank is responsible for the implementation of monetary policy.

Norges Bank's implementation of monetary policy shall, in accordance with the first paragraph, be oriented towards low and stable inflation. The operational target of monetary policy shall be annual consumer price inflation of approximately 2.5 per cent over time.

In general, the direct effects on consumer prices resulting from changes in interest rates, taxes, excise duties and extraordinary temporary disturbances shall not be taken into account.

Section 2
Norges Bank shall regularly publish the assessments that form the basis for the implementation of monetary policy.

Section 3
The international value of the Norwegian krone is determined by the exchange rates in the foreign exchange market.

Section 4
On behalf of the State, Norges Bank communicates the information concerning the exchange rate system ensuing from its participation in the International Monetary Fund, cf. Section 25, first paragraph, of the Act on Norges Bank and the Monetary System.

II

This regulation comes into force immediately. Regulation no. 0331 of 6 May 1994 on the exchange rate system for the Norwegian krone is repealed from the same date.

therefore a reasonable time horizon for achieving the inflation target of 2½ per cent. Hence, the key rate is set with a view to achieving an inflation rate of 2½ per cent two years ahead. The inflation outlook is presented three times a year in Norges Bank's *Inflation Reports*. The inflation outlook two years ahead may be viewed as an intermediate objective of monetary policy.

In some situations, when unexpected events have resulted in an inflation rate that is too high, it may be appropriate to apply a longer time horizon than two years. For example, unnecessary real economic costs may be associated with attempts to reduce inflation to 2½ per cent within this time horizon. A precondition for applying a longer time horizon is that there is clear evidence of strong confidence in low and stable inflation over time on the part of economic agents. Gradually, as we gain experience in setting interest rates using an inflation target, the possibilities for placing emphasis on stability in the real economy will probably increase.

When Norges Bank concludes that the key rate should be changed, the Bank will in most cases proceed gradually. This is because there is normally uncertainty about the situation in the economy, potential disturbances to the economy and how fast an interest rate change will affect price inflation. But Norges Bank will not always take a gradualist approach. A rapid and pronounced change in the interest rate is appropriate if, for example, heightening turbulence in financial markets or a cost-push shock resulting from wage negotiations indicates that confidence in monetary policy is in jeopardy.

Low and stable inflation is a necessary precondition for stability in foreign exchange and financial markets and the property market. However, there have also been episodes where bubbles have accumulated in these markets, in the form of sharp increases in asset prices, while inflation has been low. Price increases in property and financial markets may have a considerable impact on wage growth and consumer price inflation after a period. When the bubbles burst, the result may be an economic downturn. In this way, developments in financial and property markets may also be a source of a more unstable inflation environment. In principle, it might be appropriate to use the interest rate to counter this. In practice, however, it is difficult to assess whether developments in prices for property and financial assets are sustainable.

If special circumstances prompt Norges Bank to apply a different time horizon than two years, the Bank will provide an assessment of this. The same applies should special emphasis be placed on developments in financial markets and property markets.

Norges Bank no longer has a specific exchange rate target for the krone. The krone is floating. Nevertheless, movements in the krone exchange rate are still very important when Norges Bank sets the interest rate. This is due to a number of factors:

- Changes in the krone exchange rate affect prices measured in NOK for imported consumer goods and services. When it is taken into account that imported goods are used in Norwegian production, the rise in prices for imported goods and services combined determines nearly 40 per cent of consumer price inflation.
- Developments in the krone have an impact on earnings in companies in the internationally exposed sector, which have also traditionally been wage leaders.
- Changes in the exchange rate affect the competitiveness of Norwegian business and industry as well as the market potential at home and abroad. Thus, the level of activity in the economy is affected.
- As the Norwegian and international money and capital markets become more integrated, changes in the exchange rate will be increasingly important. Changes in the exchange rate generate capital gains and losses for Norwegian households and enterprises.

The value of the Norwegian krone will vary, as exchange rates do in most countries. Norges Bank's response to a change in the exchange rate will depend on an assessment of the effect on inflation. This requires an evaluation of the reasons for and the duration of the change. There is reason to believe that short-term fluctuations in the krone exchange rate have little impact on inflation. When the changes are potentially more long-term and thus may be assumed to have a greater impact on inflation, the Bank will set the interest rate with a view to stabilising inflation. However, it is difficult to determine whether exchange rate fluctuations are permanent or temporary. Therefore, Norges Bank will normally proceed with caution in connection with any interest rate changes in response to fluctuations in the exchange rate. A special situation arises if heightening turbulence in the foreign exchange market indicates that confidence in monetary policy is in jeopardy. A rapid and pronounced change in the interest rate may then be appropriate.

The basis for decisions and the work on setting interest rates

Pursuant to Section 3 of the Norges Bank Act, the Bank shall inform the public of developments in monetary, credit and foreign exchange conditions. According to Section 2 of the Monetary Policy Regulation, Norges Bank shall regularly publish the assessments that form the basis for the implementation of monetary policy. This is discussed in detail in the annual report. In addition, the Bank publishes three *Inflation Reports* a year. In these reports, the Bank analyses the outlook for the Norwegian economy and price and cost inflation with a two-year horizon. The central bank governor is editor of the *Inflation Report*. The reports are published on the Bank's website.

The main aspects of the *Inflation Report* are presented to the members of the Executive Board who discuss the contents of the report before it is published. The Executive Board then assesses the orientation of monetary policy over the next few months. The Executive Board discusses the setting of interest rates and any other specific changes in the use of instruments every sixth week. Any decisions concerning interest rate changes or other important changes in the use of monetary policy instruments will normally be taken at these meetings. The projections and analyses in the *Inflation Report* serve as an important basis when the Executive Board discusses and sets the interest rate. Additional assessments of the inflation outlook and money and foreign exchange market conditions are presented and discussed in connection with the monetary policy meetings.

The Executive Board's decision is published in a press release immediately after the monetary policy meeting and at a time known in advance. This also applies when the key interest rate is left unchanged. A press conference is held where the central bank governor or deputy governor provides further details concerning the interest rate decision. The introduction to the press conference is also published on Norges Bank's website when the press conference starts. The press conference can also be audio streamed.

Monetary policy instruments

Norges Bank influences economic developments by setting the interest rate on banks' deposits with Norges Bank. In addition, the Bank can intervene in the foreign exchange market.

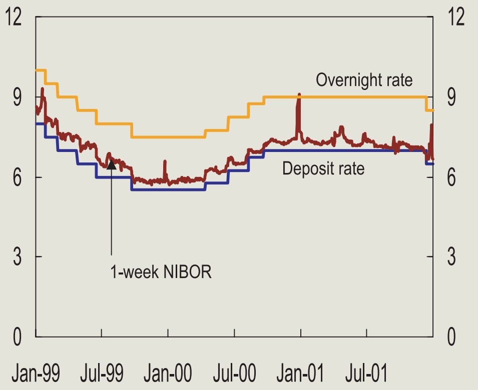
The interest rate on banks' deposits with Norges Bank, the sight deposit rate, is the most important monetary policy instrument. The sight deposit rate influences market rates with different maturities. Market rates have an effect on the krone exchange rate, securities prices, house prices and demand for loans and investment. Norges Bank's key interest rate may also shape expectations concerning future inflation and economic developments. The interest rate operates through all these channels to influence total demand, production, prices and wages.

The sight deposit rate and the overnight lending rate – the interest rate on banks' loans from the central bank - form a corridor for the shortest money market rates (see Chart 1). Historically, administered rates have had a fairly strong impact on the shortest money market rates, i.e. overnight and weekly rates. Money market rates with somewhat longer maturities are not affected as directly through this channel. For these rates, market expectations concerning the central bank's response pattern and economic developments also play a part.

Norges Bank reduced its key rate once in 2001, by 0.5 percentage point at the monetary policy meeting on 12 December. At the end of 2001, the sight deposit rate was 6.5 per cent.

Normally, Norges Bank will not intervene in the foreign exchange market in order to influence the krone exchange rate. However, such interventions may be necessary if the krone exchange rate moves significantly out of line with what the Bank considers reasonable on the basis of fundamentals and, at the same time, exchange rate developments impair the prospects for achieving the inflation target. Interventions may also be necessary in the event of large short-term fluctuations in the krone exchange rate when liquidity in the foreign exchange market has been sharply reduced. Norges Bank does not want to generate game situations with market participants, which may amplify exchange rate pressures. Exchange market interventions, whether it be purchases or sales of foreign exchange, are not an appropriate instrument for influencing the krone exchange rate over a longer period. The Bank will provide an account of any interventions and the background for this. In 2001, Norges Bank did not intervene in the market with a view to influencing the krone exchange rate.

Chart 1 Short-term interest rates. Norges Bank's overnight lending and sight deposit rates and 1-week NIBOR. Nominal interest rates, per cent per annum. Weekly figures, 1999-2001



Source: Norges Bank

Norges Bank is in a position to intervene in the foreign exchange market at short notice. Reference is made to the discussion of the management of the Bank's international reserves in Chapter 4.

Monetary policy in 2001

Until the new guidelines for monetary policy were adopted on 29 March, monetary policy was aimed at maintaining a stable krone exchange rate against European currencies. Norges Bank oriented monetary policy with a view to achieving the fundamental preconditions for exchange rate stability. In order to achieve exchange rate stability against the euro, monetary policy instruments were oriented in such a way that price and cost inflation would be brought down to the level aimed at by the European Central Bank (ECB).

At the beginning of 2001, Norges Bank's key rate, the sight deposit rate, stood at 7 per cent. The Norwegian economy was characterised by high capacity utilisation. Price and cost inflation was high as a result of the rise in oil prices through 1999 and 2000 and a tight labour market. During the first few months of 2001, it became clear that growth in the US economy was slowing following strong growth through most of the 1990s. The Federal Reserve in the US reduced its key rates in order to curb the downturn. In *Inflation Report* 1/01, published on 8 March, the projections for GDP growth in the US in 2001 were revised down considerably. Growth was expected to pick up again in 2002. At the same time, it was estimated that the effects on European economies would be fairly moderate. The growth projections for Norway's trading partners in 2001 were only revised down to a limited extent.

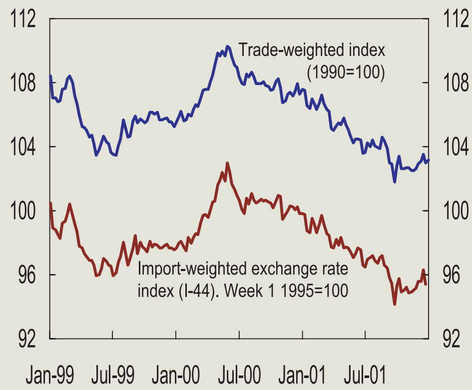
The assessment of the outlook for the Norwegian economy showed little change in relation to the projections through 2000. The projections for GDP growth were fairly low, but the economy was still experiencing a period of expansion. Household income was rising and there was a shortage of labour in public and private services. Consumer price inflation was higher than the the level aimed at by euro area countries, but the forecasts pointed to a gradual decline towards 2 per cent in the period to end-2003. The key interest rate was left unchanged at the Executive Board's meetings on 10 January and 21 February.

The new monetary policy guidelines, which were introduced on 29 March, could be applied without any significant changes in the conduct of monetary policy. According to the new guidelines, monetary policy shall be oriented towards low and stable inflation. The inflation target is 2½ per cent.

In *Inflation Report* 1/01, consumer price inflation was projected to fall to 2¼ per cent in 2003. However, in a submission of 27 March to the Ministry of Finance concerning the new guidelines for monetary policy, Norges Bank pointed out that an inflation target of 2½ per cent, which is higher than the ECB's objective, might contribute to pushing up inflation expectations somewhat compared with earlier. At the same time, the new fiscal rule on the use of petroleum revenues implied that fiscal policy in the years ahead would be more expansionary than was previously assumed when setting interest rates. Global economic growth was slowing and there was uncertainty attached to developments ahead. In the first quarter of 2001, the Federal Reserve in the US reduced its target for the key rate by a total of 1.5 percentage points. Interest rates were also lowered in several other countries. The situation in the Norwegian economy, on the other hand, continued to be characterised by a tight labour market, high credit growth and high price inflation. Oil prices remained at around USD 25 per barrel. In March and April, the year-on-year rise in consumer prices reached almost 4 per cent. Excluding indirect taxes, electricity and petrol prices, price inflation was between 2.5 and 3 per cent. The key interest rate was left unchanged at the meetings of Norges Bank's Executive Board on 4 April and 16 May.

As a result of lower key rates internationally and expectations of further reductions due to the prospect of sluggish economic growth in a number of countries, money market rates in trading partner countries fell during the first quarter. The differential between short-term rates in Norway and trading partners widened to about 3 percentage points. The krone exchange rate, measured by the trade-weighted exchange rate index,

Chart 2 Effective krone exchange rates. Trade-weighted exchange rate index and import-weighted exchange rate index (measured by I-44). Weekly figures 1999-2001



Source: Norges Bank

appreciated by about 2.5 per cent during the first quarter of 2001 (see Chart 2). In isolation, the appreciation of the krone exchange rate contributed to curbing inflation pressures in the Norwegian economy

In the months to summer 2001, key rates in many of our trading partner countries were reduced further. The slowdown in economic growth was particularly pronounced in the US, but it gradually became evident that economic activity in Europe and Asia was being influenced more rapidly and to a greater extent than assumed earlier. At the same time, the rise in oil prices that took place in 2000 resulted in higher consumer price inflation in many countries due to higher energy and fuel prices. This increase in costs spilled over to a rise in prices for other goods and services, both internationally and in Norway. Together with a sharp rise in electricity prices, this contributed to a year-on-year rise in consumer prices in Norway of 4.3 per cent in May. The increase in the VAT rate by 1 percentage point with effect from 1 January 2001 also contributed to this. Adjusted for tax changes and excluding energy products, the year-on-year rise in consumer prices was 2.7 per cent in May.

In *Inflation Report* 2/01, published on 20 June, the projections for growth among our trading partners in 2001 were revised down further. Growth was still expected to pick up in 2002. Weaker global activity had little impact on the Norwegian economy in the first half of 2001. However, fairly high cost inflation in Norway and low growth in the global economy were gradually expected to have a dampening effect on the level of activity in some manufacturing sectors.

On the other hand, the increased use of petroleum revenues over the central government budget and relatively high rise in household income were expected to generate higher production in the public sector and service industries. All in all, mainland GDP growth was projected at 1½ per cent in 2001 and 1¾ per cent in the following two years, i.e. little change compared with the March report (see Table 1).

Table 1. Developments in Norges Bank's projections through 2001. Percentage change from previous year unless otherwise stated

	IR 1/01 March 2001		IR 2/01 June 2001		IR 3/01 October 2001	
	2002	2003	2002	2003	2002	2003
Mainland GDP	1¾	2	1¾	1¾	1½	1¾
Private consumption	2½	3	2½	2¾	2¾	2¾
Public consumption	2	2	2¼	2½	2¼	2½
Gross investment, total	¾	¼	1½	-2	-2	-¾
Exports	3	2¼	4¼	2	2¼	2¾
Imports	4	3¾	4	2¼	¼	3¼
Registered unemployment (rate)	2¾	2¾	2½	2½	2¾	2¾
Wage growth	4¾	4½	5	4¾	5	5
CPI	2½	2¼	2	2½	1½	2½
CPIXE/CPI-ATE	--	--	2½	2½	2	2½

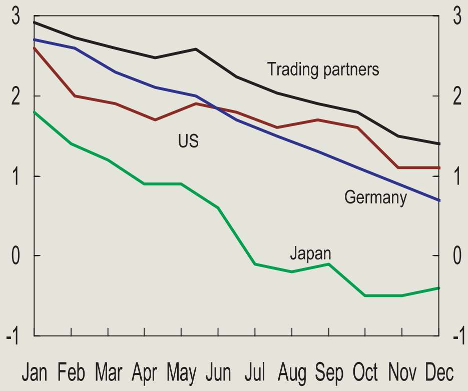
The projection for consumer price inflation in 2003 was revised up slightly compared with the picture presented in March. The reason for the upward revision was the prospect of higher wage growth than estimated earlier, based on the assumption that the parties to the income settlements would base their expectations on the new inflation target. Moreover, the labour market appeared to be somewhat tighter than assumed earlier as a result of higher growth in aggregate demand. Applying a technical assumption of unchanged short-term interest rates, consumer price inflation adjusted for tax changes and excluding energy products was estimated at 2½ per cent in both 2002 and 2003.

In *Inflation Report* 2/01, Norges Bank started to use a new method for presenting the distribution of uncertainty around the inflation projection. The uncertainty surrounding some key explanatory factors for inflation is weighted to show a probability distribution for inflation two years ahead. The distribution around the inflation projection may be symmetrical or skewed in the direction of higher-than-projected or lower-than-projected inflation. Following each monetary policy meeting, Norges Bank indicates whether, with unchanged interest rates, there is a greater probability that inflation two years ahead will be higher or lower than the inflation target. This formulation replaced the earlier one concerning views on future developments in the key interest rate.

The risks surrounding the inflation projections presented in *Inflation Report* 2/01 were considered to be balanced. It was pointed out that international developments represented a risk of lower-than-projected price inflation. On the other hand, the petroleum industry and important export industries, such as aluminium and fish farming, had to a greater extent than usual been insulated from international developments. There was a risk that the rise in domestic labour costs might be higher than estimated. On the basis of this economic outlook, the key interest rate was left unchanged at the meetings of Norges Bank's Executive Board on 20 June and 8 August.

In late summer and autumn 2001, it became increasingly clear that the slowdown in the global economy would be far more pronounced than most forecasters had expected at the beginning of the year (see Chart 3). The growth pause in the US was expected to last longer than anticipated earlier. In addition, the spillover effects on other countries in Europe and Asia were stronger than first assumed. Between the first and second quarter of 2001, both the US and the euro area recorded close to zero growth in GDP, while GDP contracted in Japan. Global stock markets declined, with ICT shares recording a particuarly sharp fall. In Sweden, equity prices fell by about 25 per cent. The Swedish krona depreciated considerably againt most currencies, including the Norwegian krone.

Chart 3 Developments in estimates for GDP growth in 2001, from Consensus Forecasts. Percentage change from previous year



Sources: Consensus Economics Inc. and Norges Bank

In late summer, the effects of sluggish economic activity abroad were expected to be relatively moderate for the Norwegian economy. Oil prices remained high. Norwegian manufacturing only benefited to a limited extent from the sharp expansion in the ICT industry towards the end of the 1990s and was not as strongly affected by the subsequent slowdown. Manufacturing production in Norway is heavily influenced by investment in the petroleum sector, which had remained buoyant. Equity prices on the Oslo Stock Exchange had also fallen to a lesser extent than in many other countries.

The terrorist attacks in the US on 11 September amplified the negative trend in the global economy. Equity prices, money market rates and government bond yields fell markedly. The US dollar depreciated against other major currencies. Central banks ensured the smooth functioning of markets by supplying liquidity to the banking system. In the days following 11 September, a number of central banks also lowered their key rates in order to curb the negative economic effects. Both the Federal Reserve in the US and the ECB reduced interest rates by 0.5 percentage point. Following this move, the interest rate in the US had been reduced by a total of 3.5 percentage points since the beginning of the year. In the euro area, the interest rate was reduced by 1 percentage point in the same period.

Equity prices and market interest rates also fell considerably in Norway in the aftermath of 11 September. Norges Bank issued a press release assuring the market that krone liquidity in the Norwegian banking system would be sufficient. The Norwegian banking system functioned smoothly, with no liquidity shortages in either NOK or USD. Up to 11 September, the effects of sluggish international developments on the Norwegian economy were considered to be different than for other European countries, partly because oil prices remained at a high level. Oil prices had hovered around USD 25 per barrel through most of the year. In the first few days after 11 September, the oil price increased to nearly USD 30 per barrel. Moreover, mainland enterprises had not been severely affected by slower growth in the global economy, even though it was evident that the situation looked more uncertain for a number of industries following the attacks. The Norwegian economy was still characterised by high capacity utilisation and high cost inflation. The rise in house prices and household borrowing remained high. It was too early to assess the long-term impact of the terrorist attacks in the US. The key interest rate was left unchanged at the meeting of Norges Bank's Executive Board on 19 September.

The oil price fell by close to USD 8 per barrel in the last half of September, to about USD 20 (see Chart 4). Prices for other Norwegian export goods, such as aluminium and salmon, also declined during autumn 2001.

Chart 4 Oil price, Brent Blend. USD per barrel. Daily figures. 1999-2001

Sources: International Petroleum Exchange and Norges Bank

On 31 October, Norges Bank published *Inflation Report* 3/01 with new projections for economic developments in the years ahead. Economic growth among our trading partners was projected at 1¼ per cent in both 2001 and 2002. This was around half the growth projection presented in the June report. There was also increasing evidence that Norwegian enterprises were feeling the effects of lower global activity. The volume of traditional merchandise exports fell markedly in the third quarter after having remained high in the first half of the year. The fall in Norwegian equity prices could lead to higher funding costs and lower investment growth in the business sector. A number of Norwegian companies, in ICT-related industries, in some export industries and the travel industry, had felt the effects of growing caution among households and businesses throughout the world. The projection for investment activity in 2002 was revised down compared with the June report. The krone exchange rate, measured by the trade-weighted exchange rate index, had appreciated further through the summer and autumn. At the end of October, the exchange rate was about 5 per cent stronger than at the beginning of the year, measured by the trade-weighted exchange rate index.

Domestic factors were expected to contribute to keeping consumer price inflation relatively high. It appeared that the fiscal stimulus in 2002 would be greater than assumed in June. Wage growth was estimated at 5 per cent in both 2002 and 2003. Prices for imported consumer goods were projected to fall temporarily as a result of lower commodity and producer prices, a slower rise in international consumer prices and a stronger krone. On balance, consumer price inflation was expected to slow in 2002 before rising again through 2003. Applying a technical assumption of unchanged exchange rates and interest rates, consumer price inflation was estimated at 2½ per cent at the end of 2003.

The uncertainty surrounding the inflation projections was, however, unusually high, particularly due to the uncertainty surrounding international developments. Low growth in the global economy could result in a further decline in oil prices and other important commodity prices. This entailed a risk of weaker-than-projected economic growth and lower-than-projected consumer price inflation in Norway. It was Norges Bank's assessment that, with unchanged interest rates, the probability that inflation two years ahead would be lower than 2½ per cent was greater than the probability that it would be higher.

The outlook for inflation and the economic picture that were presented in *Inflation Report* 3/01 provided a basis for a lower key rate in the period ahead. At the meeting of Norges Bank's Executive Board on 31 October, the same day that the *Inflation Report* was presented, the key interest rate was left unchanged. This, along with the assessment of the balance of risks surrounding the projection for inflation two years ahead, did not have a substantial impact on money market rates. The level of money market rates indicated that market participants expected a reduction in the key rate over the next few months.

Economic developments between the monetary policy meetings on 31 October and 12 December generally supported the assessment of the balance of risks presented in *Inflation Report* 3/01. There was still a risk of a pronounced recession in the world economy. The oil market was unstable, with oil prices tending to fall. Norwegian enterprises felt the effects of declining demand in export markets. Unemployment edged up in November. At the same time, the central government budget was approved by the Storting, with a fiscal stance approximately as assumed in the *Inflation Report*.

At its meeting on 12 December, Norges Bank's Executive Board decided to reduce the sight deposit rate by 0.5 percentage point, to 6.5 per cent. At the same time, the Bank stated that, with an interest rate of 6.5 per cent, the probability that inflation two years ahead would be lower than 2½ per cent was greater than the probability that it would be higher.

Consumer price inflation in 2001 and an assessment of monetary policy

Consumer price inflation picked up markedly in the first half of 2001. The year-on-year rise in the consumer price index rose from 3.0 per cent in December 2000 to 4.3 per cent in May 2001. Inflation subsequently slowed and stood at 2.1 per cent in December (see Chart 5). On average, consumer prices rose by 3.0 per cent from 2000 to 2001. In 2001, consumer price inflation was heavily influenced by changes in VAT and some excise duties. For example, the general VAT rate was increased from 23 to 24 per cent on 1 January 2001. With effect from 1 July, the VAT rate on food was reduced from 24 per cent to 12 per cent, while the basis for VAT on services was broadened. Consumer price inflation was also heavily influenced by changes in electricity prices. Higher demand for electricity and lower electricity production pushed up electricity prices. Consumer price inflation adjusted for tax changes and excluding energy products was more stable through the year. On average, consumer prices adjusted for tax changes and excluding energy products rose by 2.6 per cent from 2000 to 2001.

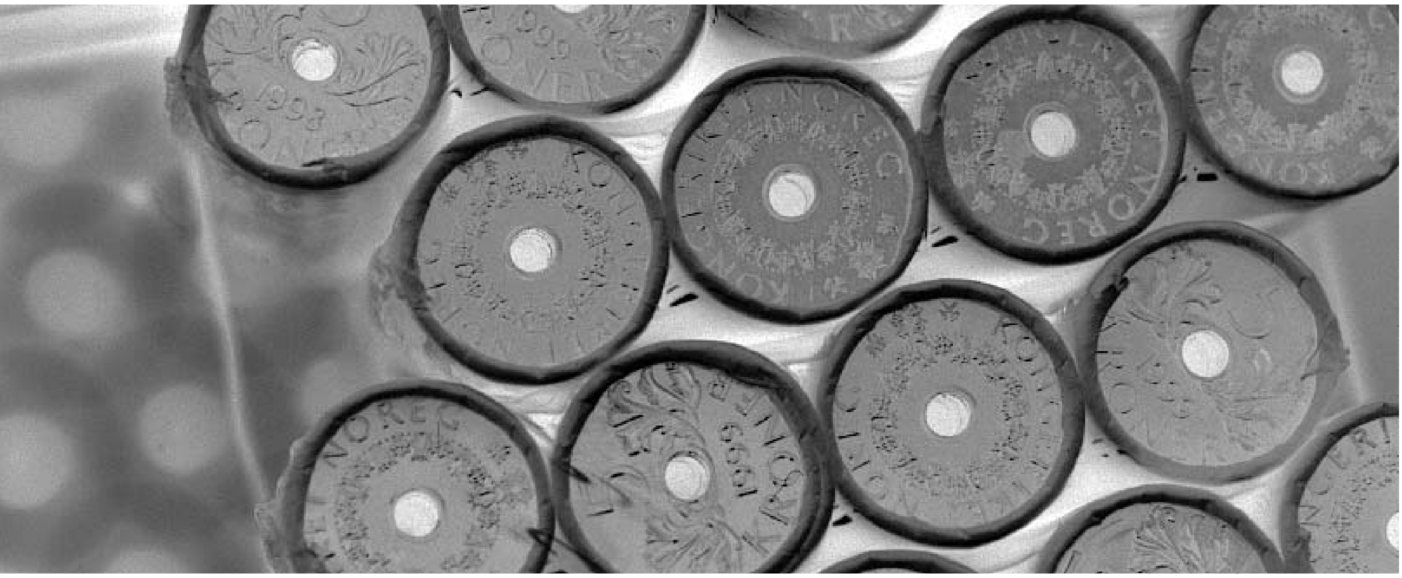
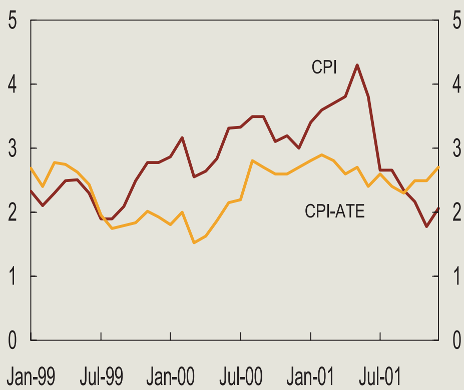


Chart 5 Consumer prices. Total (CPI) and adjusted for tax changes and excluding energy products (CPI-ATE). 12-month rise. Per cent. 1999-2001



Sources: Statistics Norway and Norges Bank

Up until Norges Bank was given a new mandate on 29 March, monetary policy was oriented towards a stable krone exchange rate against European currencies, which the Bank defined as the euro. An important precondition for a stable krone exchange rate against the euro was price and cost inflation on a par with the level aimed at in the euro area countries. Monetary policy was therefore oriented with a view to reducing price and cost inflation to the level aimed at in the euro area countries. The European Central Bank (ECB) has the objective of price stability, defined as a year-on-year increase in the Harmonised Index of Consumer Prices of less than 2 per cent.

The inflation target that was introduced on 29 March is set at 2½ per cent. The target is higher than the ECB's definition of price stability and means that monetary policy is to be oriented with a view to achieving an inflation rate that is slightly higher than the level aimed at in the euro area.

Norges Bank acts on the assumption that monetary policy influences the economy with a lag. The rate of inflation that can be observed at any one point in time is partly a result of the key rate that was set one to two years earlier. Since it takes time before monetary policy has an effect on inflation, Norges Bank must be forward-looking when setting interest rates. The orientation of monetary policy in 2001 may therefore best be assessed in relation to actual developments in inflation in the years ahead. For the time being, the monetary policy that was conducted in 2001 must be viewed in the light of the inflation outlook in the years ahead, see the section above concerning monetary policy in 2001. Similarly, the rise in consumer prices in 2001 provides a basis for evaluating the results of the monetary policy that was conducted some time ago. If inflation has been higher than the target, it may be an indication that the monetary policy conducted was too expansionary. If inflation has been lower than the target, it may indicate that monetary policy was too tight.

When evaluating monetary policy retrospectively, one should disregard random or temporary fluctuations in the inflation rate that have little to do with monetary policy or developments in inflation over time. In the submission of 27 March 2001 to the Ministry of Finance concerning the new monetary policy guidelines, Norges Bank stated:

"Consumer price inflation normally varies from month to month. Substantial changes in the inflation rate may at times occur as a result of extraordinary fluctuations in certain product markets or changes in direct and indirect taxes. In its analyses of different measures of underlying inflation, Norges Bank will assess the effects of changes in the interest rate level, taxes, excise duties and extraordinary temporary disturbances. Deviations between actual and projected underlying inflation will normally be in the interval +/- 1 percentage point.

Norges Bank places considerable emphasis on the transparency and communication of monetary policy. Norges Bank's analyses and the background for the Bank's interest rate decisions are published regularly. The Bank reports on the implementation of monetary policy in its annual report. If there are significant deviations between actual price inflation and the target, the Bank will provide a thorough assessment in its annual report. Particular emphasis will be placed on any deviations outside the interval +/- 1 percentage point."

Since 10 October 2001, Statistics Norway has published figures for the rise in consumer prices adjusted for tax changes and excluding energy products (CPI-ATE). In Norges Bank's view, this measure of inflation provides a basis for evaluating monetary policy retrospectively.

The year-on-year rise in the CPI-ATE was fairly stable through 2001 after moving on a clear upward trend in 2000 (see Chart 5). On average, consumer prices adjusted for tax changes and excluding energy products rose by 2.6 per cent from 2000 to 2001. The year-on-year rise varied from 2.9 per cent at its highest level in February to 2.3 per cent at its lowest level in September. In December 2001, the year-on-year rise was 2.7 per cent.

The annual average rate of increase in consumer prices adjusted for tax changes and excluding energy products was slightly higher in 2001 than the level aimed at by the ECB. In the preceding years, monetary policy was oriented towards bringing inflation down towards this level. Compared with a level of 2 per cent a year, which is the upper limit for the euro area's definition of price stability, the annual rate of increase in consumer prices adjusted for tax changes and excluding energy products was still within an interval of +/- 1 percentage point throughout 2001.

The rise in consumer prices adjusted for tax changes and excluding energy products in 2001 was somewhat higher than Norges Bank had expected. There were two main reasons for this. Energy prices rose sharply through 1999 and 2000. This gradually resulted in slightly higher price increases for other goods and services. Moreover, wage growth through 2000 was higher than Norges Bank had projected the previous year.

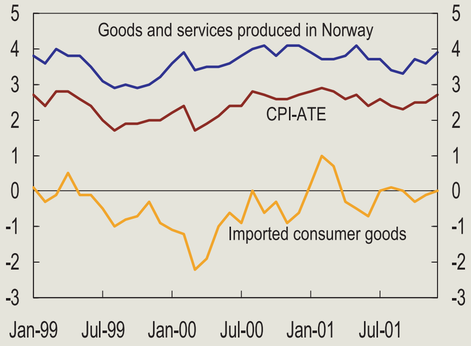
At the beginning of 1999, it was projected, based on an assumption of falling interest rates, that consumer price inflation in 2001 would be below 2 per cent. The global economy had recently experienced a financial crisis and prices for Norwegian export goods on world markets were low. Mainland GDP was expected to show close to zero growth in 2000. Norges Bank expected unemployment to edge up and wage growth to slow in 2000 and 2001. On the basis of these prospects, the sight deposit rate was reduced by a total of 2.5 percentage points in 1999, from 8.0 per cent to 5.5 per cent.

In early 1999, the oil price was as low as USD 10 per barrel. Through 1999, the oil price more than doubled, to about USD 25 per barrel in the fourth quarter. Oil prices remained high in 2000 and reached more than USD 30 per barrel towards the end of the year. The rise in oil prices fed through to petrol prices relatively quickly, but eventually also had an impact on prices for goods and services that use oil as an intermediate good. The rise in prices for transport services, but also to some extent prices for goods contributed to pushing up consumer price inflation in the first half of 2001. The rise in oil prices thus contributed to an increase in consumer prices even when the direct effects of higher energy prices are excluded. In the last half of 2001, the effects of this were being exhausted.

Consumer price inflation in 2001 was also influenced by a high rate of increase in prices for services for which wages are a dominant cost factor. Adjusted for tax changes and excluding energy products, prices for domestically produced goods and services increased by 3.7 per cent in 2001 (see Chart 6). A tight labour market led to higher wage growth in 2000 than estimated by Norges Bank one year earlier. The labour market remained tighter than projected and unemployment edged down through 2000. In addition to slightly higher wage growth, labour costs rose as a result of additional vacation days. In 2000, Norges Bank's sight deposit rate was increased from 5,5 per cent to 7.0 per cent.

There are several reasons why pressures on economic resources in Norway were higher in 2000 than had been expected in 1999 and the first half of 2000. The effects of the financial crisis in 1998 were more short-lived than expected, and growth among Norway's trading partners was high in 2000. Moreover, the sharp rise in oil prices through 1999 probably contributed to

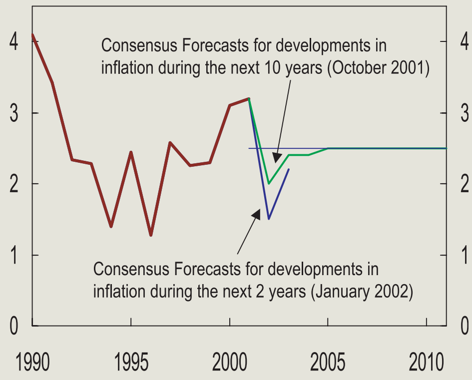
Chart 6 CPI-ATE. Total[1)] and broken down into imported and domestically produced goods and services[2)]. 12-month rise. Per cent



[1)] Norges Bank's estimates up to July 2000, thereafter figures published by Statistics Norway
[2)] Norges Bank's estimates

Sources: Statistics Norway and Norges Bank

Chart 7 Consumer price inflation. Historical rise and market participants' projections for future consumer price inflation. Per cent



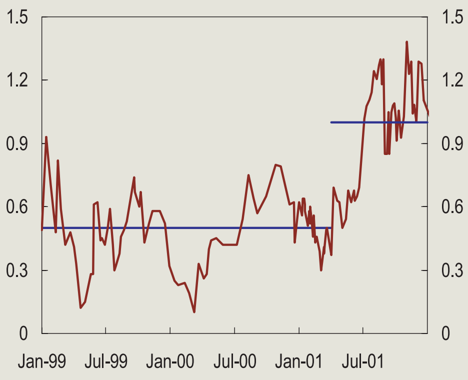
Sources: Consensus Economics Inc. and Statistics Norway

shifting sentiments among Norwegian households and enterprises in a more positive direction. The fall in interest rates through 1999 may also have had a somewhat stronger and swifter impact on economic developments than expected by Norges Bank. Each year since 1996, Norges Bank has published an article in the quarterly Economic Bulletin that provides a thorough evaluation of the forecasts for economic developments (see Economic Bulletin 1/2002 for an evaluation of the projections for economic developments in 2000).

The monetary policy Norges Bank has conducted may also be assessed by measures of market participant confidence that inflation will remain low and stable. Chart 7 shows an average of various institutions' forecasts for inflation based on a survey conducted by the US company Consensus Economics Inc. These forecasts are published monthly and are presented for up to two years ahead. Twice a year, in April and October, inflation forecasts with a longer horizon are published. With a proviso regarding the accuracy of such measures, the estimates indicate that inflation is expected to be reduced in the years ahead. The forecasts presented in October 2001 showed that price inflation in the long term is expected to be the inflation target of 2½ per cent. In the survey of 14 January 2002, the average of the inflation forecasts for 2003 was 2.2 per cent.

Movements in long-term interest rates may also provide information about market participants' inflation expectations. Implied forward rates, which may reflect market expectations concerning future short-term rates, can be derived from observed interest rates with different maturities. These implied forward rates can be used to derive a measure of inflation expectations in Norway relative to other countries. The long-term forward rate differential between Norway and Germany should, for example, reflect the expected inflation differential between Norway and Germany in the long term. If Norwegian long-term forward rates are substantially higher than corresponding German rates, this may indicate that market participants expect a wider inflation differential over time than that which follows from the monetary policy targets in Norway and the euro area. However, such comparisons must

Chart 8 Differential between Norwegian and German forward rates 10 years ahead



Source: Norges Bank

take into account some uncertainty with regard to the method for calculating forward rates, and the results should be interpreted with caution.

Chart 8 shows changes in the long-term forward rate differential between Norway and Germany. To some extent a positive differential reflects the small size of the market, by international standards, for Norwegian govenrment bonds. The yield on Norwegian government bonds is therefore normally somewhat higher than the yield on corresonding German bonds in order to compensate for lower liquidity. During spring and summer 2001, the Norwegian long-term forward rate rose considerably. This resulted in a comparable widening of the differential against Germany (see Chart 8). The increase should be seen in the light of the introduction of the inflation target of 2½ per cent on 29 March. The inflation target is higher than the ECB's definition of price stability. The new guidelines for monetary policy probably contributed to increasing inflation expectations in Norway both in absolute terms and relative to Germany. Norges Bank's key rate, however, was left unchanged in this period. The increase in inflation expectations entailed, in isolation, a de facto easing of monetary policy inasmuch as real interest rates on loans with shorter maturities declined.

The long-term forward rate differential between Norway and Germany varied considerably, both prior to and after the introduction of an inflation target. These short-term fluctuations may to some extent reflect random factors, indicating that the level of the differential should not be evaluated on the basis of one observation but be considered over some time. The long-term forward rate differential between Norway and Germany has been around 1-1¼ percentage points after widening through spring and summer 2001. In Norges Bank's view, this differential may be explained by the fact that the inflation target in Norway is higher than the ECB's definition of price stability and by liquidity and risk premia on investments in Norway. The forward rates thus seem to be consistent with the information from Consensus Economics on expectations concerning future inflation.

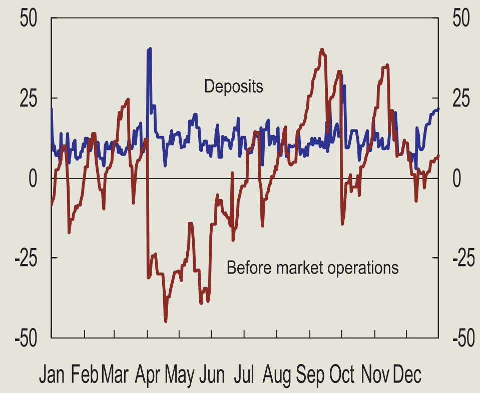
Liquidity management

Norges Bank sets the interest rate on banks' overnight deposits with and loans from Norges Bank. Liquidity policy shall ensure that the Bank's interest rate decisions have a broad impact on short-term money market rates. Norges Bank uses its liquidity policy instruments to supply or withdraw liquidity from the banking system in such a way that the shortest money market rates are close to the interest rate on banks' sight deposits with Norges Bank. Thus, the deposit rate is the key rate in monetary policy.

Banks' structural liquidity is what their sight deposits with Norges Bank would have been without the central bank supplying or withdrawing liquidity by means of monetary policy instruments. This structural liquidity is influenced by government incoming and outgoing payments, government loan transactions, Norges Bank's transactions in the foreign exchange and government securities market and changes in notes and coins in circulation.

Through 2001, banks' structural liquidity shifted between the need for substantial loans and substantial deposits in Norges Bank (see Chart 9). If Norges Bank had not offset these liquidity fluctuations, the variation in the shortest money market rates would have been more pronounced.

Chart 9 Banks' liquidity in 2001. Daily figures. In billions of NOK



Source: Norges Bank

The most important liquidity policy instruments are fixed-rate loans and fixed-rate deposits. Fixed-rate loans are used to supply liquidity to the banking sector, while fixed-rate deposits are used to withdraw liquidity by tying up funds in the central bank. Banks must furnish collateral for fixed-rate loans and are responsible

for ensuring that the collateral furnished is sufficient. Interest rates for fixed-rate loans and deposits are determined by ordinary auction.

In periods when liquidity needs are unusually high (e.g. in connection with large tax payments) and when money market rates have been affected to a substantial extent, Norges Bank can use currency swaps, as a supplement to fixed-rate loans, in order to supply liquidity. Temporary changes may occur in the shortest money market rates if the redistribution of liquidity in the interbank market does not function satisfactorily, but this generally has a limited impact beyond the shortest money market rates.

In 2001, Norges Bank ensured that at the end of each day the banking system had sight deposits in Norges Bank of a size sufficient to keep the shortest money market rates close to the sight deposit rate. The sight deposit rate thus determined the shortest money market rates.

Chart 1 shows that in 2001 the shortest money market rates were generally close to the sight deposit rate, but the fluctuations were somewhat greater in April and December. In April, the fluctuations were caused by uncertainty concerning the liquidity situation in connection with the payment of petroleum taxes at the beginning of the month. In general, banks will have substantial borrowing requirements when petroleum taxes are to be paid, and the taxes due were particularly large in April 2001. The need for liquidity was primarily covered by liquidity supplied by Norges Bank to the banking system through fixed-rate loans. In periods, fixed-rate loans were supplemented by currency swaps to supply liquidity. In April, the average daily outstanding amount of fixed-rate loans and currency swaps came to NOK 36.9 billion and NOK 9.6 billion respectively.

Towards the end of December, the shortest money market rates rose despite ample liquidity. Banks had sight depsits in Norges Bank amounting to about NOK 20 billion. Uncertainty concerning the redistribution of liquidity between banks tends to be higher at the turn of the year than in other months. The effects on money market rates were, however, limited and it was not deemed necessary to supply additional liquidity through currency swaps.

Research and work with economic models

Research and research-based analysis concerning monetary policy are developed along two approaches. One is empirically oriented and is particularly focused on the functioning of the Norwegian economy. The other is more theoretical and focuses on issues relating to the formulation of monetary policy strategy and properties of the monetary policy regime. Research in Norges Bank is thus directly and indirectly oriented towards improving the basis for monetary policy decisions.

The macroeconometric model RIMINI is used – along with other models – as a tool in drawing up forecasts concerning economic developments that are published in the *Inflation Report.*[1)]

RIMINI gathers knowledge concerning relationships in the economy, including relationships for demand and models for the labour market and wage and price formation. It also takes account of the need for a consistent analysis of the interaction between these relationships. The model captures important aspects of the transmission mechanism, and is also used – along with other analytical tools – to estimate the impact of changes in interest rates on the real economy and on price inflation in Norway. RIMINI is also used to analyse financial exposure in reports on financial stability.

In 2001, Norges Bank expanded its more theoretical monetary policy research. Moreover, efforts are being made to develop a modelling system that may be helpful in the work on formulating monetary policy strategy.

Norges Bank's research work is documented as it is completed in the Bank's series of publications. In 2001, ten papers were published in the series *Working Papers*, while five articles from international journals were published in the series *Reprints*. During the past three years, members of Norges Bank's staff have published nearly four articles annually in international journals with a referee arrangement. In 2001, two of the Bank's researchers defended their doctoral theses at the University of Oslo, and the theses "State dependent effects in labour and foreign exchange markets" by Q. Farooq Akram and "Inflation targeting and monetary policy" by Kai Leitemo will be published in the series *Doctoral Dissertations in Economics*.

On the basis of the Bank's research activities, contact with academic research circles is further developed, both nationally and internationally, as well as with research departments in other countries' central banks. The Bank's own research activities play a key role in the further development of this contact, which in this connection may be seen as an "admission ticket" that provides access to other research communities. The

1) See the article "The role of assessments and judgement in the macroeconomic model RIMINI" by Kjetil Olsen and Fredrik Wulfsberg that was published in *Economic Bulletin* 2/2001 for a further description of how the RIMINI model is used in the work on forecasting.

contact is developed through various types of cooperation that ranges from long-term cooperation with foreign researchers concerning joint research projects to participation at international conferences, workshops and research seminars. Through this contact the Bank gains access to important international circles and references that are useful for executing core tasks.

Production of statistics

In 2001, Norges Bank continued its production of statistics on money, credit and foreign exchange markets along much the same lines as in the previous year. With effect from 2001, Norges Bank publishes these statistics only on the Bank's website. In 2001, Norges Bank worked on improving and automating the collection of data.

Financial statistics

Norges Bank cooperates closely with the Banking, Insurance and Securities Commission, Statistics Norway and the Central Securities Depository on the collection of data and preparation of statistics on the credit and securities market. The data are used for official statistics, regular analyses of developments in credit and securities markets and financial stability work.

The primary statistics on banks and other financial undertakings form the main basis for the preparation of monthly credit and money supply indicators and quarterly financial balances. In 2001, Norges Bank began to publish the credit indicator C3 on a monthly basis.

In 2001, Norges Bank changed the routines for how banks report interest rates and changed the classification of deposit rates. At the same time, the reports were changed and now show interest rates on loans and deposits from various sectors. Sectoral data will be published in 2002.

Statistics on foreign payments

Norges Bank produces statistics on payments between Norway and other countries. These statistics serve as the most important basis for the external account statistics, which Statistics Norway publishes every month. Satistics on payments between Norway and other countries are based on reports from Norwegian banks and from enterprises that have accounts with foreign banks or have settlement arrangements with foreign companies.

In 2000, alternative reporting systems were evaluated in a separate report. This report concluded that a new system, to a considerably greater extent than today, must be based on direct reporting from primary sources. Discussions were initiated with Statistics Norway concerning a change in the distribution of responsibilities for collecting data for the balance of payments. It has now been agreed that with the future system Norges Bank will be responsible for collecting data from the financial sector (including the securities market, but excluding insurance). The responsibility for collecting data from other sources will be transferred to Statistics Norway. The change will be implemented in January 2005. Norges Bank is working on contingency plans in case the change must take place before 2005.

The change in the reporting system for foreign payment statistics will alter the basis for Norges Bank's cooperation with the tax authorities, the customs authorities and the National Authority for Investigation and Prosecution of Economic and Environmental Crime. These control authorities have access to information from Norges Bank concerning payments between residents and non-residents. This database will not be maintained when the reporting system is changed. Norges Bank is participating in efforts to find other solutions to satisfy the supervisory authorities' need for such information.

Financial sector balances

Norges Bank's database for quarterly reconciled financial sector balances (Findatr) is used in the bank's work on macroeconomic models, in monetary policy analyses and in the work on financial stability. The statistics product, households' financial accounts, which is based on Findatr, shows for example developments in households' assets and debt.

International reporting and cooperation

Norges Bank's reporting of statistics to international organisations has increased in recent years, and there is growing demand from these organisations for additional data. The Bank reports to the BIS, the ECB, Eurostat, the IMF and the OECD.

Norges Bank participates in fora in which the development of international standards and international reporting is discussed. One such forum is Eurostat's Committee on Monetary, Financial and Balance of Payments and subordinate working groups, in which Norway participates pursuant to the EEA Agreement.

Norway endorsed the IMF's Special Data Dissemination Standard, SDDS, in 1996. The standard places extensive demands on the statistics production of participating countries with respect to coverage, methods, quality, frequency, topicality and availability. At the end of 2001, Norway satisfied these requirements.

Chapter 2. Financial stability

Responsibility for the stability of the financial system

Norges Bank's mandate and responsibility for the stability of the financial system are defined in Section 1 of the Norges Bank Act, which states that the Bank shall:

"… promote an efficient payment system domestically as well as vis-à-vis other countries and monitor developments in the money, credit and foreign exchange markets."

and in Section 3 of the Norges Bank Act:

"The Bank shall inform the ministry when, in the opinion of the Bank, there is a need for measures to be taken by others than the Bank in the field of monetary, credit or foreign exchange policy. The Bank shall inform the public about the monetary, credit and foreign exchange situation."

The Act relating to Payments Systems assigns Norges Bank responsibility for authorising banks' clearing and settlement systems (the interbank systems).

Central banks have traditionally had responsibility for the stability of the financial system. This is because crises in banking and financial systems are monetary phenomena, closely associated with changes in the values of financial assets, interest rates and exchange rates. Central banks' conduct of monetary policy provides an exceptional basis for evaluating and warning about factors that may constitute a risk to financial stability. Norges Bank's responsibility for contributing to robust, efficient payment systems and financial markets is directly tied to its responsibility for financial stability. Should a situation arise in which the financial system itself is at risk, Norges Bank, in consultation with other authorities, will consider the need for, and if necessary initiate, measures that may help to bolster confidence in the financial system.

Norges Bank's preventive tasks in this area consist of:

- contributing to limiting risks associated with clearing and settlement systems in order to prevent liquidity and solvency problems from spreading among participants.
- monitoring the financial services industry in order to identify trends that may lead to a reduction in earnings and an increase in losses in the industry and thus constitute a risk to stability in the financial sector
- assessing the influence of monetary policy and general economic policy on the stability of the financial sector and vice versa.

Financial markets and financial institutions

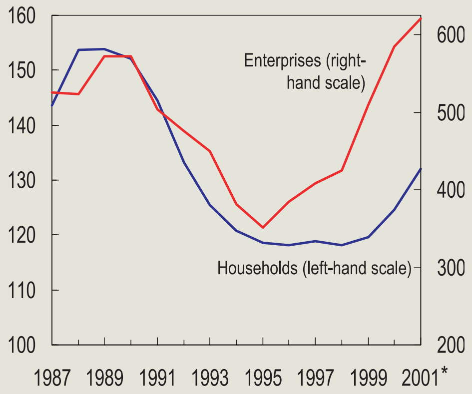
Monitoring developments in the financial services industry

Norges Bank's *Financial Stability* report is issued twice a year. The purpose of the report is to provide a comprehensive assessment of the situation in the financial sector and the outlook ahead, with particular emphasis on banks and their ability to cope with any major disturbances in the economy. The report's main conclusions are summarised in a letter to the Ministry of Finance. The report shall also contribute to dialogue with the financial industry on developments that may create imbalances in the financial system.

The report contains analyses of the relationship between macroeconomic developments and developments in the financial sector, as well as Norges Bank's assessment of the outlook for financial stability. Increasing emphasis has been placed on analyses of the interaction between supply and demand factors and financial variables. The report focuses on the different types of risk to which financial institutions are exposed through their operations: credit risk, liquidity risk, market risk, settlement risk and operational risk. The report is based on analyses of cyclical trends, conditions in credit, property and securities markets, the debt burden and the financial situation of households and enterprises, as well as the competitive situation in the financial sector.

Norges Bank places special emphasis on analysing banks' credit risk. Credit risk is the risk of losses due

Chart 10 Debt burden in the household[1)] and enterprise sectors[2)]



1) Household borrowing as a percentage of disposable income, last four quarters
2) Interest-bearing debt in non-financial enterprises as a percentage of cash surplus excl. interest expenses
* Households. 2001 Q3. Enterprises: Estimates for 2001

Source: Norges Bank

to a borrower's unwillingness or inability to service debt. Credit risk constitutes a substantial portion of banks' overall risk. Credit risk has a tendency to build up when times are good and to materialise when times are bad. This makes it important to assess developments in this area in the light of general economic developments.

The main indicators of developments in the credit risk associated with lending to households and enterprises are the debt-servicing burdens in these two sectors.

Norges Bank uses data from company financial statements, which are available from the Brønnøysund Register Centre, to analyse credit risk associated with loans to enterprises. In the spring of 2001, Norges Bank developed a new credit risk model which predicts the probability of bankruptcy for individual enterprises as a function of their earnings, liquidity and financial soundness. The new model supplements the other assessments of credit risk which are based on figures at an aggregate level.

Households account for a larger share of aggregate borrowing than enterprises. Despite this, banks only incurred moderate losses on their household portfolios during and after the banking crisis of the early 1990s. It is nevertheless important to monitor the financial exposure of households, because changes in household behaviour may have significant real economic consequences for enterprises. In the same way, enterprises' earnings and employment trends will have a direct impact on the household sector. Therefore, it is important to consider the two sectors together when assessing general economic developments.

Norges Bank also monitors the liquidity risk of banks and the market risk associated with their securities portfolios. Liquidity risk is associated with banks' financing structure, including funding from foreign sources, and is very important. Market risk is often used as a collective term for several different types of risk and includes the risk of losses on balance sheet and off-balance sheet items as a result of changes in market prices such as interest rates, exchange rates and equity values.

National financial markets have become more integrated, and there are ever new examples of how rapidly turbulence spreads from country to country. International economic developments will also have an impact on the Norwegian economy, either directly, through exports and imports and changes in prices, for example for oil, or indirectly, via the securities markets. Monitoring the international situation is an important aspect of monitoring financial stability in Norway.

Norges Bank's analysis of financial stability is aimed at acquiring knowledge about the financial adaptation of financial institutions, the functioning of financial markets and the interaction between macroeconomic developments and financial stability. In 2001, Norges Bank and the Banking, Insurance and Securities Commission carried out a survey to investigate the extent of some major banks' unsecured exposure to other financial institutions in the form of lending, securities or derivatives. Such counterparty exposure may be the source of liquidity problems if an expected incoming payment does not arrive. In some cases, this may have consequences for the financial soundness of banks. This work will be followed up with a new survey in 2002.

The regular analyses of financial stability are underpinned by a long-term accumulation of knowledge through Norges Bank's research activities. Several analyses of the behaviour of financial institutions have shed light on competitive and structural conditions in the Norwegian banking sector. For example, the effect of the transition to electronic payment instruments on economies of scale in Norwegian banks has been analysed. An analysis has also been made of borrowers' concern about the financial soundness of their banks, and whether banks use this as a competitive parameter.

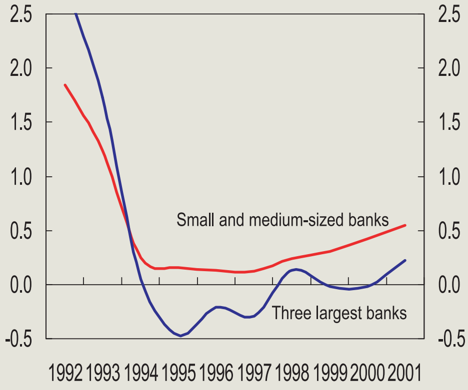
The Ministry of Finance, the Banking, Insurance and Securities Commission and Norges Bank all have a responsibility for safeguarding financial stability. Norges Bank has regular meetings with both the Commission and the Ministry to discuss questions related to financial stability. In accordance with the Storting's decision, cooperation with the Banking, Insurance and Securities Commission has been established at a number of levels. The management of the two institutions meet regularly to review the economic situation and developments at financial institutions. Norges Bank is represented by an observer on the Board of the Commission. In March 2001, the two institutions sent the Ministry of Finance a submission documenting their work in areas such as financial institutions, securities markets and the payment system. In 2002, a joint statement was made to the Basel Committee and the EU on the new capital adequacy rules for financial institutions.

Financial stability in 2001

Satisfactory financial soundness at banks

The largest banks maintained satisfactory financial strength in 2001, despite high lending growth. Lending growth at small and medium-sized banks was higher and financial strength declined somewhat, but the banks still comply with capital adequacy requirements by a solid margin. Lending growth in recent years has

Chart 11 Recorded losses in three largest Norwegian banks[1)] and in small and medium-sized banks[2)]. Losses as a percentage of gross lending to others than financial institutions



[1)] Den norske Bank (incl. Postbanken throughout the period), Christiania Bank (now Nordea) and Union Bank of Norway
[2)] Banks in Norway excluding the three largest banks and branches of foreign banks

Source: Norges Bank

coincided with a period of solid economic growth and modest loan losses. Intense competition and low margins in the Norwegian market probably limit the possibilities of substantially strengthening underlying earnings through growth in lending.

Underlying earnings for small and medium-sized banks declined somewhat in 2001 compared with 2000. For the three largest banks, underlying earnings remained virtually unchanged and loan losses were somewhat higher. The volume of non-performing loans also increased somewhat. After-loss profits declined for the three largest banks, and developments for small and medium-sized banks were even weaker, compared with 2000. Due to developments in Norway and the global economy in the second half of 2001, it is reasonable to expect that loan losses will continue to increase somewhat in 2002. Banks will therefore need to improve their underlying earnings in order to maintain their financial strength.

The terrorist attacks in the US on 11 September 2001

The terrorist attacks on 11 September had a direct impact on many key operators in the financial sector. A number of markets were closed for short periods. Central banks in several countries supplied substantial quantities of extraordinary liquidity, and in some markets settlement times were longer than usual to help markets function optimally under the prevailing circumstances. On the whole, financial markets functioned without substantial problems in this period and problems encountered by individual financial institutions have been manageable.

The terrorist attacks on 11 September caused equity markets worldwide to plunge. This occurred after a long period of sharply declining prices and considerable uncertainty. Prices picked up somewhat during the autumn of 2001, but at end-2001 were still at a lower level than at the beginning of the year.

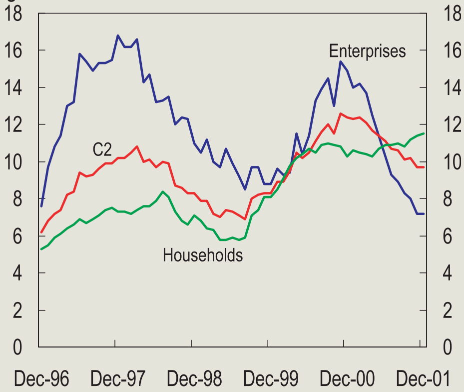
Banks in Norway only experienced limited direct effects of the drop in equity prices in the wake of the terrorist attacks. Life insurance companies are far more vulnerable than banks when equity and bond prices fall. Due to the decline in equity prices in 2001, life insurance companies' results were weaker in 2001 than in 2000. The Adjustment Fund, which was empty at the end of the third quarter, increased somewhat in the fourth quarter. Total buffer capital, i.e. the Adjustment Fund, supplementary provisions and core capital over and above capital adequacy requirements, increased as a consequence of both market developments and special measures implemented by the authorities in the wake of the terrorist attacks and amounted to 4.5 per cent of total assets compared with just over 6 per cent a year earlier.

Problems in insurance companies can spill over to banks and securities markets both directly through current transactions and indirectly through a general loss of confidence in the financial sector. A number of life insurance companies in Norway also form part of financial conglomerates in which banking activities dominate. A decline in the earnings of life insurance companies will reduce their group contribution or at worst mean that new equity is required. Nevertheless, the risk of substantial contagion effects from the life insurance to the banking segment of financial conglomerates is nevertheless regarded as limited.

High credit growth and increasing household and enterprise debt burden in 2001

A weaker international growth outlook and increased uncertainty surrounding economic developments in Norway have probably contributed to curbing enterprise borrowing. Household borrowing continued to rise sharply through 2001, due partly to escalating house prices and increased housing wealth. Debt rose at a faster rate than disposable income. The debt and interest burdens both increased. Households as a group were thus more vulnerable to increased unemployment or higher interest rates at the end of 2001 than at the beginning of the year.

Chart 12 Credit from domestic sources to households and enterprises (C2). 12-month growth. Per cent



Source: Norges Bank

On the whole, households have solid, positive net financial assets. The decline in share prices through 2001 reduced these assets somewhat. However, shares account for a relatively small portion of net financial assets and moreover are unequally distributed among households. The decline in share prices will mainly affect a relatively small group of households with high incomes and considerable wealth . Excluding insurance claims, on which households can seldom draw in the event of debt-servicing problems, net financial assets were negative at the end of 2001. On the whole, credit risk associated with households was assessed as rising through the year, but still moderate at end-2001.

Enterprise debt has been increasing more sharply than value added for a long time. The increase in debt slowed somewhat in 2001, in step with declining mainland business investment. Industries differ considerably. In the sheltered industries like retail trade and services, debt continued to rise sharply, while in the industries exposed to competition, primarily manufacturing, there was a substantial reduction in debt growth. Earnings in the enterprise sector as a whole declined somewhat from 1999 to 2000, and figures for 2001 indicate a further decline. Thus, it appears that the debt burden will increase further.

The distribution of debt changed through the 1990s. Enterprises with high credit risk account for a steadily diminishing share of long-term debt in the enterprise sector. At the same time, enterprises' equity ratios have improved. Enterprise risk-weighted debt was virtually unchanged from 1999 to 2000.

The strong growth in debt has left enterprises more vulnerable to a decline in earnings. Estimates based on share prices and accounts data to September 2001 show that there was a considerable increase in the probability of bankruptcy for listed companies and large unlisted companies in 2001. On the whole, credit risk associated with banks' lending to mainland enterprises was regarded as relatively high at end-2001. Due to a continued high rate of debt growth, prospects of weaker economic growth and a decline in earnings, credit risk increased through 2001.

Approximately unchanged liquidity risk

Banks' lending growth declined somewhat through 2001. Nevertheless, banks' need for funding from domestic and foreign money and capital markets continued to grow, since customer deposits did not increase as much as lending. The three largest banks increased the share of short-term financing, with an increased share of foreign money market funding. In contrast, small and medium-sized banks reduced the share of short-term financing but simultaneously increased the emphasis on domestic money market funding. The buffer, in the form of liquid assets, also increased somewhat in the three largest banks and remained virtually unchanged in small and medium-sized banks. Liquidity risk was assessed as virtually unchanged through 2001.

Despite increased uncertainty, stability remains satisfactory

The household and enterprise debt burden increased further through 2001. The household debt burden is still lower than at the end of the 1980s, but the debt burden in the enterprise sector is higher. It should be emphasised that enterprises in particular are dependent on continued sound earnings in the years ahead in order to service debt. At the same time, uncertainty regarding the economic outlook in Norway and abroad increased in the second half of 2001. Thus, banks' credit risk has grown and loan losses are expected to rise in the future. However, loan losses are still low and will have to rise substantially before the stability of the banking sector is threatened.

Payment systems and means of payment

Norges Bank's responsibility for the payment system has been expanded by the Payment Systems Act, which entered into force in April 2000. The Act assigns Norges Bank responsibility for authorisation and supervision of systems for clearing and settlement of interbank payment transactions. Thus, Norges Bank has both general supervisory responsibility for the payment system as a whole, as stipulated in the Norges Bank Act, and specific responsibility for authorising those parts of the payment system that carry out interbank clearing and settlement. The possibility of solvency or liquidity problems spreading and constituting a risk to financial stability figures prominently in Norges Bank's commitment to reducing the level of risk in the Norwegian settlement system.

Accordingly, Norges Bank's work to promote more efficient and robust payment systems consists of:

- shaping the financial infrastructure through its responsibility for authorisation and supervision pursuant to the Payment Systems Act, through the agreements and rules regulating banks' participation in Norges Bank's Settlement System (NBO), by reducing NBO's technological and operational vulnerability, and by ensuring closer integration into international payment systems
- a contingency plan in the form of a system and routines that can solve systemic problems when they arise
- continuous monitoring of the exposures that arise among banks in connection with their participation in the Norwegian and international payment systems
- publication of annual reports which identify developments in the use of payment instruments in Norway, as well as an evaluation of the efficiency and security of the Norwegian payment system in relation to internationally accepted standards and actual developments in other countries.

Banks' fundamental risk in connection with their participation in the payment system may be classified as either credit risk or liquidity risk. Credit risk depends primarily on whether banks credit customers' accounts before the banks themselves have received settlement for a payment transaction. Liquidity risk is connected with a shortage of liquidity due to delays in the settlement process. Other types of risk that may be reflected in credit or liquidity risk are legal risk, foreign exchange settlement risk and operational risk. Legal risk is associated with contractual and other legal uncertainties in connection with issues such as rights and commitments of participants in the system, for example in connection with a participant's insolvency. Foreign exchange settlement risk arises because foreign exchange transactions are settled in different settlement systems at different times. There is thus a risk that one participant may meet his commitments but find that the counterparty cannot meet his commitment by the agreed time. Operational risk is a result of inadequate procedures, malfunctions in computer and telecommunications systems, breach of rules, fraud, fire etc. which may entail costs for participants.

Since the Payment Systems Act entered into force and adjustments were made to satisfy the authorisation requirements, the legal risk associated with the Norwegian Payment System is regarded as very limited. Norges Bank's analyses show that overall credit and liquidity risk is also relatively limited after several years of cooperation between banks and Norges Bank on various measures to reduce risk in the Norwegian payment system. The primary focus in the future will therefore be on risk associated with Norwegian banks' participation in international foreign exchange trading (foreign exchange settlement risk) and operational risk. The establishment of an international multi-currency settlement bank, CLS Bank, which is owned by the largest international banks, will substantially reduce the settlement risk associated with such transactions. However, a number of operational disruptions in Norwegian banks' operations centres have revealed a substantial operational vulnerability. System operators must establish routines, back-up solutions, expertise and contingency plans to effectively deal with operational risk. The banking industry is working to determine what measures are necessary to reduce this risk. Norges Bank regularly assesses the need for taking steps in relation to systems that do not place sufficient emphasis on operational risk, and works closely with the Banking, Insurance and Securities Commission to this end.

In addition to its statutory responsibility for interbank systems, Norges Bank monitors developments in payment systems. This supervision is part of the Bank's work to promote an efficient payment system (see Section 1 of the Norges Bank Act). When evaluating the efficiency of the payment system, Norges Bank emphasises that settlements should be executed quickly, securely and at reasonable cost.

Norges Bank's settlement system – improving the system

By means of entries in banks' accounts in Norges Bank, the central bank carries out the final settlement of interbank claims arising as a result of banks' financial transactions and participation in the payment system. In connection with settlement, Norges Bank offers liquidity against collateral, so that settlement can take place effectively and banks can receive settlement in the form of claims on the central bank, which have no credit or liquidity risk. An efficient settlement system enables the central bank to conduct monetary policy effectively. Norges Bank is also responsible for the cash leg of securities settlements.

Developing and managing Norges Bank's Settlement System (NBO) has allowed Norges Bank to influence the organisation of the payment system, and hence risk and efficiency. Therefore, Norges Bank has largely exercised its responsibility for a robust, efficient payment system through its function as ultimate settlement bank in the Norwegian payment system. Due to the Payment Systems Act, Norges Bank can monitor efficiency and risk, also in the bank-operated part of the clearing and settlement system, in a different way from in the past.

The primary central bank functions are offering banks settlement in a risk-free payment instrument, i.e. claims on Norges Bank, and ensuring that there is sufficient liquidity in the interbank market. These fundamentals can be maintained, however, without extensive involvement by Norges Bank in the operations and development of the settlement system. Based on this, Norges Bank has invited the banking industry to participate in a project aimed at establishing an appropriate division of responsibility between the banking sector and Norges Bank that allows Norges Bank to concentrate on its core activities (authorisation and oversight of the interbank system, provision of liquidity for settlements as well as monetary policy issues connected with the payment system). It is assumed that such a review will reveal coordination gains that will reduce overall costs in the clearing and settlement system over time.

Adjustments in the settlement system

With the establishment of NBO in 1997, cover requirements were introduced for entries in the settlement system. Initially, however, Norges Bank was allowed to extend loans without collateral (E-loans) for the execution of high priority settlements so that the consequences of lack of cover would not be too great during a period when banks had to adjust their routines to the new system and develop solutions that enabled them to deal with rejected settlements.

Banks have adapted to these conditions and developed such solutions. The arrangement with automatic, unsecured loans has implied a substantial credit risk for Norges Bank. Therefore, Norges Bank discontinued E-loans for the settlement of banks' customer transactions or NICS retail settlement and securities settlements (VPS and NOS) with effect from 1 June 2001. The loan scheme was continued, but with reduced limits, for the settlement of banks' cash withdrawals.

Norges Bank introduced prices for its settlement services on 1 July 2001. There is a tripartite price structure: i) access fee for new participants ii) annual charge for participation in each of Norges Bank's net settlements and for maintaining an account in Norges Bank (infrastructure charge) and iii) transaction fee, differentiated according to whether it is a net settlement, electronic and manual gross transactions or cheques. Norges Bank adjusted the price structure with effect from 1 January 2002, so that banks' transaction fees decrease as transaction volume rises. After many years of being the only central bank in an industrialised country which did not charge for its settlement services, Norges Bank is now in line with other central banks, in terms of price system structure and price level. Cost coverage is still lower than in other countries.

The Payment Systems Act

The Act of 17 December 1999 relating to Payment Systems, etc., entered into force on 14 April 2000. It supplements the regulation which the banking industry has exercised in this area, normally in close consultation with Norges Bank. The Act assigns Norges Bank the responsibility for authorising and supervising systems for clearing and settlement of interbank payment transactions. Systems that were in operation when the Act came into force had to apply for authorisation by the end of 2000. The purpose of the Act is to ensure that clearing and settlement systems are organised in such a way that they preserve financial stability. Norges Bank may grant exemptions from the authorisation requirement for systems whose operations are so limited in scope that they are assumed to have no significant effect on financial stability.

The Payment Systems Act has divided the responsibility for payment systems between Norges Bank and the Banking, Insurance and Securities Commission, so that payment systems based on payment cards or payment over the Internet, for example, report to the Commission. These legal provisions have given the Commission a clearer responsibility for the security, efficiency and coordination of such payment systems.

In 2001, Norges Bank processed three applications for authorisation and four applications for exemption from the authorisation requirement. On 14 March 2001, Norges Bank decided to approve the industry's joint settlement system (NICS – Norwegian Interbank Clearing System) and the clearing and settlement system of Union Bank of Norway. NICS processes large transactions between financial institutions and between Norwegian and foreign institutions, and nets claims arising between banks as a consequence of customers' payments with credit transfers (giros) and payment cards, among other things. Union Bank of Norway has settled payment transactions between a large number of Norwegian savings banks. These systems were considered to be of such importance to the financial sector and the payment system in general that they should be subject to public approval and supervision. The authorisation is based on:

- an evaluation of the participation in and organisation of the systems,
- an analysis of the risk associated with the exposure that normally arises in the systems,
- and the systems' arrangements for dealing with participants' insolvency or liquidity shortfall.

When the applications were evaluated, emphasis was also placed on whether the systems satisfy international recommendations.

On the basis of an evaluation of number of participants, turnover and assumed risk level, and in accordance with the applications, Norges Bank decided on 14 March 2001 to exempt the settlement systems of Swedbank Oslo, Sparebank1 Midt-Norge, Sparebank1 Vest and the associated settlement system of EDB Fellesdata from the authorisation requirement.

On 6 June 2001 Norges Bank also decided to authorise Den norske Bank (DnB) to establish a settlement system for a large number of savings banks. The system was considered to be so important to the efficiency and stability of the payment system generally as well as to confidence in the system that it was made subject to authorisation. The evaluation of DnB's application took into account that the Act shall not obstruct the development and establishment of new payment systems and that in this case, authorisation would contribute to competition for settlement services. This will have a positive effect on the efficiency and flexibility of this type of service. The system will become operational in the first half of 2002. The approved systems are subject to supervision by Norges Bank and will be notified to ESA when all conditions for authorisation have been satisfied. Thus, in compliance with the EU Settlement Finality Directive, legal protection has been established for payments that are part of the assets of a bank that has initiated insolvency proceedings.

The Payment Systems Act is based on international recommendations. For several years, under the auspices of the G10 and within the framework of the Bank for International Settlements (BIS), efforts have been made to reduce risk in the settlement systems. In 2000, revised recommendations concerning the main principles for achieving security and efficiency in systemically important payment systems (the Trundle Report) were submitted. As part of the authorisation process, Norges Bank evaluated NICS and Union Bank of Norway's settlement system as well as its own settlement system (NBO) in relation to the BIS recommendations. The systems satisfy these recommendations.

Operational risk in the financial services industry has received increased focus in recent years. Such risk refers especially to technological vulnerability as highly automated technology is employed and computer systems are integrated, but the risk is also tied to procedural errors, breach of rules etc. Authorisation in accordance with the Payment Systems Act is based partly on information concerning measures to safeguard technical operations, including contingency plans for operational disruptions if the ordinary systems do not function.

The operational disruptions at EDB Fellesdata in August 2001 also affected Union Bank of Norway's clearing system and thus a number of small and medium-sized savings banks. As a result, Norges Bank has required more detailed reporting from Union Bank of Norway, as operator of the interbank system, concerning abnormal situations and follow-up. As supervisory authority, Norges Bank requires that the system is organised in such a way that it ensures the necessary operational stability. The actual system design is the responsibility of the operator.

The banking industry's measures to limit risk in payment systems

The bulk of ordinary customer payments (giros, card payments, cheques) are settled in the Norwegian Interbank Clearing System (NICS) for retail settlement, and interbank exposures are settled in Norges Bank's Settlement System (NBO). Interbank exposures are generally small, but may become larger, since there are no limits on the size of interbank exposures, or on the size of transactions that may be involved in the settlements. To avoid credit exposure and thus credit risk, the banking industry has introduced routines for giro payments (credit transfers) as a result of which the bank of a beneficiary does not credit the customer's account before settlement has taken place in NBO.

To further reduce risk in the payment system, the banking industry will also provide for crediting after settlement for other kinds of payments (large customer payments, interbank transactions). This will be accomplished by changing the messaging regarding transactions, so that banks will not receive notification of a payment until settlement has taken place in Norges Bank. This transition took place early in 2002. When banks have changed over to crediting after settlement, also for such payments, most of the credit risk associated with domestic payment transactions will be eliminated.

For many years, Norges Bank has cooperated closely with the Norwegian Central Securities Depository on developing the settlement of securities trades. In 2001, efforts have been made to prepare for the introduction of a new Securities Registry Act (see

NOU 2000:10), which will probably be approved in 2002. According to the Act, the right of disposal over financial instruments can be transferred with immediate effect. This makes it possible to execute several securities settlements every business day.

Banks may still incur substantial liquidity and credit risk through their foreign exchange trading. At present, the commitments banks incur through foreign exchange trading are settled in the two independent national payment systems. This implies a risk for banks, since they normally deliver foreign currency that has been sold before receipt of the purchased foreign currency has been confirmed. If one party does not meet its commitment, the counterparty may at worst incur a loss equivalent to the principal in the trade. This means that the banks' foreign exchange positions can be regarded as an unsecured loan.

Norges Bank has obtained figures for the largest banks' counterparty exposures in foreign exchange trading. The highest exposure a bank had to a single counterparty was more than 120 per cent of its core capital, while the average exposure to a bank's largest counterparty was 60 per cent of core capital. Exposures of this size are regarded as unfortunate, even though they are short-term and to sound foreign counterparties.

One important measure to deal with the credit risk associated with foreign exchange trading is CLS (Continuous Linked Settlement). CLS is a settlement system for foreign exchange transactions between banks in a number of countries and is based on the principle of simultaneous delivery of bought and sold foreign exchange. The plan is that CLS will become operational for settlement of the most important currencies in the summer of 2002, and that the system will then be expanded to cover more currencies and participants. In autumn 2001, CLS decided that the Norwegian krone may be included together with the Danish krone and Swedish krona at the latest one year after the system becomes operational. Norges Bank is working with the banking industry and the other Scandinavian central banks to prepare for this.

The central government's consolidated account

A fundamental principle of the consolidated account system is that all government liquidity shall be transferred daily to government accounts in Norges Bank. In 2001, all incoming and outgoing payments under the central government consolidated account arrangement were executed by Postbanken (DnB), Den norske Bank (DnB), Christiania Bank (now Nordea Norway) and Union Bank of Norway. From 29 October 2001, the systems of Postbanken and DnB were technically integrated. Norges Bank's role in the central government's consolidated account system is defined in an agreement with the Ministry of Finance. The agreement contains requirements with regard to account maintenance, supervision, information exchange and improving the efficiency of central government payment transactions. There are now about 1500 central government settlement accounts for incoming and outgoing payments in Norges Bank. Most government departments are now included in the consolidated account system.

Contingency plans in the financial sector

In connection with its responsibility for promoting an efficient payment system, contributing to financial stability and monitoring the Civil Defence and Emergency Planning System in the financial sector, Norges Bank develops contingency plans for the financial sector. These plans apply to the Bank's internal systems, including NBO, and to the infrastructure of the financial sector and the discharging of Norges Bank's responsibilities under the Bank Guarantee Act.

NBO is the central system for the transfer of claims between banks. Ongoing efforts are being made to reduce the operational risk associated with the operation of NBO and to improve contingency solutions and routines for dealing with situations that deviate from the normal settlement pattern. The modernisation of Norges Bank's settlement system is also aimed at reducing the operational risk associated with this system.

The Contingency Committee for Financial Infrastructure, a joint coordination body, has been established so that contingency work in the financial sector is more effective and better adapted to a modern infrastructure. Norges Bank's Executive Board established this committee in October 2000, after consultation with the Ministry of Finance and key participants in the financial sector. The Committee's primary tasks are i) to establish and coordinate measures to prevent and resolve crisis situations and other situations that may result in major disruptions in the financial infrastructure and ii) coordinate contingency work in the financial sector. The main emphasis is thus on the exchange and dissemination of information as well as on the coordination of measures, while the individual institution is responsible for their implementation.

As part of the changes in the contingency work, the county-level contingency committees for the financial sector were disbanded on 1 July 2001. The banking associations have cooperated on the establishment of a new scheme which includes a local contact from the banking industry in each county.

In 2001, the Contingency Committee established working routines for notifying and informing about actual and potential problems in the financial infrastructure, and discussed the committee's role in dealing with such problems. On the basis of this, the Contingency Committee has a coordinating role in dealing with individual problems that have arisen in the financial infrastructure. The committee has also been involved in a number of contingency exercises in the financial sector. The committee has had a coordinating role in relation to the financial sector since the terrorist attacks in the US in September, both in identifying the immediate effects and in following up the contingency measures initiated by the authorities in accordance with the Civil Defence and Emergency Planning System.

In recent years, a number of financial institutions in the Nordic countries have expanded their cross-border services, established branches in other Nordic countries and made acquisitions and formed financial conglomerates consisting of institutions in several countries. Examples are Danske Bank's takeover of Norway's Fokus Bank and the formation of the financial conglomerate Nordea, which includes the former Christiania Bank. So that central banks are able in this situation to fulfil their responsibility to contribute to financial stability in an appropriate manner, the central banks and supervisory authorities in the Nordic countries have developed closer cooperation, in order to look after contingency issues.

Monitoring of payment systems

Norges Bank publishes an *Annual Report on Payment Systems* every year. The report provides an account of national and international regulatory work and developments in payment system infrastructures as well as developments in the use of different payment instruments in Norway. The report documents the use and withdrawal of cash and the use of deposit money by means of giros, payment cards and cheques.

The efficiency of payment transactions depends on both the payment instruments available to users and the settlement method for the payment instruments used. Electronic payment instruments are regarded as more cost-effective than paper-based services, so that increased use of electronic services will lead to a more efficient payment system. The pricing of payment instruments signals which instruments banks wish to promote. In Norway, the charges for using electronic instruments are generally lower than charges for paper-based services. This reflects the fact that paper-based instruments, with a larger percentage of variable costs, are more expensive to produce than electronic instruments, where processing is automated and unit costs are low. Thus, prices provide users of payment instruments with an incentive to use electronic services.

The use of cash involves costs for payers, beneficiaries and banks, for example in the form of loss of interest in connection with holding cash, security costs and transport costs. The changeover from cash payments to the use of payment cards may yield efficiency gains if costs are reduced and payment is made electronically. The scale of cash transactions is unknown, but is assumed to involve more transactions and smaller amounts than deposit money transactions.

Payment cards are the most popular payment instrument for deposit money transactions in Norway, accounting for more than half of all non-cash transactions. Card transactions entail small amounts, whereas credit transfers (giros) account for 94 per cent of the total amount. A total of 753.7 million transactions for a total value of NOK 5 613.9 billion were made using giros, cards and cheques in 2000. 78 per cent of these transactions were executed electronically. The proportion of electronic transactions is rising due to both the number of card transactions and the number of electronic giro transfers. Because of the transition to less expensive, electronic instruments, the average transaction price declined in real terms by more than 20 per cent from 1995 to 2000.

Use of cost-effective, electronic payment instruments in Norway is high and continues to increase. The Norwegian payment system therefore appears relatively efficient compared with payment systems in other countries.

Notes and coins

The Norges Bank Act assigns Norges Bank responsibility for issuing notes and coins. This implies a responsibility in connection with the nominal value and design of notes and coins as well as for ensuring that society has access to and the necessary confidence in cash as a means of payment. To ensure this access, Norges Bank performs wholesale functions in relation to banks. These functions comprise supply, exchange, renewal and redemption of notes and coins that are no longer legal tender.

Relatively speaking, the use of cash has declined compared with the use of giro and card payments. Compared with private consumption, the value of notes and coins in circulation declined in the period 1995-2002 (see Table 2). The value of cash in circulation increased in the 1990s, but has fallen somewhat since 2000. In 2001, the average value of notes and coins in circulation was NOK 42.9 billion, compared with about NOK 43.6 billion in 2000. Holdings of notes and coins in circulation are determined by the quantities delivered to and ordered from Norges Bank by banks. This in turn depends on the extent to which notes and

Table 2: Notes and coins in circulation

	1991	1993	1995	1997	1999*	2001*	Change 1991-2001
Notes and coins in circulation (NOK billion)	30.7	33.4	38.4	41.2	43.8	42.9	40%
Notes and coins in circulation as % of private consumption	8.8	8.8	8.8	8.3	8.0	7.1	

*Preliminary figures for private consumption

coins are used in payment transactions and as a means of storing value.

The average value of notes in circulation was NOK 39.3 billion, 2.1 per cent lower than the average for 2000. The 1000-krone note accounted for the largest share of notes in circulation, with 63 per cent, but its importance has declined in recent years, particularly in 2001. During the last few years, the 100-krone note has declined most, but the decline was less in 2001 than in previous years. The number of 200-krone and 500-krone notes continues to rise due to their increased use in ATMs. The yearly average for the value of coins in circulation was NOK 3.7 billion in 2001, an increase of 6.5 per cent compared with 2000. The 20-krone coin continued to increase its share of coins in circulation. It accounted for 31 per cent of coins in circulation in 2001, and for the first time accounted for a larger share than the 10-krone coin.

With the issue of the new 1000-krone note in 2001, the new series (Series VII) is now complete. The introduction of this new note series started in 1994 with the issue of the 200-krone note. New 50-krone and 100-krone notes were issued in 1997, and a new 500-krone note came out in 1999. The notes of this series have a design and features that should make it easier to recognise authentic notes under different conditions, visually, by touch and by machine.

Although the amount of counterfeiting in Norway is limited, the number of counterfeits has increased in recent years. This is part of the reason for Norges Bank's decision to upgrade 100-krone and 200-krone notes by equipping them with metallic features which are easy for the public to see and difficult to counterfeit. Both the 500-krone and the 1000-krone notes have metallic features.

Organisation of cash handling

The actual issue of notes and coins, i.e. acting as the debtor for the notes and coins issued, is a task that Norges Bank alone can perform. The other tasks may be performed by others, but Norges Bank must ensure that they are performed and that their performance is in line with central bank requirements.

On Norges Bank's initiative, a limited company was established on 1 July 2001 to handle cash – Norsk Kontantservice AS (NOKAS). Norges Bank's regional branches and cash-handling activities were incorporated into this company. See further details in Chapter 3.

Norges Bank and NOKAS have made an agreement whereby the new company will perform the following tasks for Norges Bank:

- Store notes and coins (manage central bank deposits)
- Receive worn, damaged and invalid notes and coins and replace them with good quality notes and coins
- Destroy worn, damaged and invalid notes mechanically (including verification of authenticity)
- Deliver valid notes and coins of good quality to meet cash demands (banks make withdrawals)
- Receive surplus holdings of valid notes and coins (deposits from banks)

Through its agreement with NOKAS, Norges Bank has maintained depots in Bergen, Bodø, Kristiansand, Larvik, Lillehammer, Oslo, Stavanger, Tromsø and Trondheim. In addition, Norges Bank has maintained depots in Hammerfest and Vardø, where management agreements have been entered into with Sparebanken Nord-Norge.

The destruction of notes is subject to specific security and control requirements. In order to satisfy these requirements, a system has been developed that enables Norges Bank to monitor NOKAS' destruction activities. Norges Bank itself destroys notes that do not fulfil the requirements for mechanical destruction by NOKAS. Among these are notes from old series. Norges Bank also destroys coins that are damaged or invalid.

Norges Bank's costs in connection with its responsibility as issuer of cash comprise the costs of producing new notes and coins and distributing them to banks. Distribution involves transport to the central bank's depots, storage, delivery to and receipt from banks, and destruction of damaged or worn and invalid notes and coins.

Table 3 shows developments in Norges Bank's cash-handling costs from 1998 to 2001. Production costs will vary from year to year, due in part to fluctuations in production volume and variations in the denominations produced. Replacements in note and coin series may lead to substantial variations in volumes. Due to more sophisticated security features, unit costs are higher for the newest notes.

Before NOKAS was established, Norges Bank's regional branches also performed other services for banks (counting, verification, sorting and packing). These services did not come under Norges Bank's statutory responsibilities for supplying cash and were invoiced to banks on a commercial basis. The table shows both total costs and net costs, i.e. costs less revenues. Since the second half of 2001, banks have been buying these services from NOKAS, and Norges Bank buys the depot and handling services that are necessary to discharge its responsibility for supplying cash to banks.

Table 3: Norges Bank's cash-handling costs (in millions of NOK)

	1998	1999	2000	2001
Total costs for note production, Norge Bank's Printing Works	47.2	50.3	49.2	57.9
Total costs for coin production, the Royal Norwegian Mint	74.1	50.0	41.6	38.6
Total production costs	121.3	100.3	90.8	96.5
Costs regional branches	216.4	219.8	228.0	143.7 [2]
Revenues regional branches	-94.4	-102.4	-129.8	-86.3 [2]
Net costs regional branches [1]	122.0	117.4	98.3	57.4 [2]
Costs of central administration and transport	15.1	13.5	10.9	15.2 [3]
Purchase of external depot and processing services	0.0	0.0	0.0	27.5 [4]
Total distribution costs	137.1	130.9	109.2	100.1
Total costs for production and distribution of notes and coins	258.4	231.2	200.0	196.6

[1] Excluding rent and share of central joint costs
[2] 1st half year
[3] Including central distribution inventories from 2001
[4] In order to make the figures comparable with previous years, the share of remuneration that applies to rent and central joint costs is excluded. This amounts to NOK 4.7 million.

The table shows that the costs associated with note and coin production were NOK 5.7 million higher in 2001 than in 2000. This was due primarily to an increase in the number of notes produced and higher unit costs owing to new security features. Distribution costs, excluding rent and central joint costs, were NOK 9.1 million lower than in 2000, but figures in this area are not fully comparable because of the changes that have taken place.

Chapter 3. Wholly and partially owned companies

Cash handling – the formation of a limited company with Norges Bank as part-owner

For many years, Norges Bank has been responsible for a substantial proportion of cash handling in Norway through its network of regional branches. In recent years, activities have concentrated on supplying and processing notes and coins, and over time have become increasingly commercial. For Norges Bank, it has been desirable to make provisions for developing these business activities into a separate company.

Norges Bank's Supervisory Council therefore decided on 14 June 2001 pursuant to Section 8a of the Norges Bank Act, to form a limited company with Den norske Bank, Union Bank of Norway, Fokus Bank, Nordlandsbanken, the Sparebank1 Group and the Terra Group. The company became operational on 1 July 2001 and has been named Norsk Kontantservice AS (NOKAS). The company was formed with a share capital of NOK 50 million and Norges Bank has a 33.5 per cent holding. The Bank has one representative on the company's board of directors.

The purpose of Norges Bank's ownership participation is to achieve cost-effective execution of central bank cash-handling tasks, which will contribute to an efficient payment system. This shall be accomplished within a framework of acceptable security requirements and a long-term requirement of a normal return on invested capital.

The company is responsible for a substantial portion of cash handling in Norway, and is commissioned by Norges Bank to execute some of the central bank's statutory tasks in the area of cash handling. The Supervisory Council's supervisory and control function also applies to NOKAS' execution of central bank tasks.

With the formation of the limited company, Norges Bank's remaining regional branches were closed down as regional offices of Norges Bank. The buildings occupied by these regional branches have now been rented to NOKAS.

Den Kongelige Mynt A/S (the Royal Mint)

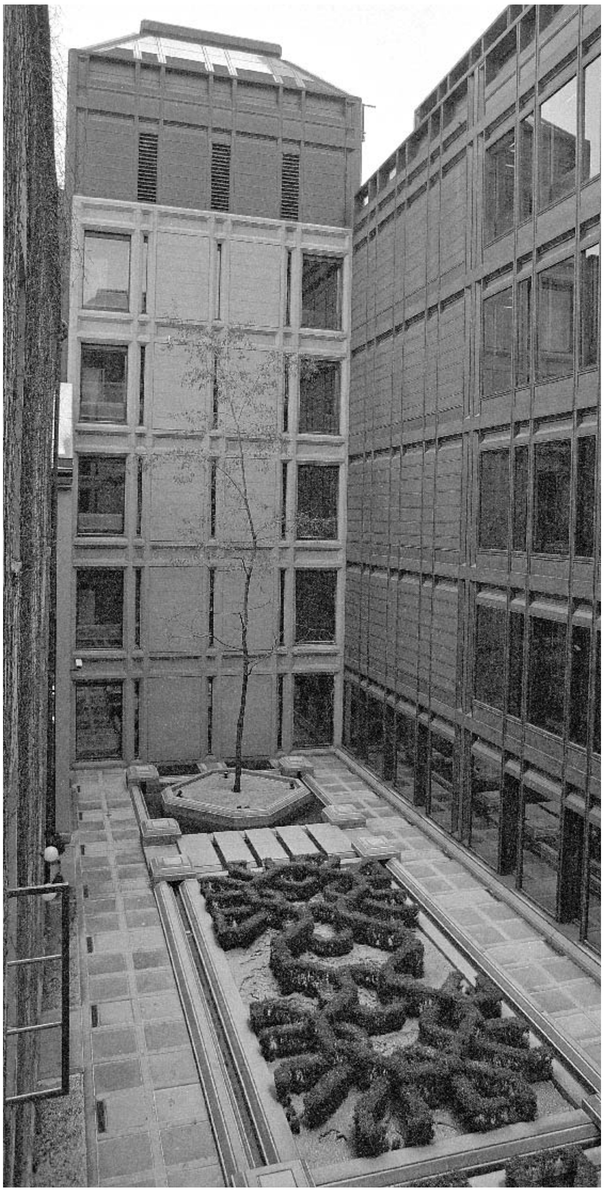
The Royal Mint was spun off as a separate limited company on 1 January 2001. The company's share capital amounts to NOK 25 million, and Norges Bank owns 100 per cent of the shares.

The primary incentive for converting the Mint into a limited company was to create an optimally efficient enterprise. Moreover, as a limited company the Mint still has the possibility of producing a broad range of products, so that investments, expertise and capacity may be utilised better and more efficiently.

The Mint's objective is to provide the basis for a sound, viable enterprise through financially sound operations, and thereby to secure jobs and return on invested capital.

Turnover in 2001 was higher than budgeted, and results were better than expected.

Coin production in Europe is currently being restructured as a result of the introduction of the physical euro on 1 January 2002. The market for circulation coins is expected to become more unstable and competitive. Many mints are therefore looking to the market for collectors' items in order to utilise their available capacity. The new competitive situation may necessitate a review and evaluation of the Royal Mint's strategic position.



Chapter 4. Investment management in Norges Bank

At end-2001, Norges Bank managed resources worth almost NOK 800 billion in the international capital markets. The bulk of this capital was the Government Petroleum Fund, which is managed on behalf of the Ministry of Finance, and the Bank's international reserves. In addition, the Bank manages the Government Petroleum Insurance Fund on behalf of the Ministry of Petroleum and Energy. Norges Bank's international reserves comprise foreign exchange and gold reserves and claims on the International Monetary Fund (IMF). Foreign exchange reserves account for more than 90 per cent of total international reserves. Guidelines and performance reports for the foreign exchange reserves and various funds managed by the Bank are presented on Norges Bank's website.

Foreign exchange reserves

The market value of net foreign exchange reserves (less foreign liabilities and including net foreign exchange purchased forward) was NOK 157.1 billion at end-2001. The reserves are divided into four sub-portfolios:

- the liquidity portfolio, which is to be used in connection with the conduct of monetary policy (for potential foreign exchange interventions and to influence liquidity and interest rates in the Norwegian money market)
- the long-term portfolio, which should also be available for market operations, but should be invested on the basis of more long-term considerations
- the immunisation portfolio, which is equivalent to central government foreign currency debt and is intended to neutralise foreign exchange and interest rate risk associated with this debt
- the Petroleum Fund buffer portfolio, which receives capital daily, and is transferred to the Government Petroleum Fund on a monthly basis.

Norges Bank's Executive Board stipulates guidelines for the management of the foreign exchange reserves. The Executive Board decided in 2000 that some of the long-term portfolio should be invested in equities. The transition from 0 to 20 per cent equities took place in the first half of 2001. An upper limit of 0.5 per cent has been placed on holdings in any one company, and ownership rights associated with equities shall not be exercised unless this is necessary to safeguard the financial interests of the foreign exchange reserves. The Petroleum Fund buffer portfolio may also be invested in equity instruments, but so far, equity exposure has only taken the form of futures contracts on equity indices and not physical equities. The liquidity and immunisation portfolios are invested in fixed income instruments. The central bank governor has established supplementary guidelines for the management of the four sub-portfolios.

The liquidity portfolio represents the portion of the foreign exchange reserves with the shortest investment horizon. The portfolio must be large enough to satisfy most requirements for executing foreign exchange market transactions. The other reserves may also be used for interventions if conditions in the foreign exchange market indicate a need. In accordance with the guidelines stipulated by Norges Bank's Executive Board, the lower limit for the liquidity portfolio was NOK 10 billion and the upper limit was NOK 50 billion. The liquidity portfolio was valued at NOK 36.7 billion at end-2001.

The long-term portfolio constitutes the largest portion of foreign exchange reserves, and at end-2001 amounted to NOK 106.4 billion, after deduction of NOK 0.2 billion in funding from Norwegian counterparties. This portfolio has a longer duration and a broader country distribution than the liquidity portfolio. The management objective is a high return in the long term, but it should also be possible to use the portfolio for monetary policy purposes if necessary. The main strategic choices for both the liquidity and the long-term portfolio are defined by means of benchmark portfolios. These are constructed portfolios with a given country distribution and specific securities from the various sub-markets. A benchmark portfolio is used to manage and monitor risk exposure, and also serves as a point of reference for evaluating the actual return achieved on the reserves. In the fourth quarter, it was decided to halve the share of Japanese government bonds in the benchmark for the long-term portfolio.

An upper limit has been set for the actual portfolio's deviation from the benchmark. This limit is a measure of total risk (tracking error). In practice, this means that the difference in returns on the actual portfolio and the benchmark will normally be small. The upper limit for tracking error is 0.5 percentage point for the liquidity portfolio and 1 percentage point for the long-term portfolio. In simplified terms, a tracking error of 1 percentage point means that the actual difference between the returns on the benchmark and the actual portfolio will be between -1 and +1 percentage points in 2 out of 3 years on average.

The composition of the liquidity portfolio shall deviate minimally from the benchmark portfolio. The modified duration of the benchmark portfolio is about 1.5. This means that the liquidity portfolio consists mainly of fixed income instruments with a maturity of up to three years and a low interest-rate risk. The portfolio is primarily composed of government paper, which has both high liquidity and a low credit risk.

In terms of the currency distribution of the benchmark portfolio, the return on the liquidity portfolio was 5.71 per cent for the year 2001. Measured in NOK, the return was 2.87 per cent. The difference is due to the appreciation of the Norwegian krone in relation to the currency basket of the benchmark portfolio. The portfolio outperformed the benchmark by 0.18 percentage point. The liquidity portfolio tracked the benchmark portfolio closely throughout the year.

The return on the long-term portfolio was 2.46 per cent measured in terms of the currency basket that corresponds to the composition of the benchmark portfolio and -0.33 per cent measured in NOK. This was 0.15 percentage point higher than the return on the benchmark portfolio which has been adjusted for transaction and tax costs connected to the phasing in of equities.

Management of the immunisation portfolio is determined by the composition of government foreign currency debt. In 2001, the return on the portfolio was 0.46 percentage point higher than the costs of servicing the government's foreign debt. At end-2001, the market value of the immunisation portfolio was NOK 6.7 billion, including holdings of Norwegian government bonds in foreign currency worth NOK 0.8 billion. In 2004, the existing government foreign debt will be settled in its entirety.

The funds transferred to the Petroleum Fund buffer portfolio consist of transfers of foreign currency to Norges Bank from the State's Direct Financial Interest in petroleum activities (SDFI). Norges Bank also purchases foreign currency directly in the market to bring the total amount up to the level to be allocated to the Government Petroleum Fund. The routines for these foreign exchange purchases are described in Chapter 6, which provides an account of other tasks, including Norges Bank's commercial transactions in the foreign exchange market. Whereas previously, capital was transferred quarterly from the Petroleum Fund buffer portfolio to the Petroleum Fund, the Ministry of Finance decided in 2001 that transfers should be made monthly. This reduces the average size of the buffer portfolio and hence the risk for Norges Bank. In order to avoid unnecessary transaction costs, the buffer portfolio is managed with the objective of reducing the need for transactions when rebalancing the Petroleum Fund. The framework is therefore less restrictive for the buffer portfolio than for the Petroleum Fund. For example, a separate benchmark index has not been defined for the buffer portfolio. The return on the Petroleum Fund buffer portfolio, measured in NOK, was –4.11 per cent in 2001. The portfolio varied in size from NOK 1.3 billion (after a transfer) to NOK 77.4 billion (before a transfer). At end-2001, the Petroleum Fund buffer portfolio was NOK 7.9 billion, including foreign exchange purchased forward.

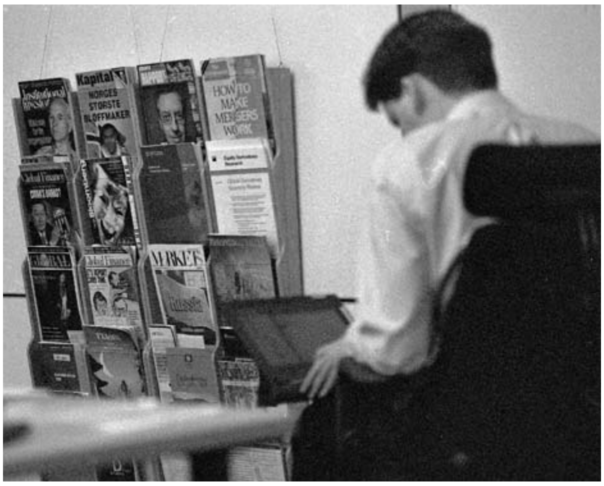
The Government Petroleum Fund

At the end of 2001, the market value of the Government Petroleum Fund's foreign exchange portfolio was NOK 613.3 billion, after deduction of Norges Bank's management fees. The Bank is responsible for the operational management of the Government Petroleum Fund on behalf of the Ministry of Finance. This management responsibility is governed by a regulation and a separate agreement between Norges Bank and the Ministry of Finance. The agreement stipulates that the Ministry of Finance is responsible for covering the management costs, based on a principle of full cost coverage.

During 2001, the Ministry of Finance transferred a total of NOK 251 billion to the Petroleum Fund. In 2000, the accounts showed a shortfall of NOK 0.5 billion in the amount transferred. This residual amount was transferred at the end of the first quarter, in addition to the ordinary transfer amount. Total transfers to the Petroleum Fund NOK account therefore amounted to NOK 251.5 billion, and the equivalent value of this capital was immediately transferred to the foreign exchange portfolio. The transfers consisted of NOK 10 billion on 31 January, NOK 45.5 billion on 30 March, NOK 30 billion on 31 May, NOK 60 billion on 29 June, NOK 20 billion on 31 August, NOK 38 billion on 28 September, and NOK 48 billion on 30 November.

The Ministry of Finance has defined a benchmark portfolio of specific equities and fixed income instruments from the countries in which investment is allowed. The benchmark portfolio reflects the owner's investment strategy for the Petroleum Fund. In 2001, the benchmark portfolio was expanded to include equity investments in Greece and in five emerging markets. Thus, 27 countries are now represented in the equity benchmark portfolio and 19 in the fixed income benchmark portfolio. The benchmark portfolio provides an important basis for managing the risk associated with the operational management and for evaluating Norges Bank's management performance. The Ministry of Finance has set an upper limit for the actual portfolio's deviation from the benchmark portfolio.

On 31 January 2001, the Ministry of Finance allocated NOK 1 billion to an environmental fund, which consists of equities in enterprises that have been evaluated on the basis of environmental criteria. The Environmental Fund has invested in the same countries as the ordinary equity portfolio, with the exception of the five emerging markets.



In 2001, the return on the Government Petroleum Fund, including the Environmental Fund, was –2.47 per cent measured in terms of the currency basket that corresponds to the composition of the benchmark portfolio. This is the measure of performance that best describes the international purchasing power of the Petroleum Fund. The return on the Fund's equity portfolio (excluding the Environmental Fund) was -14.58 per cent, whereas the return on the fixed income portfolio was 5.04 per cent.

Measured in NOK, the return was -5.34 per cent. This was 0.02 percentage point higher than the return on the benchmark portfolio. Both equity and fixed income management showed an excess return. The costs of investing new capital in the markets contributed to reducing the excess return, since the amount of new capital in 2001 was very substantial in relation to the size of the Petroleum Fund. Adjusted for this, the excess return was 0.13 percentage point.

Calculated in terms of the Fund's currency basket, the nominal return on the Petroleum Fund over the past four years has been 23 per cent. The return on both equity and fixed income portfolios was also 23 per cent. The net real return over the four-year period, after deduction of management costs, was 15.4 per cent or 3.6 per cent annually. In this period, Norges Bank achieved an average annual excess return of 0.39 percentage point.

A more detailed presentation of the management of the Petroleum Fund in 2001 is available in the *Annual Report* of the Government Petroleum Fund.

The Government Petroleum Insurance Fund

The market value of the Government Petroleum Insurance Fund at year-end 2001 was NOK 11.2 billion. The Fund is owned by the Ministry of Petroleum and Energy and its purpose is to provide financial support for the government in its capacity as self-insurer of holdings in petroleum activities. The Fund is managed by Norges Bank. The return in 2001 was 5.68 per cent measured in terms of the currency basket, which corresponds to the composition of the Fund's benchmark portfolio, and 2.20 per cent measured in NOK. This was 0.19 percentage point higher than the return on the benchmark portfolio.

Gold reserves and claims on the IMF

International reserves also include Norges Bank's gold reserves and claims on the IMF.

Norges Bank's total gold reserves amount to just under 37 tonnes, of which 33.5 tonnes consists of gold bars deposited in the Bank of England. In addition, Norges Bank has a collection of gold coins of historical value and a few gold bars used for exhibitions. The gold bars deposited in the Bank of England are constantly on loan to other financial institutions for periods of up to six months. At end-2001, the market value of the gold reserves was NOK 2 346 million, less 20 percent on the basis of a principle of prudence.

Claims on the IMF comprise three components: SDR (Special Drawing Rights), reserve positions in the IMF and loans to the IMF (Poverty Reduction and Growth Facility - PRGF). Norges Bank aims to maintain reserves of between SDR 200 million and SDR 300 million. At end-2001, the holding was SDR 282 million, equivalent to NOK 3 192 million. Reserves in the IMF amounted to the equivalent of NOK 6 533 million. Norway's share of the IMF Poverty Reduction and Growth Facility – PRGF – accounted for almost SDR 103 million, equivalent to NOK 1 165 million.

Investment management research

Through research, Norges Bank has sought to gain knowledge about behaviour in securities markets and optimal investment strategies. For example, the Bank has carried out empirical studies of the costs and gains associated with crossing of equities compared with trading directly on the stock exchange. Another study compared the relationship between optimal risk-taking for an investor and the investor's time horizon in theory and practice. This research has been documented in Norges Bank's Working Paper Series. In 2001, a paper on a research project that was concluded in 2000 was accepted for publication in a leading international journal.

Chapter 5. International cooperation

The International Monetary Fund (IMF)

Pursuant to Section 25 of the Norges Bank Act, Norges Bank shall administer the country's financial rights and fulfil the obligations ensuing from participation in the International Monetary Fund (IMF). Norges Bank is also the secretariat for IMF work in Norway. Norges Bank performs this task on behalf of the Ministry of Finance. After consultation with the Ministry of Finance and, if necessary, other Norwegian government bodies, the Bank formulates Norwegian standpoints on issues to be decided by the IMF Executive Board. The Norwegian standpoints are discussed with the other countries in the constituency in order to reach a common view.

Storting Report no. 6 (2001-2002) (the 'Credit Report') provides a detailed account of the IMF's activities.

The primary task of the IMF is to work for international monetary and financial stability. The Fund provides advisory services on economic policy to member countries and interim financing in the event of balance of payment problems and serious balance of payment crises. At the end of 2001, the IMF had 183 member countries.

The supreme body of the IMF is the Board of Governors. Norway is represented by the Governor of Norges Bank, Svein Gjedrem, and the Secretary General of the Ministry of Finance, Tore Eriksen, as alternate. The Board of Governors has delegated its decision-making powers on issues relating to day-to-day operation of the Fund to a 24-member Executive Board. The five Nordic and three Baltic countries comprise one constituency with a joint representative on the board. In 2001, Olli-Pekka Lehmussaari, Finland, was the Executive Board representative for the constituency, and Åke Törnqvist, Sweden, was the alternate. Since 1 January 2002, Ólafur Ísleifsson, Iceland, has been the Executive Board representative, and Benny Andersen, Denmark, has been the alternate.

The weight of each country's vote, both in the Board of Governors and the Executive Board, depends on the country's quota in the IMF. The quotas reflect the countries' importance in the global economy. The weight of Norway's vote is 0.78 per cent and the Nordic-Baltic constituency represents 3.52 per cent of the votes. The member countries' financial contribution to the IMF and the amount of loan available in the event of balance of payment difficulties are based on the quotas.

The Nordic and Baltic countries also have a joint representative on the International Monetary and Financial Committee (IMFC), which provides advisory services for the Board of Governors. The committee meets twice a year. Finland's Minister of Finance Sauli Niinistö was the constituency's representative on the IMFC in the period 2000-2001. Since 1 January 2002, Iceland's Minister of Finance Geir H. Haarde has been the representative.

The Nordic-Baltic Monetary and Financial Committee (NBMFC) is the constituency's supreme coordinating body. The committee chairman in 2001 was Johnny Åkerholm, Permanent Under-Secretary of the Ministry of Finance in Finland. In January 2002, Ingimundur Friðriksson, Assistant Governor of the Central Bank of Iceland, took over as chairman. The Norwegian representatives are Tore Eriksen, Secretary General of the Ministry of Finance, and Jarle Bergo, Deputy Central Bank Governor. Alternates are Bjarne Stakkestad, Deputy Director General of the Ministry of Finance, and Anne Berit Christiansen, Director of the International Department at Norges Bank.

There is agreement that the country with a representative on the IMF Executive Board also handles ongoing coordination of the Nordic and Baltic countries' stance on issues discussed by the board.

Monitoring economic developments in member countries constitutes a substantial portion of the IMF's activities. The primary emphasis is on bilateral surveillance through the so-called Article IV consultations, which normally take place annually. Traditionally, the most important areas of surveillance have been countries' macroeconomic conditions and external accounts. In recent years, there has been increasing emphasis on monitoring developments in the financial sector.

Compliance with internationally accepted standards and codes for best practice in various areas is important to safeguarding a country's economic and financial system and a prerequisite for an orderly international financial system. The IMF's surveillance policy and work to strengthen the international financial system is discussed in more detail in the Credit Report (Storting Report no. 6 (2001-2002)).

As part of its policy of greater transparency, the IMF has encouraged voluntary publication of the IMF's reports on member countries. The annual Article IV consultations with Norway were held from 28 November to 6 December 2001. The IMF mission's concluding statement was published on 6 December. The final report was published on 7 March 2002.

The IMF provides loans to member countries that have balance of payment problems. Large loan commitments were made to Argentina, Brazil and Turkey in 2001. An important discussion topic in the IMF is the terms or conditionality of the lending program. The objective is to make the conditionality more effective and give the countries a greater feeling of ownership.

Based on experience from the financial crises of recent years, the IMF is placing greater emphasis on preventing crises and uncovering problems at an early stage. The IMF is developing a framework for how the private sector can be involved both in preventing and dealing with crises. Involving the private sector is important to achieving a reasonable burden sharing between the public and private sectors when a crisis arises. It is important that the private sector bears the risk for its investments and does not expect to be rescued by the authorities or the IMF when problems arise.

In 2000, the IMF intensified work with debt relief for the poorest developing countries. The IMF established a simplified process in order to include as many countries as possible in the debt relief initiative (Heavily Indebted Poor Countries initiative - HIPC). This work was continued in 2001. At year-end, debt relief had been initiated for 24 countries.

The IMF has a special borrowing facility for combating poverty and fostering growth – the Poverty Reduction and Growth Facility (PRGF). The facility replaces the Enhanced Structural Adjustment Facility, which was established in 1987. The PRGF is not financed by the IMF's ordinary resources, but by funding from member countries. This funding is provided either as capital which is used for loans, or contributions to a trust which allows the IMF to lend these resources at a very low interest rate.

Norges Bank has committed capital totalling SDR 150 million (about NOK 1.7 billion) to this facility. The loan agreement between the IMF and Norges Bank is formulated in such a way that the Fund must have drawn this amount by a given date. At the end of 2001, all the capital had been drawn. The capital will be repaid to Norges Bank in pace with loan repayments to the IMF. The amount outstanding at the end of October 2001 was SDR 107.2 million. The interest that Norges Bank receives on these loans is based on short-term market rates. In addition, the Ministry of Foreign Affairs has allocated about NOK 350 million over the foreign aid budget to subsidise interest payments.

The Bank for International Settlements (BIS)

The Bank for International Settlements (BIS) is responsible for promoting cooperation between central banks. Norges Bank has been a shareholder in the BIS since 1931. The BIS is a centre for research and a discussion forum for member banks. In recent years, the BIS has focused increasingly on financial stability.

The Governor of Norges Bank regularly attends meetings at the BIS in order to discuss international central banking issues.

Central banks in the European Union (EU)

Since 1 January 1999, the European Central Bank (ECB) has been responsible for formulating and implementing monetary policy in EMU. Economic developments and monetary policy in the EU provide important parameters for Norwegian monetary policy. Therefore, Norges Bank tries to maintain regular contact with the ECB and central banks in the EU.

Until the end of 2001, Norges Bank had a swap agreement with the European Central Bank. The agreement gave Norges Bank access to credits that could be used in interventions to support exchange rate management. It was assumed that Norges Bank would use its foreign exchange reserves and monetary policy instruments to a reasonable extent before drawing on the agreement. An additional assumption was that Norges Bank would not draw on the agreement as long as the krone was floating against the euro. When the monetary policy regime changed in March 2001, the krone no longer had any defined relationship to European currencies. Consequently, there were no longer grounds for continuing the agreement with the ECB, and it was therefore not renewed when it expired on 31 December 2001.

Norges Bank had a similar agreement with the Bank of England, and this agreement was not renewed either when it expired on 31 December 2001.

The Governor of Norges Bank has regular contact with the president of the ECB.

Norges Bank has made arrangements with both the ECB in Frankfurt and the EU Commission in Brussels which allow Norges Bank's employees to work in these institutions for a period which normally extends over 12 months.

Nordic central banks

The Nordic central banks cooperate extensively in a number of areas. In 2001, the annual meeting of central bank governors was held on the Faroe Islands, and hosted by Danmarks Nationalbank. Discussion topics included the new economy and organisation and management. Staff from various departments of the central banks meet regularly to discuss issues relating to monetary policy, management of foreign exchange reserves, financial stability, payment systems, legal matters in the central bank area, personnel policy, etc.

On 1 January 1999, the central banks of Denmark, Iceland, Norway and Sweden entered into an agreement on reciprocal foreign exchange support. The agreement is described in Norges Bank's *Annual Report* for 2000.

Chapter 6. Other responsibilities

Foreign exchange transactions

Norges Bank executes commercial transactions in the foreign exchange market. These consist mainly of foreign exchange purchases for the Government Petroleum Fund and the Government Petroleum Insurance Fund. Norges Bank also executes some smaller customer transactions.

The Government Petroleum Fund's foreign currency is acquired partly through foreign currency transfers of revenues from the State's Direct Financial Interest in petroleum activities (SDFI), and partly through Norges Bank's purchases of foreign currency in the market. A small share of Norges Bank's foreign exchange purchases is allocated to building up the Government Petroleum Insurance Fund. In 2001, transfers from SDFI were equivalent to NOK 121.7 billion, while Norges Bank purchased foreign exchange equivalent to NOK 120.3 billion for the Government Petroleum Fund and the Government Petroleum Insurance Fund.

To ensure predictability with regard to Norges Bank's foreign exchange purchases for the Government Petroleum Fund, purchases are made on a daily basis and planned one month at a time. The foreign exchange purchases planned for the coming calendar month are announced on the last business day of each month.

The annual allocation to the Government Petroleum Fund, and thus the need for foreign exchange purchases, is uncertain. The allocation is dependent on the oil price. Determination of the monthly purchases is based on the central government budget estimate for the annual allocation and for government revenues from SDFI. In addition, Norges Bank tries to take oil price developments into account by adjusting monthly purchases in accordance with estimated revenue effects for the government of deviations from central government budget oil price assumptions through the fiscal year. In this way, abrupt changes in foreign exchange purchases may be avoided when there are changes in central government budget oil price assumptions through the fiscal year. Furthermore, an adjustment of foreign exchange purchases in pace with changes in the oil price through the year may have a stabilising effect on the foreign exchange market.

From January to September 2001, Norges Bank's foreign exchange purchases for the Government Petroleum Fund and the Government Petroleum Insurance Fund were gradually increased. Each business day in January, foreign exchange equivalent to NOK 370 million was purchased, of which the equivalent of NOK 3 million was transferred to the Government Petroleum Insurance Fund. In the period from September to November, the amount per business day was NOK 640 million and in December, the amount was reduced to NOK 220 million per business day. The reduction in foreign exchange purchases in December was due to oil price developments and a reduction in the central government budget's estimate for allocations to the Petroleum Fund in 2002. Norges Bank purchases of foreign exchange to cover allocations to the Petroleum Fund in 2002 will be carried out in the period from December 2001 to November 2002.

Norges Bank purchased foreign exchange every business day in 2001 with the exception of Wednesday before Maundy Thursday and in the period from Christmas Eve to New Year's Eve. This is in line with previous practice.

Foreign exchange regulation and exchange rate controls

A group of Norges Bank's employees situated in Lillehammer has the day-to-day responsibility for foreign exchange regulation and control. This responsibility includes cooperation with other supervisory bodies and monitoring and control operations associated with EU programmes and UN sanctions against other countries.

In 2001, there were no amendments in Norges Bank's Foreign Exchange Regulations of 27 June 1990.

The number of enquiries from control and supervisory bodies regarding statistical information to be used for control purposes was 728 in 2001 compared with 966 in 2000. These requests resulted in database searches for 1082 named enterprises or persons and responses concerning 29 755 transactions, which is just over one thousandth of the total number of transaction messages Norges Bank received for statistical purposes in the area of foreign payments.

Norwegian authorities have adopted regulations that implement UN sanctions concerning economic boycotts of countries and/or regions. The Ministry of Finance has delegated responsibility to Norges Bank to serve as supervisory and authorising body. In 2001, Iraq was subject to UN sanctions. In 2001, Norges Bank received no applications to transfer funds to Iraq and did not uncover any breach of the sanctions.

On 25 June 1999, the Norwegian Storting passed a law concerning special measures against the Federal Republic of Yugoslavia (FRY). Pursuant to this law, the Government adopted a regulation on 6 August 1999 concerning the implementation of the measures. The Ministry of Finance delegated responsibility to Norges Bank to operate as a supervisory and authorising body for financial transactions. All transactions that anyone wishes to make in accordance with the regulation's exemption rules must first receive approval from Norges Bank. In 2001, Norges Bank processed 821 applications to transfer funds to the Federal Republic of Yugoslavia. One application was turned down in accordance with the regulations and the rest were approved. The regulation concerning these so-called EU initiatives was not amended in 2001.

On 28 September 2001, the UN Security Council passed Resolution no. 1373 which included a number of measures aimed at countering the financing of any acts of terrorism. On 5 October 2001, the Norwegian government approved a provisional bill which implements the resolution's injunctions into Norwegian law. Among other things, the resolution demands that member states shall prevent and suppress the financing of terrorist acts and freeze funds which are suspected of being tied to such activities. Norges Bank has not been given any specific responsibilities in this connection, but the controlling authorities use the opportunity to search the Bank's statistics also for this purpose.

Government debt management

According to an agreement between the Ministry of Finance and Norges Bank, the Bank shall provide services as adviser, organiser and payment agent in connection with raising and managing various government debt instruments that are traded in the domestic market.

In 2001, the Government's issue programme for Treasury bills and government bonds was published in an annual auction calendar. In 2001, five auctions of government bonds and sixteen auctions of Treasury bills were held. The total volume issued, excluding Norges Bank's primary purchase, was NOK 12.4 billion in government bonds and NOK 57.0 billion in Treasury bills.

Compared with the previous year, the 2001 issue programme involved some changes with regard to short-term paper. Treasury bills were issued more frequently. New Treasury bills in 2001 were issued on International Money Market or IMM days (a payment date convention - the third Wednesday in March, June, September and December), with the maturity date on the IMM day one year later. These bills were increased after only two or three weeks, i.e. at the beginning of the following month. An additional eight auctions of Treasury bills were held at the beginning of each of the remaining months. In these auctions, bills that matured in mid-May or mid-November were issued (in connection with tax payment dates) or bills with IMM maturities in March or September were increased. Normally, these bills would have a residual maturity of only 3-4 months. The purpose of the new issue programme was to adjust to investor demand and fluctuations in government cash holdings.

In the second half of 2000, major changes were made in the instrument design and the auction method for short-term government paper. See the *Annual Report* for 2000 for details.

In the secondary market, Norges Bank acted as market maker throughout the year for the largest debt instruments on the Oslo Stock Exchange. The purpose was to improve turnover, so as to minimise loan costs and provide the market with thorough information about yields. The Bank set bid and offer prices simultaneously for Treasury bills, whereas for government bonds, agreements were concluded with a group of primary dealers who had responsibility for setting bid and offer prices continuously for certain amounts. Each primary dealer had the right to borrow bonds for up to NOK 200 million in each of the instruments in question.

At the end of 2001, government domestic securities debt registered in the Central Securities Depository amounted to NOK 165.7 billion at nominal value. Of this, 96.8 per cent was concentrated in nine benchmark debt instruments, where liquidity was high by Norwegian standards. Foreign investors accounted for about 33 per cent, while life insurance companies and private pension funds held 34.3 per cent. Norwegian government domestic securities debt amounted to 11.3 per cent of GDP in 2001, which is very low compared with other countries.

Information activities

Pursuant to the Norges Bank Act, Norges Bank is obliged to "inform the public of developments in monetary, credit and foreign exchange conditions." In addition, the Bank attempts to achieve the broadest possible understanding for its conduct of monetary policy and for the mechanisms contributing to financial stability through active information activities. Interest in various central banking activities among the media and various market participants as well as the general public has been on the rise, and Norges Bank attaches great importance to responding to this interest with transparency and predictability.

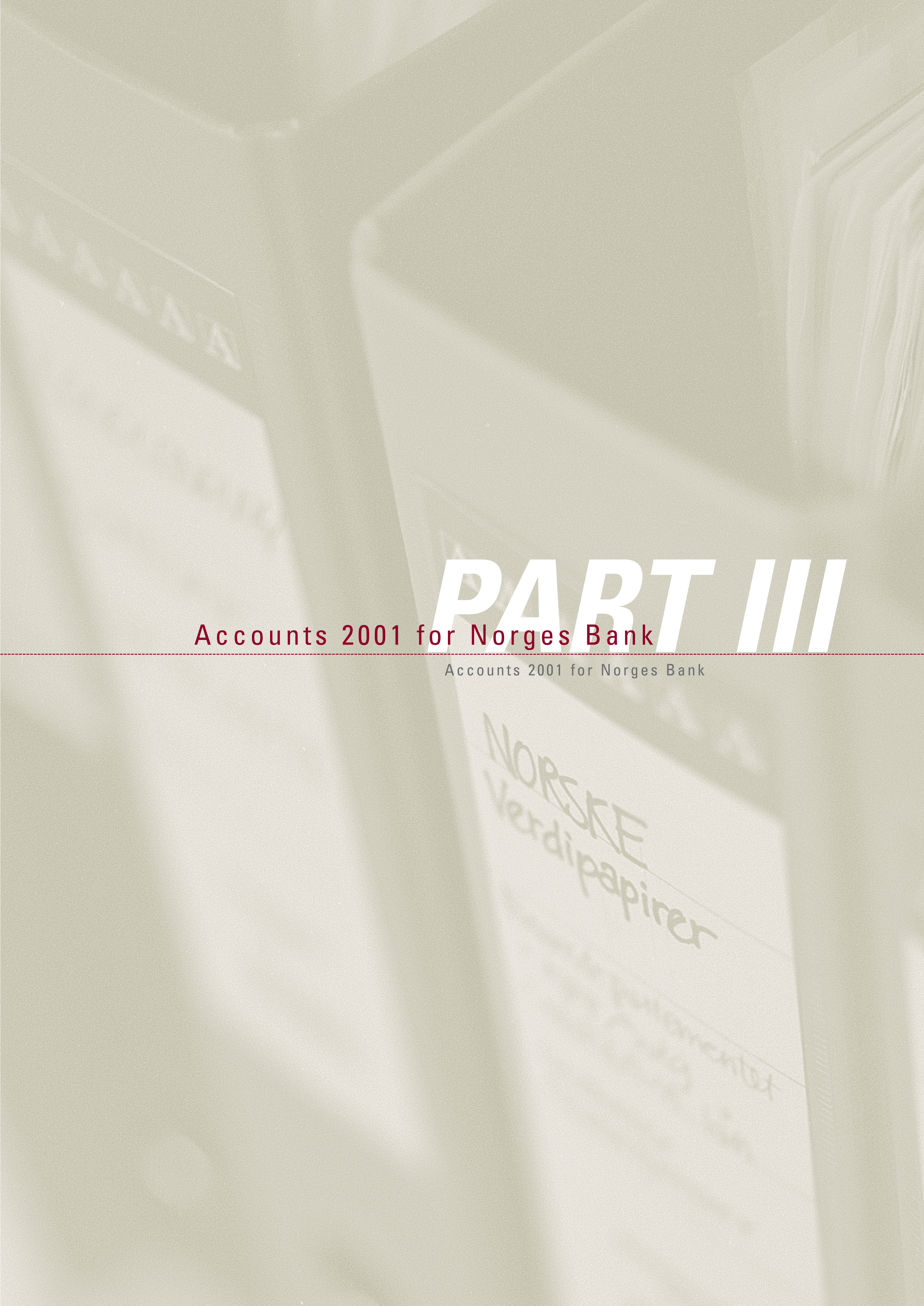
Press conferences have been introduced as a regular arrangement following all of the Executive Board's monetary policy meetings and in connection with the publication of the *Inflation Report*, *Financial Stability* and the reports on the management of the Government Petroleum Fund. Sound from all press conferences is streamed over the Internet and may also be replayed afterwards. Eighteen press conferences were held in 2001 and 46 press releases were issued.

Speeches and newspaper articles by executives in Norges Bank are also published on the Bank's website. In 2001, 22 speeches and newspaper articles were published.

Use of the Internet constitutes an ever more important part of the Bank's information strategy. Statistics show that 195 000 companies or individuals in Norway and abroad visited the Bank's website one or more times in 2001 and that there were an average of 58 000 hits per month.

Norges Bank issues a number of publications in addition to the *Annual Report*, *Inflation Report*, *Financial Stability* and the reports on the management of the Government Petroleum Fund. *Penger og Kreditt* and its English counterpart, *Economic Bulletin*, are published quarterly and the Bank also publishes an *Annual Report on Payment Systems*. Other publications included 10 *Working Papers* about a range of research projects, four *Reprints* of articles written by bank employees and published in international research publications and 10 circulars.

PART III



PART III

Accounts 2001 for Norges Bank

Accounts 2001 for Norges Bank

Report of the Executive Board on the annual accounts for 2001

The issue of banknotes and coins is one of Norges Bank's main responsibilities. This means that the Bank will always have non-interest-bearing debt. The offsetting entry is the Bank's interest-bearing claims on other economic agents. The monopoly on banknotes thus means that, prior to corrections for fluctuations in exchange rates and securities prices, the accounts will normally show a profit (seigniorage). Moreover, Norges Bank's accounts are largely determined by the monetary policy conducted in the accounting year.

Norges Bank's accounts for 2001 show a deficit of NOK 4.7 billion, compared with a profit of NOK 13.7 billion in 2000. The fall in prices in the international securities markets in 2001 has resulted in a loss of NOK 3.7 billion, compared with a capital gain of NOK 2.1 billion in 2000. Due to the appreciation of the Norwegian krone, foreign exchange reserves translated into NOK showed an exchange loss of NOK 4.9 billion in 2001, compared with exchange gains of NOK 6.0 billion in 2000.

Interest income from foreign investments came to NOK 11.4 billion, NOK 0.3 billion less than in 2000.

Interest payments to the Treasury totalled NOK 4.8 billion, of which NOK 49 million represents the return on the immunisation portfolio[1]. Interest payments to the Treasury in 2000 totalled NOK 3.6 billion.

In accordance with existing guidelines, Norges Bank transferred NOK 8.9 billion to the Treasury from the Transfer Fund.

Norges Bank's foreign investments and foreign assets

Norges Bank's foreign assets consist mainly of international reserves and the Government Petroleum Fund's investments.

International reserves

Norges Bank's international reserves comprise foreign exchange reserves, gold and claims on the International Monetary Fund (IMF). The foreign exchange reserves consist of investments in interest-bearing securities, repurchase agreements and reverse-repurchase agreements for securities in foreign currency, and deposits in international banks with high credit ratings. The investments are made in accordance with the guidelines adopted by the Executive Board and submitted to the Ministry of Finance. These guidelines set limitations on credit exposure, interest rate risk, equity risk and exchange rate risk.

Norges Bank's international reserves are divided into separate portfolios according to purpose. The liquidity portfolio is composed in such a way that it may be used for any exchange market interventions and for influencing liquidity and interest rates in the Norwegian money market. The long-term portfolio should also be available for interventions, but should in addition be invested with a view to achieving the highest possible return within the limits set out in the guidelines. Since 2001, some of the long-term portfolio has been invested in equities. The transition to the new investment strategy took place in the first half of 2001 as the equity share of the benchmark portfolio was gradually increased from 0 to 20 per cent. Before the transition to physical shareholdings, the equity exposure was in the form of positions in equity futures. The immunisation portfolio is coordinated with central government foreign debt to minimise interest rate and exchange rate risk. The buffer portfolio for the Petroleum Fund is built up with a view to minimising transaction costs in connection with transfers to the Government Petroleum Fund. Therefore, this sub-portfolio contains futures contracts for foreign equity indices (as well as physical equities from 2002) in addition to interest-bearing securities. Funds are transferred monthly from the buffer portfolio to the Petroleum Fund. All the sub-portfolios shall be available for monetary policy purposes if necessary.

Size and composition of the international reserves

At 31 December 2001, the international reserves[2] amounted to NOK 168.6 billion, of which foreign exchange reserves amounted to NOK 155.4 billion. Table 1 shows the distribution of international reserves in the main portfolios. The table also shows the value of futures, forward contracts and interest rate swaps at year-end. Note 2 to the accounts shows the distribution of foreign exchange reserves by instruments.

Table 2 shows the distribution of Norges Bank's foreign exchange reserves by currency at end-2001 and end-2000.

1) The immunisation portfolio is coordinated with the central government's foreign debt in order to eliminate exchange rate and interest rate risk. Foreign debt, expressed in NOK, is included in the Treasury's sight deposit account.

2) International reserves in the balance sheet, NOK 211.5 billion, taking into account repurchase agreements and foreign borrowing (including accrued interest costs) totalling NOK 42.9 billion.

Table 1. Composition of international reserves at 31 December. By main portfolios and current financial instruments. Market value in millions of NOK

	Foreign exchange reserves 2001						Total international reserves	
	Liquidity portfolio etc.[1]	Long-term portfolio	Immunisation portfolio	Buffer portfolio	**Total foreign exchange reserves**	Gold reserves IMF	**2001**	**2000**
Total reserves	**36 738**	**106 574**	**5 965**	**6 075**	**155 352**	**13 266**	**168 618**	**185 998**
Interest rate futures purchased		11 957			**11 957**		**11 957**	**13 392**
Interest rate futures sold		7 940			**7 940**		**7 940**	**12 682**
Equity futures purchased					**0**		**0**	**6 435**
Foreign exchange purchased forward		1 863		1 770	**3 633**		**3 633**	**4 953**
Foreign exchange sold forward		1 863			**1 863**		**1 863**	**11 849**
Interest rate swaps purchased		13 400			**13 400**		**13 400**	**4 687**
Interest rate swaps sold		13 363			**13 363**		**13 363**	**4 726**

1) Includes working accounts abroad

Table 2. The distribution of foreign exchange reserves by currency. Per cent

Foreign currency	**2001**	**2000**
USD	24.4	21.9
CAD	1.4	1.9
JPY	8.4	12.6
GBP	16.6	14.1
EUR	44.6	45.5
Other currencies	4.6	4.0
Total	**100.0**	**100.0**

Table 3. Changes in foreign exchange reserves in 2001. In billions of NOK

	Changes 2001	Holdings
Foreign exchange reserves at market value, 31 December 2000		174.5
Foreign exchange purchases for the Government Petroleum Fund	119.9	
Foreign exchange purchases for the State's Direct Financial Interest in petroleum activities (SDFI)	122.5	
Transfers to the Government Petroleum Fund	-251.5	
Foreign exchange sales from the liquidity portfolio	-7.7	
Transfers from the Government Petroleum Insurance Fund	-0.2	
Repayment of central government foreign debt	-1.5	
Change IMF	-2.1	
Investment in foreign banks in Norway	1.1	
Return	0.4	-19.1
Foreign exchange reserves at 31 December 2001 (market value)		**155.4**

Changes in the value of foreign exchange reserves

Foreign exchange reserves[3)] amounted to NOK 174.5 billion at end-2000. In the course of 2001, the foreign exchange reserves declined by NOK 19.1 billion to NOK 155.4 billion. This is largely due to two factors. First, total transfers of foreign exchange from the SDFI, the State's Direct Financial Interest in petroleum activities, and ongoing purchases of foreign exchange in the market for the Government Petroleum Fund were less than the total amount transferred to the Petroleum Fund in 2001, see Table 3 which shows changes in foreign exchange reserves by main items. The maturity in January 2001 of currency swaps entered into in December 2000 as part of domestic liquidity management also played a part.

Return on international reserves

Table 4 shows that the return on the international reserves was NOK 0.5 billion in 2001 compared with NOK 17.4 billion in 2000. Measured in NOK, the total return on reserves comprises current interest income, capital gains/losses on securities holdings and gains/losses resulting from changes in exchange rates against NOK.

The exchange rate losses of NOK 4.8 billion have no effect on the international purchasing power of the reserves.

Losses on securities amounting to NOK 3.8 billion in 2001 were due primarily to a fall in prices in the international stock markets. By comparison, there was a capital gain of NOK 1.6 billion in 2000.

Table 4. Return on international reserves in 2001 and 2000. In millions of NOK

	Foreign exchange reserves 2001						**Total international reserves**	
	Liquidity portfolio etc.[1]	Long-term portfolio	Immunisation portfolio	Buffer portfolio	**Total foreign exchange reserves**	Gold reserves IMF	**2001**	**2000**
Exchange rate and gold reserves changes	-822	-3 120	-312	- 171	**-4 425**	-362	**-4 787**	**5 863**
Valuation changes on securities	24	-2 233	-64	-1 636	**-3 909**	72	**-3 837**	**1 603**
Current interest income	2 042	5 213	378	1 188	**8 821**	280	**9 101**	**9 896**
Total	**1 244**	**-140**	**2**	**-619**	**487**	**-10**	**477**	**17 362**

1) Includes profit and loss items concerning working accounts

3) International reserves less gold reserves and claims on the IMF

Table 5. Changes in the Government Petroleum Fund's krone account in 2001. In billions of NOK

	Supply	Government Petroleum Fund's krone account
The Petroleum Fund's portfolio at 31 December 2000		386.1
Supplied 31 January 2001	10.0	
" 30 March 2001	45.5	
" 31 May 2001	30.0	
" 29 June 2001	60.0	
" 31 August 2001	20.0	
" 28 September 2001	38.0	
" 30 November 2001	48.0	
Net return earned in 2001	-24.3	227.2
Petroleum Fund's krone account at 31 December 2001		**613.3**

Table 6. Composition of the Government Petroleum Fund each quarter, taking into account accrued management remuneration. Market value in millions of NOK

	31.12.00	**31.03.01**	**30.06.01**	**30.09.01**	**31.12.01**
Equity portfolio	152 829	170 403	208 666	216 365	246 576
Fixed income portfolio	233 627	254 519	314 168	330 611	367 113
Accrued mgmt. remuneration	-330	-80	-159	-254	- 372
Total	**386 126**	**424 842**	**522 675**	**546 722**	**613 317**

Interest income on international reserves was NOK 9.1 billion in 2001, compared with NOK 9.9 billion in 2000. One reason for the decline is that portions of the bondholdings in the long-term portfolio were sold in 2001 and replaced by equities in order to adapt to the new investment strategy.

Government Petroleum Fund

Norges Bank is responsible for the operational management of the Government Petroleum Fund on behalf of the Ministry of Finance. The Government Petroleum Fund is placed in a separate account in the form of krone deposits in Norges Bank. Norges Bank invests this capital separately in the Bank's name in assets denominated in foreign currency. In 2001, the Fund was managed in accordance with the Regulation on the Management of the Government Petroleum Fund, pursuant to section 7 of Act no. 36 of 22 June 1990 relating to the Government Petroleum Fund.

The Government Petroleum Fund's krone account in 2001

The Government Petroleum Fund's krone account amounted to NOK 613.3 billion at the end of 2001. Table 5 shows developments in the krone account.

Table 7. Currency distribution of the Government Petroleum Fund. Per cent

Currency	**2001**	**2000**
USD	29.0	26.9
CAD	1.7	2.3
Asian currencies	18.8	18.4
GBP	13.0	11.8
EUR	32.2	35.0
Other European currencies	5.3	5.6
Total	**100.0**	**100.0**

Table 6 shows changes in the composition of the Government Petroleum Fund in 2001 and comparable figures for 31 December 2000.

By market value, the return on the Government Petroleum Fund in 2001 was NOK –24.0 billion, of which NOK 16.2 billion is attributable to exchange losses due to the appreciation of the krone against most investment currencies in 2001. Exchange losses have no effect on the international purchasing power of the Fund. Securities losses for the Petroleum Fund in 2001 amounted to NOK 23.5 billion, which included unrealised losses of NOK 19.3 billion at end-2001. See note 18 for a specification of various items from the balance sheet and profit and loss account.

Norwegian Treasury bills and government bonds

All holdings and turnover figures in this section are stated in nominal values. Accounting values are shown in note 8.

Norges Bank's holdings of Norwegian securities consist of Treasury bills and bonds issued by the Norwegian government. Treasury bills are used by the Bank for market-making purposes in the secondary market.

Norges Bank's net purchases of Treasury bills in the secondary market amounted to NOK 1.2 billion. Norges Bank purchased Treasury bills totalling NOK 3 billion in the primary market. When Norges Bank's holdings of particular Treasury bills become too small for market-making purposes, the Ministry of Finance may issue new bills for subscription by Norges Bank. In 2001, Norges Bank subscribed for NOK 4.5 billion.

Market-making in government bonds is undertaken by primary dealers who, according to an agreement with Norges Bank, quote indicative bid and offer prices for the most extensively traded government bonds. Primary dealers have the right to borrow bonds from Norges Bank, contingent upon an agreement to sell them back within five days (repurchase agreement). Norges Bank's holdings of government bonds form the basis for this borrowing facility.

Commitments to Norwegian banks

Deposits

Banks can make deposits in a sight deposit account in Norges Bank. The interest rate on the sight deposits is Norges Bank's key rate, which determines the shortest money market rates. Norges Bank uses the liquidity policy instruments (F-deposits, F-loans and currency swaps) in such a way that the banking system as a whole will normally have substantial sight deposits in Norges Bank. In 2001, banks had an average of NOK 12 billion in sight deposits.

Fixed-rate deposits (F-deposits)

Norges Bank issues F-deposits with short maturities in periods when there is substantial excess liquidity in the banking system. The interest rate on F-deposits is determined through standard auction. In 2001, maturities for F-deposits varied from 3 to 6 days. The daily average for F-deposits was NOK 2.7 billion in 2001, compared with NOK 5.2 billion in 2000.

Fixed rate loans (F-loans) and currency swaps

Norges Bank issues F-loans when the banking system has liquidity shortfalls. The scale of F-loans is set so that the banking system as a whole has sight deposits in Norges Bank each day. F-loans are extended against collateral comparable to that used for D-loans. Interest rates on F-loans in 2001 were determined through standard auction. The maturity of F-loans varied from 1 to 13 days. The daily average for F-loans was NOK 13.3 billion in 2001, compared with NOK 5.1 billion in 2000. No liquidity was supplied through repurchase agreements for securities in 2001. Norges Bank entered into currency swaps in order to supply adequate liquidity to the banking system in connection with petroleum tax payment dates in April.

Intraday loans/overnight loans (D-loans)

The banks' D-loans are divided into loans during the day (intraday loans) and overnight loans. Banks raise D-loans through the day to cover short-term liquidity requirements in connection with payment settlements. The loans' maturity can range from several minutes to several hours and are interest-free. Overnight loans are used by banks to cover liquidity needs from one day to the next. The interest on these loans was 2 percentage points higher than the sight deposit rate in 2001. The scale of overnight loans is limited.

Banks are required to furnish collateral for D-loans from Norges Bank. The collateral shall be equivalent to at least 100 per cent of the loan amount. Bonds and short-term paper issued by governments or enterprises in the OECD area, assets in securities funds and F-deposits are accepted as collateral.

On 1 June 2001, a new regulation concerning banks' access to loans and deposits in Norges Bank came into force. One important change is that overnight loans are no longer restricted by a limit for accumulated loans over a certain period. However, Norges Bank can set such a borrowing limit.

Extraordinary loans (E-loans)

An E-loan is an extraordinary, intraday borrowing facility for banks and branches, in excess of the collateral furnished. These loans were introduced to ensure the execution of special payment settlements stipulated by Norges Bank. E-loans were introduced because banks lacked experience in managing liquidity through the day. E-loans must be repaid on the same day they are provided.

Banks have gradually adapted to the new parameters for payment settlements and have become more adept at managing liquidity through the day and from

Table 8. Production figures for Norwegian banknotes, stamps and Norwegian passports in 2001 and 2000. (One package = 500 notes)

	2001	2000
1000-krone notes	72 131 packages	0 packages
500-krone notes	0 packages	52 400 packages
200-krone notes	31 814 packages	35 600 packages
100-krone notes	0 packages	44 170 packages
50-krone notes	36 075 packages	2 600 packages
Norwegian passports	359 600	364 800
Personalised passports	101 111	108 847
Norwegian stamps	-	65 434 880
of which		
- intaglio	-	14 325 400
- offset	-	41 029 000
- stamps in booklets	-	10 080 480

one day to the next. With effect from 1 June 2001, Norges Bank discontinued E-loans in connection with securities settlements and NICS[4] retail settlements, whereas the loans are still available, but with reduced borrowing limits, for settlement of banks' market operations. At the same time, in order to emphasise banks' responsibility for providing cover in the settlement, a fixed fee of NOK 5 000 was introduced on E-loans in addition to the amount banks already had to pay for E-loans, i.e. an interest charge equivalent to the interest on an unsecured D-loan.

In addition to the introduction of the new borrowing limits for E-loans, a limit has been set for banks' total cash withdrawals at times when Norges Bank's settlement system (NBO) is not staffed. The withdrawal limit is equivalent to banks' E-loan borrowing limits, and the new limits have been set so that they will not limit normal cash withdrawals. The new E-loans limits for cash settlements is NOK 15 million for banks with total assets up to NOK 10 billion, NOK 125 million for banks with total assets of NOK 10-100 billion and NOK 500 million for banks with total assets over NOK 100 billion.

Nine E-loans were issued in 2001, of which eight were provided to the same bank. All E-loans were issued as a result of insufficient cover for cash withdrawals. The total amount was less than NOK 12 million. At end-2001, 139 banks furnished collateral for loans in Norges Bank.

Other commitments

Poverty reduction and growth facility (PRGF)

The IMF has established a special borrowing facility for poor countries, "Poverty Reduction and Growth Facility". The programme is not funded over the IMF's ordinary budget, but by capital borrowed from individual member countries. On two occasions, in 1988 and 1994, Norges Bank has made a total of SDR 150 million available to this facility. The agreement between Norges Bank and the IMF is formulated to the effect that the Fund must have drawn this amount by a given date. Once the IMF draws on the capital, it is tied for up to 10 years as far as Norges Bank is concerned. In August 2000, the period in which the Fund can draw on the facility was extended by two years to 31 December 2005. Norges Bank will be repaid as the debtor country repays its loan to the IMF.

At end-2001, the loan funds had been drawn. At 31 October, the outstanding amount was SDR 107 175 million, equivalent to NOK 1.2 billion.

Norges Bank's Printing Works

NBPW's primary task is to develop and produce Norwegian banknotes. NBPW also produces Norwegian passports on a commercial basis for the Directorate of Police. Passport production at NBPW will be discontinued in 2003.

NBPW's operating expenses, less depreciation and imputed expenses, totalled NOK 62.5 million, of which NOK 15.7 million is attributable to commercial activi-

4) Norwegian Interbank Clearing System

ties. Turnover amounted to NOK 27.1 million, which generated a profit of NOK 7.0 million after depreciation and imputed expenses. The average production cost per banknote is NOK 0.74.

Cash handling – the formation of a limited company with Norges Bank as part-owner

In cooperation with six partners, Norges Bank has established a company for cash handling, Norsk Kontantservice AS (NOKAS). The company was established on 1 July 2001 with a share capital of NOK 50 million. Norges Bank has a 33.5 per cent holding. Roughly 300 employees were transferred from Norges Bank in connection with the establishment of the new company. NOKAS has purchased machinery and equipment from Norges Bank for a total of NOK 45.6 million. Foreign cash holdings were transferred at market price on 31 December 2001. Norges Bank's expenses in connection with establishing the new company are estimated at more than NOK 11 million. NOKAS leases premises at Norges Bank's regional branches that were closed at the time the company began operations on 1 July 2001. The company is responsible for a substantial portion of cash handling in Norway and is commissioned by Norges Bank to execute some of the central bank's statutory tasks in the area of cash handling.

Activities in the Chief Cashier's Department

Withdrawal of notes and coins

The Series VI 1000-krone banknote was withdrawn as legal tender on 26 June 2001. Old 1000-krone bank-notes may be redeemed in Norges Bank until 26 June 2012.

Commemorative coins

The Nobel coin project was concluded in 2001 and profits of NOK 9.2 million were transferred to the Ministry of Finance.

On 13 August 2001, Norges Bank issued two commemorative coins, one in gold and one in silver, to mark the 100th anniversary of the Nobel Peace Prize. The gold coin (917/1000), with a nominal value of NOK 1 500, was minted in an issue of 7 500 coins. The silver coin (925/1000), with a nominal value of NOK 100, was minted in an issue of 50 000 coins. The coins are legal tender. The coins were produced and sold at the Royal Norwegian Mint. The project has been concluded and all coins are sold.

Commercial activities

Until the establishment of NOKAS on 1 July 2001, commercial activities in the Chief Cashier's Department comprised various money-handling services for banks and the postal system, based on the principle of full cost coverage. The services included business settlement, coin sorting, stocking of ATM dispensers with subsequent settlement and packaging of banknotes and coins for post offices and bank branches.

Revenues from commercial activities during the first half of 2001 totalled NOK 35.3 million, compared with NOK 62.4 million in 2000 for the entire year.

Other revenues

Revenues from sales of rolls of coins and banknotes of ATM quality amounted to NOK 12.2 million and NOK 27.5 million respectively for the first half of 2001. For 2000 as a whole, revenues were NOK 22.4 million for rolls of coins and NOK 35.3 million for banknotes of ATM quality.

The Bank's administration

Staff

At end-2001, Norges Bank had a total of 662 permanent and temporary employees, which is 424 fewer positions than at end-2000. The reduction in the number of employees is primarily due to the establishment of Den Kongelige Mynt AS and Norsk Kontantservice AS as separate companies. Table 9 shows the spread of full-time and part-time positions and short-term contracts in the main areas of the Bank.

Health, environment and safety

Bank employees participate in decision-making bodies and in central and local works councils. The Bank has arranged working environment courses for managers, safety delegates and members of works councils.

The Bank has continued its efforts to achieve a more even distribution between men and women in all areas and job categories. Focus on this work has increased the percentage of women in job categories where targets have been set.

Absenteeism due to illness was 4.6 per cent of the total number of working days in 2001. The corresponding figure for 2000 was 6.1 per cent. The reduction is partly due to the fact that operational areas with above-average absenteeism were spun off in 2001.

Working conditions

Over time, Norges Bank has emphasised the importance of providing good working conditions. In addition to monthly salaries, the Bank offers its employees the following:

Table 9. Number of employees at Norges Bank at 31 December

	Permanent employees							
	Full-time		Part-time		Short-term		**Total**	
	2001	2000	2001	2000	2001	2000	**2001**	**2000**
Head Office	539	562	55	71	14	10	**608**	**643**
Norges Bank Printing Works	48	52	6	7	-	-	**54**	**59**
Regional branches outside Oslo	-	275	-	61	-	1	**-**	**337**
Royal Norwegian Mint[1]	-	39	-	8	-	-	**-**	**47**
Totalt	587	928	61	147	14	11	**662**	**1086**

1) The Royal Norwegian Mint (Den Kongelige Mynt AS) was established as a limited company on 1 January 2001.

Norges Bank offers loans to its employees and in 2001, the interest rate was linked to the norm rate[5]. The interest rate is equal to the norm rate plus 0.5 per cent. The Bank also offers its employees certain banking services. Payment for these banking services is determined on the basis of other banks' charges for corresponding services.

The employee insurance programme covers personal guarantees (including compulsory occupational injury and health insurance), accident insurance for especially exposed occupations, group life insurance, debt insurance and travel insurance for business travel. These expenses account for 2.5 per cent of total personnel costs.

Norges Bank has agreements with private day-care centres regarding the use of their services for employees' children. The employees pay the equivalent of municipal day-care fees, while Norges Bank pays the difference between the private and municipal fees. Net costs in 2001 were NOK 146 000. The children of four employees are currently enrolled under this scheme.

Norges Bank has its own pension fund for its employees. Benefits are equal to 2/3 of the employee's salary at the time of retirement. Benefits from the pension fund are coordinated with the National Insurance Scheme.

Most employees at Norges Bank have 26 days holiday.

The Bank owns two course and holiday facilities: Venastul and Vindåsen. Venastul, which is located in Ringebufjellet, is in operation year round, and approximately 7 900 guest nights were recorded in 2001. Vindåsen, which is located in Tjøme, is only open during the summer. In 2001, it recorded approximately 3 000 guest nights. Together with contributions to other associations and clubs in Norges Bank, these costs accounted for 0.3 per cent of total personnel costs in 2001.

Over the years, the Bank has also granted interest and principal-free loans of NOK 3.6 million for the purchase of nine cottages which have been run by regional branch employees.

Restructuring

In 2001, the Bank restructured its organisation with a view to utilising resources more efficiently and increasing concentration on core activities. The regional branches were closed in 2001. Staff cuts were also made in various departments at the Head Office. The human resource policy packages offered in connection with the staff cutbacks are the same as those previously approved by the Supervisory Council. These packages may take the form of redundancy pay, early retirement schemes or a combination of study grants and severance pay. At end-2001, 188 agreements for redundancy pay or early retirement had been concluded. Restructuring is not yet complete in the Statistics Department, Banking Department and Norges Bank Printing Works and additional agreements are expected.

The buildings where regional branches have been closed will be sold. The building in Haugesund has been sold and agreements have been concluded regarding the sale of the buildings in Fredrikstad and Ålesund.

Bankplassen Parkeringsanlegg A/S

Norges Bank owns 100 per cent of the shares in this parking facility company. The parking facility's accounts for 2001 show a profit before financial items of NOK 4.4 million. Including interest payments on a loan from Norges Bank, the accounts show a surplus of NOK 1.0 million. At 31 December 2001, the company's total assets amounted to NOK 113.7 million. The company has negative equity of NOK 47.3 million. An agreement to sell the facility was signed in 2001.

5) The norm rate for loans on favourable terms from an employer is set at 6%, which is in accordance with the Storting's tax resolution for the fiscal year 2001.

Before the transfer takes place, the ground below street level must be divided into separate property numbers.

Distribution of profit

In accordance with the Norges Bank Act of 24 May 1985, the guidelines for the allocation and distribution of Norges Bank's profit were originally adopted by the Council of State on 7 February 1986. The guidelines have since been revised several times, most recently by Royal Decree of 21 December 2000, and now read as follows:

1. Of Norges Bank's profit, allocations shall be made to the Adjustment Fund until the Fund reaches levels corresponding to 5 per cent of the Bank's holdings of Norwegian securities and 25 per cent of the Bank's net foreign exchange reserves, excluding the immunisation portfolio and funds managed for the Government Petroleum Fund, other claims/commitments abroad or any other commitments which the Executive Board considers to involve a not insignificant currency risk.
   The immunisation portfolio shall correspond to that part of Norges Bank's foreign exchange reserves which is allocated to a separate portfolio. The return on this portfolio will be credited/debited to the Treasury in the accounts of the same year. The same applies to the Government Petroleum Fund portfolio.
   If the size of the Adjustment Fund exceeds the corresponding figures mentioned under point 1, first paragraph, the surplus shall be reversed to the profit and loss account.

2. Any surplus after provisions for or transfers from the Adjustment Fund shall be allocated to the Transfer Fund.

3. Every year in connection with the closing of the books, an amount corresponding to the average of gross allocations to the Transfer Fund in the three preceding years shall be transferred from the Transfer Fund to the Treasury.

4. Any deficits in Norges Bank's accounts shall be covered by transfers from the Adjustment Fund.

In accordance with the guidelines, the Executive Board proposes the following transfers and allocations:

In accordance with point 4, the year's deficit will be covered by a transfer from the Adjustment Fund. After the transfer, the Adjustment Fund will amount to NOK 36.3 billion. If the Adjustment Fund were to reflect the ratios in point 1 of the regulation, it would amount to NOK 40.4 billion.

In accordance with point 3 of the guidelines, NOK 8.9 billion will be transferred from the Transfer Fund to the Treasury. Following this transfer, there is no capital in the Transfer Fund.

In accordance with a statement from the Ministry of Finance, the net sum of NOK 8.3 millon will be transferred from "Other capital".

Oslo, 6 February 2002

Norges Bank's Executive Board

Svein Gjedrem Chairman	Jarle Bergo Deputy Chairman	Sigbjørn Johnsen
Torgeir Høien	Sylvi R. Sørfonn	Trond R. Reinertsen
Vivi Lassen	Jan Erik Martinsen	Sonja Blichfeldt Myhre

Profit and loss account

All figures in thousands of NOK	Note	2001	2000	1999
Foreign interest income				
Interest on bank deposits/loans	2	3 226 943	2 584 568	1 022 963
Interest on bearer bonds and Treasury bills	2, 5	7 903 585	8 725 846	7 316 202
Other interest income		258 465	338 292	477 193
Share dividend, BIS	7	14 959	14 373	13 015
Total foreign interest income		**11 403 952**	**11 663 079**	**8 829 373**
Return on investments for Government Petroleum Fund	**18**	**(23 955 688)**	**14 178 454**	**30 295 484**
Foreign interest expenses:				
Interest on deposits/borrowings	2	2 425 249	1 752 469	716 475
Interest to foreign customers		41 971	44 175	42 741
Total foreign interest expenses		**2 467 220**	**1 796 644**	**759 216**
Net foreign interest income		**(15 018 956)**	**24 044 889**	**38 365 641**
Domestic interest income				
Interest on bearer bonds		696 710	682 771	508 366
Interest on negotiable notes and short-term paper		8 265	158 910	181 772
Interest on loans to banks		947 701	323 779	432 181
Interest on other loans		42 029	36 689	30 000
Total domestic interest income		**1 694 705**	**1 202 149**	**1 152 319**
Domestic interest expenses:				
Interest to the Treasury	15	4 813 988	3 561 391	1 775 782
Interest (return) to Government Petroleum Fund	18	(23 955 688)	14 178 454	30 295 484
Interest to public account holders	15	125 318	7 707	116 712
Interest to banks		1 082 317	1 012 364	661 238
Other interest expenses		9 883	9 726	7 458
Total domestic interest expenses		**(17 924 182)**	**18 769 642**	**32 856 674**
Net domestic interest expenses		**(19 618 887)**	**17 567 493**	**31 704 355**
Net interest income, domestic and foreign		**4 599 931**	**6 477 396**	**6 661 286**
Dividend		**136 379**	**0**	**0**
Valuation changes				
Net gains/(losses) on foreign exchange	1, 2	(4 877 135)	5 988 149	(887 332)
Net gains/(losses) on foreign securities and financial instruments	1, 2	(3 836 781)	1 603 856	(7 344 941)
Net gains/(losses) on Norwegian securities	1	151 034	503 014	(809 838)
Net valuation changes		**(8 562 882)**	**8 095 019**	**(9 042 111)**
Net interest income, dividend and valuation changes		**(3 826 572)**	**14 572 415**	**(2 380 825)**
Operating income				
Fees and commission income		88 726	126 693	99 023
Sales income Norges Bank's Printing Works (figures for 1999 and 2000 incl. Royal Norwegian Mint)	13	27 125	94 014	76 820
Other operating income	18	438 430	364 404	232 486
Total operating income		**554 281**	**585 111**	**408 329**

Operating expenses				
Wages, salaries and other personnel costs	16	501 887	555 713	505 905
Restructuring costs	16	103 037	129 860	8 026
Depreciation and write-downs	11	108 391	120 249	116 168
Banknote and coin costs		69 040	90 333	85 127
Other operating expenses		679 355	539 793	426 943
Total operating expenses		**1 461 710**	**1 435 948**	**1 142 169**
Net operating expenses		**907 429**	**850 837**	**733 840**
Operating profit before allocations and loan losses/bad debts		**(4 734 001)**	**13 721 578**	**(3 114 665)**
Allocations and loan losses/bad debts	1	70	(37)	357
Profit/(loss) for the year		**(4 734 071)**	**13 721 615**	**(3 115 022)**
Transfers				
Profit/(loss) for the year		(4 734 071)	13 721 615	(3 115 022)
Transferred from the Adjustment Fund		4 725 769	0	0
Transfers from ‘Other capital’	20	79 417	80 197	3 371 763
Reserves		**71 115**	**13 801 812**	**256 741**
Allocated to ‘Other capital’	20	71 115	68 118	132 593
Allocated to Adjustment Fund			13 733 694	124 148
Allocated to Transfer Fund	19	0	0	0
Total allocations		**71 115**	**13 801 812**	**256 741**

Balance sheet at 31.12 2001

All figures in thousands of NOK

ASSETS	Note	2001	2000
International reserves	**1,2**	**211 537 266**	**245 862 568**
Gold reserves	3	2 346 140	2 275 089
Special drawing rights on the International Monetary Fund		3 191 702	2 713 310
Reserve tranche position in the International Monetary Fund	4	6 532 763	5 165 992
Loans to the International Monetary Fund		1 164 892	1 268 506
Deposits and loans, foreign banks	6	55 446 825	73 397 053
Foreign bearer bonds	5,6	117 274 632	157 892 576
Foreign equities		22 951 890	0
Accrued interest, earned, incl. current assets		2 628 422	3 150 042
Investments for Government Petroleum Fund	**18**	**613 317 485**	**386 126 118**
Other foreign assets		**12 407 635**	**14 131 403**
The International Monetary Fund	4	12 382 857	14 106 703
Shares in the BIS	7	24 700	24 700
Other foreign deposits		78	0
Norwegian securities	**1,8**	**11 523 342**	**13 519 082**
Treasury bills/notes	8	2 450 649	2 776 278
Government bonds	8	9 072 693	10 742 804
Domestic lending		**15 743 002**	**21 733 546**
Banks		15 140 000	21 158 064
Other domestic sectors	9	603 002	575 482
Deposits in Norwegian banks		**42 975**	**957 003**
Other domestic assets		**1 057 411**	**1 200 341**
Accrued interest, earned		329 156	414 032
Other assets		701 265	759 942
Inventories, banknote and coin production	1	26 990	26 367
Shares in subsidiaries and associated companies	**10**	**41 800**	**25 050**
Fixed assets	**1,11,12**	**1 832 102**	**1 938 975**
TOTAL ASSETS		**867 503 018**	**685 494 086**

Oslo, 6 February 2002

Svein Gjedrem
Chairman

Jarle Bergo
Deputy Chairman

Sylvi R. Sørfonn

Trond R. Reinertsen

Vivi Lassen

All figures in thousands of NOK

LIABILITIES AND CAPITAL	Note	2001	2000
Foreign debt		**56 211 296**	**74 998 095**
Foreign banks		76 502	65 364
Borrowing, foreign banks	6	42 860 172	59 741 064
Foreign customers' sight deposits		662 140	695 690
The International Monetary Fund	4	12 383 147	14 107 001
Other foreign liabilities	7	229 335	388 976
Equivalent value of SDR allocations		**1 898 351**	**1 934 187**
Government Petroleum Fund's assets	**18**	**613 317 485**	**386 126 118**
Government Petroleum Fund's krone account	18	613 317 485	386 126 118
Notes and coins in circulation	**14**	**46 633 235**	**46 951 653**
Notes in circulation		42 743 609	43 353 807
Coins in circulation		3 889 626	3 597 846
Domestic sight deposits		**106 662 794**	**119 712 781**
Treasury		83 502 622	96 082 484
Central government registrars		39 824	137 035
Central government funds		5 165	156 420
Banks		21 614 118	21 646 967
State lending institutions and state enterprises		1 405 602	1 588 807
Other deposits	9	95 463	101 068
Other domestic liabilities		**2 696 139**	**10 953 463**
Borrowing from domestic banks	6	2 005 658	1 754 605
Accrued interest, payable		51 327	36 763
Other liabilities	16	639 154	304 794
Transfer Fund	19	0	8 857 301
Capital		**40 083 718**	**44 817 789**
Adjustment fund		36 347 164	41 072 933
Other capital	11, 20	3 736 554	3 744 856
TOTAL LIABILITIES AND CAPITAL		**867 503 018**	**685 494 086**
Derivatives sold	1, 17	23 164 887	29 257 235
Derivatives purchased	1, 17	28 989 742	29 466 305
Government Petroleum Fund, derivatives sold	18	109 491 630	81 081 041
Government Petroleum Fund, derivatives purchased	18	129 918 325	79 326 184
Allotted, unpaid shares in the BIS	7	324 329	313 738

Executive Board of Norges Bank

Sigbjørn Johnsen Torgeir Høien

Jan Erik Martinsen
(Employees' representative)

Sonja Blichfeldt Myhre
(Employees' representative)

Notes to the accounts

Note 1. Accounting policies

General
The accounts are presented in accordance with laws and regulations and generally accepted accounting principles in Norway, taking into consideration the special conditions applying to a central bank. Norges Bank's accounts are adjusted to incorporate value-dating corrections. Securities trades are registered on the trade date. Income and expenses are recorded on an accruals basis.

Norges Bank values gold and securities at fair value. This is in line with changes in Norwegian accounting legislation and accounting practices in other central banks.

Foreign currency
Assets and liabilities in foreign currency were translated into NOK at 31 December 2001 on the basis of market rates from WM Reuters, London, at 4 pm. Income and expenses in foreign currency were translated into NOK at the exchange rates prevailing at the time of the transaction.

Securities
The portfolio of foreign and Norwegian securities is valued at market value at 31 December 2001. The securities are classified as short-term, since they shall be available for intervention purposes.

Off-balance sheet financial instruments
Off-balance sheet financial instruments are contracts for future delivery of currency or securities at a predetermined price. In the case of Norges Bank, these comprise forward exchange contracts, financial futures and interest rate swaps.

Forward contracts are recorded at forward rates. Forward premiums/discounts, futures contracts and interest rate swaps are assessed at market value at 31 December 2001. Fluctuations in the market value are recorded in the profit and loss account under valuation changes.

Valuation of stocks
Stocks of raw materials at the Printing Works and the metal stocks for coin production are valued at the lower of average purchase price and fair value. Goods in progress and finished goods are valued at full production cost, which includes direct and indirect variable and fixed production costs. Obsolescence is taken into account.

Loan losses/bad debts
Actual loan losses/bad debts are charged as an expense. Estimated losses are charged as an expense after a concrete assessment of each loan/debt. On the balance sheet, estimated losses are entered as a reduction of loans outstanding.

Fixed assets
On the balance sheet, fixed assets are entered at original cost plus write-ups and less write-downs and linear depreciation.

The Bank has a substantial collection of art, gifts and museum pieces such as medals, banknotes and coins. These have not been valued or recorded on the balance sheet.

Note 2. Foreign exchange reserves

Total international reserves amount to NOK 211.5 billion, including bonds subject to repurchase agreements. The repurchase agreements must be seen in connection with foreign funding, which, including accrued interest, amounts to NOK 42.9 billion. International reserves also include gold reserves and claims on the International Monetary Fund (IMF), neither of which is included in the foreign exchange reserves. Net foreign exchange reserves, less deductions for bonds subject to repurchase agreements, amount to NOK 157.1 billion.

Net foreign exchange reserves at 31 December 2001:

All figures in thousands of NOK	2001	2000
Deposits and loans, foreign banks	55 446 826	73 397 053
Foreign bearer bonds	117 274 633	157 892 576
Foreign equities	22 951 890	0
Accrued interest	2 628 422	3 150 042
- Interest earned on gold lending	-6 585	-4 967
- Interest earned IMF	-24 386	-40 269
Borrowing, foreign banks	-42 860 172	-59 741 064
- Accrued interest on borrowing, banks	-58 434	-122 957
Gross foreign exchange reserves	**155 352 194**	**174 530 414**
- Foreign exchange purchased forward	3 632 684	4 952 418
- Foreign exchange sold forward	-1 862 505	-11 849 380
Net foreign exchange reserves	**157 122 373**	**167 633 452**

Return on net foreign exchange reserves:

All figures in thousands of NOK	2001	2000
Interest income from bank deposits/loans	3 226 943	2 584 568
- Interest from gold lending	-33 363	-38 098
Interest income from Treasury bills	43	8 388
Interest income from bearer bonds	7 903 542	8 717 457
Interest expenses on bank borrowing	-2 425 249	-1 752 469
Net interest income	**8 671 916**	**9 519 846**
Share dividends	136 379	0
Net valuation gains/losses on foreign securities and financial instruments	-3 836 781	1 603 856
- Changes, gold	-71 115	-68 118
Income forward foreign exchange transactions	12 097	0
Net valuation changes in foreign exchange	-4 877 135	5 988 149
- Correction for SDR changes	361 920	706 265
- Correction for changes in gold reserves	-611	646
- Correction for changes in domestic foreign exchange investments	90 956	-126 230
Net valuation changes and share dividends	**-8 184 290**	**8 104 568**
Return on net foreign exchange reserves	**487 626**	**17 624 414**

Note 3. Gold reserves

Gold reserves are entered at fair value, which is estimated at 20 per cent below market value since gold is traded in a less liquid market. The market price at 31 December 2001 was USD 276.50 per ounce of pure gold, i.e. a market price of NOK 79 734.16 per kg of gold.

At 31 December 2001, 33 521.2 kilograms of gold bars were invested in short-term loans to international banks. The fair value of the gold on loan was NOK 2 138.2 million.

The reserves of gold bars have been reduced by 8.3 kg since end-2000. The reason for this change is that the weight of the gold bars that are returned is not identical to the weight of the gold bars lent out. The weight differential is settled at the market value of gold at the time the gold is returned.

Gold reserves Consist of:	**Weight in kg 31.12.01**	**Fair value at pr. 31.12.01 (NOK million)**	**Weight in kg 31.12.00**	**Fair value at 31.12.00 (NOK million)**
Bars	33 609.3	2 143.8	33 617.6	2 079.0
Coins*	3 171.4	202.3	3 171.4	196.1
	36 780.7	**2 346.1**	**36 789.0**	**2 275.1**

*The weight of the coins represents the percentage of pure gold in the coins. The market price for the coins' weight in pure gold is the same as that used for gold bars.

Note 4. Reserve tranche position in the International Monetary Fund

In millions of NOK	2001	2000
Norway’s quota in the IMF	18 915.6	19 272.7
The IMF’s holdings of NOK	-12 382.8	-14 106.7
Reserve tranche position	6 532.8	5 166.0

The reserve tranche position in the IMF is classified as ”International reserves”. The Fund’s holdings of NOK are posted under ”Other foreign assets” as the item ”The International Monetary Fund”. The corresponding liability, including the Fund’s working account, amounting to NOK 12 383.1 million, is entered under ”Foreign liabilities” as the item ”The International Monetary Fund”.

Note 5. Foreign securities

In millions of NOK	2001	2000
Bearer bonds	117 274.6	157 892.6
Equities	22 951.9	0
Holdings foreign securities at 31 Dec.	140 226.5	157 892.6

As part of a new investment strategy, funds have been invested in equities since 2001.

Note 6. Repurchase/reverse repurchase agreements

Repurchase agreements for securities in foreign currencies are included under ”Borrowing from foreign banks”. The book value (the transfer amount) of the repurchase agreements is NOK 42 860.1 million. The market value of the securities is NOK 42 642.8 million.

Reverse repurchase agreements for securities are listed as ”Deposits and loans, foreign banks” under “International reserves”. The book value of the reverse repurchase agreements is NOK 37 349.7 million.

Repurchase agreements for securities in NOK are included under ”Other domestic liabilities”. The book value (the transfer amount) of repurchase agreements is NOK 1 792.5 million. The market value of the securities is NOK 1 746.1 million.

Note 7. Shares in the Bank for International Settlements (BIS)

Norges Bank has been allotted a total of 8 000 shares at 2 500 Gold Francs in the BIS. 4000 shares were allocated in 1931, of which 25 per cent were paid for in the same year. In 1970, Norges Bank was allotted an additional 4 000 shares, of which 1 000 were bonus shares. The shares have been entered on the balance sheet at a value of NOK 24.7 million. This amount corresponds to the value of 4 000 shares in 1931 (NOK 7.2 million), plus the value of 3 000 shares in 1970 (NOK 17.5 million).

Norges Bank has a conditional obligation to pay for the remaining 75 per cent of the shares in either Gold Francs or gold. The liability is calculated at NOK 347.2 million on the basis of the price of gold on the London Stock Exchange on 31 December 2001. The portion of the conditional liability corresponding to the value of the shares at the time of allotment, i.e. NOK 22.9 million, is recorded under the item ”Other foreign liabilities”. The remainder of the conditional liability, NOK 324.3 million, is recorded as an off-balance sheet item. BIS share dividends received in 2001 amounted to NOK 15.0 million.

Note 8. Norwegian securities

In millions of NOK	2001	2000
Treasury bills	2 450.6	2 776.3
Norwegian government bonds	8 352.4	10 019.5
Norwegian government bonds in foreign currency	720.3	723.3
Holdings Norwegian securities at 31 Dec.	11 523.3	13 519.1

Note 9. Loans to and deposits from employees and pensioners

Housing loans to the Bank’s employees and pensioners amounted to NOK 551.3 million. Other loans to the Bank’s employees and pensioners came to NOK 47.9 million. Loans to the employees in 2000 totalled NOK 567.3 million. These loans are included in the item “Other domestic sectors” under “Domestic lending”. Deposits from employees and pensioners amounted to NOK 62.7 million, which is NOK 11.8 million less than in 2000. The deposits are included in the item “Other deposits” under ”Domestic sight deposits”.

Note 10. Shares in subsidiaries and associated companies

Shares in Bankplassen Parkeringsanlegg A/S
Norges Bank owns 100 per cent of the shares in Bankplassen Parkeringsanlegg A/S. The shares are recorded at cost, NOK 50 000, i.e. the nominal value of the shares. Norges Bank has paid NOK 34 million for its own parking places, and has also provided a subordinated loan of NOK 143.7 million, of which NOK 26 million was repaid to Norges Bank in the period 1997-2001. Bankplassen Parkeringsanlegg A/S had negative equity of NOK 47.3 million at 31 December 2001. In 2001, Norges Bank's interest income on the loan totalled NOK 4 million. The estimated pre-tax profit is NOK 1.0 million.

Shares in the Royal Norwegian Mint
Norges Bank owns 100 per cent of the shares in the Royal Norwegian Mint (Den Kongelige Mynt AS). Operations in the newly formed limited company commenced on 1 January 2001. The company's share capital is NOK 25 million, fully paid up in 2000. Norges Bank has transferred ownership of the Kongsberg properties for NOK 5 million. In connection with the transfer, Norges Bank provided a subordinated loan of NOK 5 million. The pre-tax profit for DKM AS in 2001 was NOK 17.8 million.

Shares in Norsk Kontantservice AS (NOKAS)
Norges Bank owns 33.5 per cent of the shares in NOKAS. The company was established and commenced operations on 1 July 2001. The company's share capital totals NOK 50 million, of which Norges Bank has paid in NOK 16.75 million. NOKAS' preliminary accounts for 2001 estimate a profit after tax of NOK 4 million.

Note 11. Fixed assets

In thousands of NOK

	Vehicles, machinery, computer, equipment	Security system	Machinery, fixtures	Buildings with installations	Bank buildings	Plant under construction	Dwellings	Land	Total
Original cost at 1.1.	232 768	54 874	84 236	527 473	1 731 705	13 133	2 950	94 749	2 741 888
+ Transfers from plant under construction	2 685	4 409	637	1 930		(9 661)			0
+Additions	12 554	2 169	236	4 863	0	46 920	0	1 550	68 292
- Disposals	107 204	6 643	22 762	24 346	3 150	1 803	0	3 000	168 908
Original cost at 31.12.	140 803	54 809	62 347	509 920	1 728 555	48 589	2 950	93 299	2 641 272
- Accumulated deprec. and write-downs	109 916	36 617	30 617	310 715	321 305	0	0	0	809 170
Book value at 31.12.	30 887	18 192	31 730	199 205	1 407 250	48 589	2 950	93 299	1 832 102
Non-deprec. remainder of revalued assets	0	0	666	166 877	1 394 355	0	2 950	89 180	1 654 028
Ordinary depreciation	15 991	5 490	6 111	40 506	40 293	0	0	0	108 391
Of which depreciation of revalued assets	0	0	736	38 651	40 003	0	0	0	79 417
Depreciation rate	20	15	10	5	2	0	0	0	

Note 12. Real estate

Norges Banks properties at 31 December 2001 are specified below.

Branch	Address	Year built/ purchased	Subsequent building projects	Year completed	Gross area (sq.m.) incl. area let and staff flats
Bergen	Bradbenken 1 - 50% ownership	1983/1989	Restoration	1989/1990	5 364
Bodø	Dronningens gt. 36	1951	Restoration	1993/2001	1 338
Fredrikstad	Nygårdsgt. 17	1996	Restoration	1996	248
Fredrikstad	Nygårdsgt. 17B	1909	Restoration	1991	1 236
Fredrikstad	Nygårdsgt. 17C	1990	Restoration	1991	450
Hammerfest	Sørøygt. 10	1962	Restoration	1995,1999,2001	1 462
Kristiansand S	Dronningensgt. 30	1877	Restoration/extension	1975	2 009
Larvik	Bredochsgt. 4	1902	Restoration/extension	1985,1996	1 987
Lillehammer	Stortorget 1	1913	Restoration	1977,1990	1 700
Stavanger	Domkirkepl. 3	1964	Restoration	1991	3 254
	site, ca. 5 000 kvm	1999			
Tromsø	Bankgt. 9 and 11	1973			4 000
Trondheim	Peter Egges plass 2	1993			7 300
Vardø	Brodtkorbsgt. 1	1961	Restoration	1986	1 450
Ålesund	Nedre Strandgt. 2	1907	Restoration	1992	1 265
Oslo	Bankpl. 2	1978-86	New building/restoration		65 000
	Bankpl. 4, gnr 207,bnr 392	1899	Previous headquarters**		
	Bankpl. parking facility, 207/28	1948			
Course and holiday centres:					
Venastul	Venabygd	1963	Restoration	1993	2 000*
Vindåsen	Sundane, Tjøme	1956	Annex restoration	1960,1993	1 067
Abroad:					
New York					
Staff flat	275, West 96th Street	1984			140

There are staff flats in Stavanger, Hammerfest, Tromsø and Vardø on the bank premises.
* Including manager's residence and parking facility
** Leased to the government for 80 years. Expires on 21 November 2066 (Museum of Contemporary Art). Lease dated 21 November 1986. Deadline for notice of termination: 21 November 2065.

In January 2002, Norges Bank entered into contracts to sell the properties in Fredrikstad and Ålesund.
The Bank has entered into long-term rental contracts with Norsk Kontantservice AS in connection with the former regional offices in Tromsø, Trondheim, Bergen, Stavanger, Kristiansand, Larvik and Lillehammer. There are plans to sell these buildings as well as the buildings in Vardø, Hammerfest and Bodø in 2002.

Rented properties

In 2001, the Bank had rental contracts on the following properties:

Address	Lease term	Area	Rent 2001
Bodø	01.07.2001	100 sq.m.	12 000
Kristiansund N	15.05.2003	486 sq.m.	422 689
Oslo (Lillehammer)	25 years beginning in 1990	3 588 sq.m.	4 833 534
Ålesund	01.06.2001–31.12.2006	20 sq.m.	21 600
New York:			
17 State St.	30.06.2002	330 sq.m.	USD 93 054
150 W 56th Street #4802	31.07.2001	75 sq.m.	USD 54 000
150 W 56th Street #6303	30.11.2002	101 sq.m.	USD 58 350
London:			
14 Ryder Court	08.06.2005	170 sq.m.	GBP 105 940
14 Lower Sloane Street[1]	25.05.2001	60 sq.m.	GBP 18 525
257 A New Kings Road	24.10.2002	approx. 70 sq.m.	GBP 4 334
7 Belvedere Grove	03.08.2002	110 sq.m.	GBP 31 720
76 Redcliffe Square /Flat 4	31.01.2002	68 sq.m.	GBP 24 834
39 Welford Place	30.08.2002	160 sq.m.	GBP 42 560
12 Southridge Place	23.01.2003	approx. 120 sq.m.	GBP 30 000
87 Dora Road	29.01.2003	approx. 120 sq.m.	GBP 38 500

[1] Contract expired

Note 13. Norges Bank's Printing Works

After apportionment of shared administrative costs, the commercial portion of activities in 2001 breaks down as follows:

All figures in thousands of NOK	Total	Of which commercial portion
Operating income	27 385	27 133
Sale of fixed assets	58	0
Operating expenses	62 542	15 747
Contributions		**11 386**
To cover:		
Depreciation		187
Estimated shared costs		4 157
Profit/loss		**7 042**

The above figures are included in Norges Bank's accounts
The figures are stated before eliminations.

Note 14. Notes and coins

The Bank's cash holdings are deducted from the item "Notes and coins in circulation".

Norges Bank is obligated to redeem notes and coins for a period of 10 years after they have ceased to be legal tender. In compliance with interpretations of the general background material to the Act on Norges Bank and the Monetary System of 24 May, Norges Bank has continued to redeem banknotes after they have ceased to be legal tender. In 2001, redeemed/invalidated banknotes corresponding to NOK 4.1 million were charged to the accounts.

Norges Bank has issued a number of commemorative coins in the period 1964-2001:
10-krone coin in 1964, 25-krone coin in 1970, 50-krone coin in 1978, 200-krone coin in 1980, 100-krone coin in 1982, 175-krone coin in 1989, all in silver, as well as gold and silver coins in connection with the Winter Olympics in Lillehammer in 1994, the World Cycling Championship in 1993 and the Grieg Anniversary in 1993, a coin to commemorate the 50th anniversary of the liberation of Norway in 1995, a coin to commemorate the 50th anniversary of the United Nations in 1995 and a commemorative millennium coin. In 2001, Norges Bank issued gold and silver coins in connection with the 100th anniversary of the Nobel Peace Prize. The nominal value of these coins was NOK 1 500 and NOK 100 respectively.

At 31.12.01, a total of approximately 5.1 million of these coins were in circulation, with a nominal value of approximately NOK 405.7 million. This amount is not included in the item "Notes and coins in circulation". Norges Bank is obligated to redeem the coins at nominal value.

In addition to the cost of goods at Norges Bank Printing Works, costs related to banknote and coin production include metal consumption in connection with coin production at the Royal Norwegian Mint.

Note 15. Interest to the Treasury

For that portion of "Domestic sight deposits - Treasury" which corresponds to the central government's foreign debt, the central government receives the accounting return on a matching, earmarked portion of the foreign exchange reserves (immunisation portfolio). The return for 2001 amounted to NOK 49 million.

On the remaining portion of the deposits from the Treasury, interest of 5.0 per cent per annum was paid in the period 1 January 2001 to 30 June 2001, 5.25 per cent per annum in the period 1 July 2001 to 30 September 2001, and 5.0 per cent per annum in the period 1 October 2001 to 31 December 2001, i.e. total interest income of NOK 4 814 million. The same interest rates were paid on deposits from government account holders who receive interest on their deposits.

Note 16. Salaries and pensions

The salaries of the Central Bank Governor and Deputy Governor are set by the Ministry of Finance, and in 2001 were NOK 1 071 200 and NOK 847 600 respectively. In addition, they have a company car at their disposal (benefits estimated at NOK 69 500 and 101 200 respectively) and a free telephone.

The full old-age pension of the Central Bank Governor and the Deputy Governor is 2/3 of the prevailing salary for the position in question. Old-age pensions are payable from the date of retirement, however not before the age of 65. The earning period for a full pension is 12 years.

Total expenses related to the Supervisory Council and the Executive Board were NOK 2.0 million in 2001.

Norges Bank's total pension commitments
Pension commitments relating to special pensions, early retirement schemes, current pensions and redundancy pay, which are not covered by the pension fund, are included on Norges Bank's balance sheet under the item "Other liabilities" in the amount of NOK 255.7 million. Pension commitments of NOK 217.3 million have been determined by an actuarial assessment according to accounting standards for pension expenses (NRS-P). The calculations are based on a 6.5 per cent discount rate, 2.5 per cent basic pension adjustment, 2.5 per cent adjustment of the basic pension in the national insurance system, 3 per cent future wage growth and standard turnover. This figure does not include agreements concerning redundancy pay and early retirement which come into effect in 2002. These commitments are estimated at NOK 38.4 million and are included in the total pension commitment.

Pension expenses charged to operations in 2001
Total pension expenses in 2001 amount to NOK 114.2 million. This includes NOK 30.8 million charged to the Bank's cost accounts. In addition, NOK 83.4 million, corresponding to the increase in pension commitments from end-2000 (NOK 172.3 million) until end-2001 (NOK 255.7 million) has been charged to the Bank's profit and loss account.

Restructuring costs
As a result of major restructuring in the Bank, restructuring costs have been included as a separate item in the profit and loss account since 2000. Costs related to redundancy pay and early retirement amounted to NOK 103.0 million in 2001. NOK 27.6 million represented current pensions in 2001 and NOK 75.4 million represented the increase in future pension commitments. These costs are included in the item "Restructuring costs". Future obligations connected to restructuring amount to NOK 213.5 million at end-2001.

Pension fund
Norges Bank's ordinary pension commitments are covered by the Bank's own pension fund, which is organised as a foundation. The Bank guarantees pension fund payments. The pension fund has a premium fund amounting to NOK 248.3 million at 31 December 2001. The employer's contribution to the pension fund in 2001 was covered by capital from the pension premium fund.

The pension commitment as of 31 December 2001 amounted to NOK 1 396.8 million, according to an actuarial assessment based on the same principles as the assessment in 2000. The assessment is based on a discount rate of 4 per cent. The assumptions concerning mortality, disability and other demographic factors are based on the standard K63 basis for group pension insurance. The pension commitment item includes a supplement of 3 per cent to cover future administrative costs. Calculation of the pension commitment for each individual is based on the pension benefits earned or being received by that individual as of 31 December 2001. Pension commitments are equal to the estimated cash value of the earned benefits.

The pension fund has 2 497 members of which 993 are drawing a pension, 1 128 are active members contributing to the fund and 376 are former employees with deferred rights. Included in the figure of active members are 323 employees at the Royal Norwegian Mint (Den Kongelige Mynt AS) and Norsk Kontantservice AS.

Pension commitments calculated according to accounting standards for pensions (PBO – fixed benefit obligation) amount to NOK 1 250.2 million. The calculations are based on a 6.5 per cent discount rate, 2.5 per cent basic pension adjustment, 2.5 per cent adjustment of the basic pension in the national insurance system, 3 per cent future wage growth and standard turnover. Pension fund assets valued at fair value exceed the calculated commitment by NOK 145 million. The amount has been assessed according to accounting standards for pensions, but has not been entered in Norges Bank's balance sheet.

Note 17. Forward exchange contracts and derivatives

Norges Bank uses forward exchange contracts, listed futures contracts and interest rate swaps to manage interest rate risk and foreign exchange risk related to the foreign exchange reserves. In addition, equity index futures are used in connection with the accumulation of capital for transfer to the Government Petroleum Fund.

Forward exchange contracts
Forward exchange contracts are agreements to purchase or sell currency at a future date at a predetermined price. At 31 December 2001, currency worth a total of NOK 3 632.7 million had been purchased forward and currency worth a total of NOK 1 862.5 million had been sold forward.

Derivatives
Listed futures contracts are agreements to purchase or sell a standard quantity of a financial instrument, the value of an equity index, or foreign currency at a future date at a price set when the contract is concluded. At end-2001, listed interest rate futures with a market value of NOK 11 956.8 million had been purchased, while listed interest rate futures with a market value of NOK 7 939.7 million had been sold.

Securities with a market value of NOK 1 994.4 million at 31 December 2001 have been pledged as collateral for the initial margin.

Interest rate swaps
A swap is an agreement between two parties to exchange payments on several given dates in the future in accordance with a set of rules specified in the agreement. An interest rate swap agreement is an agreement in which both parties' payment obligations are determined by interest rates which

are fixed or dependent on movements in a specified reference rate, multiplied by a hypothetical principal. The net market value is calculated by discounting the future cash flows in the interest rate swaps. At the end of 2001, interest rate swaps with a market value of NOK 13 362.7 million had been sold, and interest rate swaps with a market value of NOK 13 400.2 million had been purchased.

Note 18. Government Petroleum Fund

At 31 December 2001, the Government Petroleum Fund had krone deposits in Norges Bank amounting to NOK 613.3 billion. The equivalent of the amount in NOK has been invested in foreign currency in an earmarked portfolio.

The Petroleum Fund's portfolio is spread over the following instruments:

Figures in thousands of NOK	**31.12.2001**	**31.12.2000**
Bank deposits and loans to foreign banks	20 537 466	34 316 982
Foreign Treasury bills	803 216	367 323
Foreign notes and short-term paper	358 110	-
Foreign bearer bonds	342 149 511	240 942 738
Foreign equities	240 662 286	150 049 368
Unsettled trades	-559 084	-118 984
Foreign lending (reverse repurchase agreements)	111 390 098	53 212 113
Foreign lending (triparty agreements)	10 460 631	26 110 262
Accrued interest, earned	6 973 182	4 847 493
Accrued dividend	222 095	148 054
Adjustment of futures contracts/interest rate swaps	12 406	150 257
Borrowing, foreign banks	-119 092 695	-123 309 624
Accrued interest, payable	-227 482	-259 846
Accrued management remuneration	-372 255	-330 018
Total investment for Government Petroleum Fund	**613 317 485**	**386 126 118**

Norges Bank's management remuneration, NOK 372.3 million, is included in the item "Other operating income".

The return for 2001, NOK –24.3 billion, was transferred to the Petroleum Fund's krone account at end-2001 and is broken down as follows:

Figures in thousands of NOK	**31.12.2001**	**31.12.2000**
Interest income	14 911 191	9 719 526
Dividends	2 738 851	1 552 377
Exchange rate gains/losses	-16 242 683	7 907 405
Unrealised securities gains/losses	-19 308 721	-6 318 289
Realised securities gains/losses	-4 190 744	1 661 195
Brokers' commissions	-48 960	-22 221
Gains/losses on forward exchange trading	1 477	-1 741
Gains/losses futures	-1 816 099	-319 798
Total return on investments	**-23 955 688**	**14 178 454**
Accrued management remuneration	-372 255	-330 018
Net earned return	**-24 327 943**	**13 848 436**

The Government Petroleum Fund's krone deposits in Norges Bank are composed of deposits and returns earned from the time the Fund was established in 1996 to the end of 2001.

In millions of NOK	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**TOTAL**
Krone account at 1.1.	**0.0**	**47 538.8**	**113 313.0**	**167 643.7**	**222 277.6**	**386 126.1**	
Total krone deposits	47 476.3	60 900.3	32 836.6	24 500.0	150 000.0	251 519.3	567 232.5
Value increase, return	62.5	4 873.9	21 494.1	30 133.9	13 848.5	-24 327.9	46 085.0
Krone account at 31.12.	**47 538.8**	**113 313.0**	**167 643.7**	**222 277.6**	**386 126.1**	**613 317.5**	
Market value of Petroleum **Funds portfolio at 31 Dec.**	**47 583.0**	**113 508.5**	**171 786.3**	**222 277.6**	**386 126.1**	**613 317.5**	

Derivatives in the Government Petroleum Fund

At end-2001, listed equity index futures with a market value of NOK 9 843.3 million and listed interest rate futures with a market value of NOK 46 548.7 million had been purchased. Interest rate futures with a market value of NOK 35 938.7 million had been sold. Securities with a market value of NOK 3 094.1 have been pledged as collateral for the initial margin.

At end-2001, foreign exchange with a market value of NOK 9 678.3 million had been bought forward and foreign exchange for the same amount had been sold forward.

At end-2001, interest rate swaps with a market value of NOK 63 874.6 million had been sold, and interest rate swaps with a market value of NOK 63 848.0 million had been purchased.

Note 19. The Transfer Fund

Since 1999, the Transfer Fund has been reclassified as a liability in Norges Bank's balance sheet. This is because the Transfer Fund consists of annual allocations, which are earmarked for transfer to the Treasury in the course of a three-year period in accordance with guidelines for allocations and application of Norges Bank's profit.

Transfers from the Transfer Fund to the Treasury are effected in accordance with guidelines for the allocation and application of Norges Bank's profit/loss. One-third of the allocations to the Transfer Fund in 1998 will be transferred from the Transfer Fund for 2001. No allocations were made to the Transfer Fund in 1999 and 2000. In 2002, NOK 8 857.4 million will be transferred to the Treasury.

No allocation will be made to the Transfer Fund for 2001.

Note 20. Other capital

In accordance with a letter from the Ministry of Finance, an item ”Other capital”, which includes the former Revaluation Fund, may be used. In addition to non-written-down components of capitalised fixed assets expensed before 1994, the effect of the changes in the valuation principle for gold made in 1999 is also included in ”Other capital”. Changes in the valuation principle for gold and changes in the Revaluation Fund are included in ”Other capital”.
Changes in ”Other capital” in 2001 were as follows:

(all figures in thousands of NOK)		
Other capital at 31 December 2000		**3 744 856**
Write-down of previously revalued assets in 2001	- 79 417	
Increase in the fair value of gold in 2001	+ 71 114	- 8 303
Other capital at 31.12.2001		**3 736 553**

To the Supervisory Council of Norges Bank

Auditors' report for 2001

We have audited the annual report and accounts of Norges Bank for 2001, which show a loss of NOK 4 734 071 thousand. We have also audited the information in the Report of the Executive Board on the annual accounts and the proposal for covering the loss. The annual accounts comprise the income statement, balance sheet and notes to the accounts. The annual accounts and the report on the annual accounts are the responsibility of the Central Bank's Executive Board. Our responsibility is to express an opinion on the annual accounts and the other information, in accordance with the requirements of the Norwegian Act on Auditors and Auditing.

We have conducted our audit in accordance with the Norwegian Act on Auditing and Auditors, instructions issued by the Supervisory Council and good Norwegian auditing practice. Good auditing practice requires that we plan and conduct the audit so as to obtain reasonable assurance that the financial statements are free of material errors or omissions. An audit includes examining, on a sample basis, the evidence supporting the information in the annual accounts as well as assessing the accounting principles applied, significant estimates made by management and the contents and presentation of the annual accounts. To the extent required by good auditing practice and our auditing instructions, our audit also includes a review of Norges Bank's asset management and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

The central bank's accounting principles are based on the Norwegian Accounting Act and good accounting practice in Norway, and take into account the special considerations that apply to a central bank. A more detailed presentation of these principles may be found in the notes to the accounts.

In our opinion
- the annual accounts have been presented in accordance with laws and regulations, and present the financial position of the Bank as of 31 December 2001 and the results of its operations for the financial year in accordance with the accounting principles outlined in the previous paragraph.
- the management has fulfilled its duty of producing a proper and clearly set out registration and documentation of accounting information in accordance with the law and good accounting practice
- the information in the Executive Board's report on the annual accounts and the proposal for covering the loss are consistent with the annual accounts, and comply with the Norges Bank Act and guidelines adopted in the Council of State.

Oslo, 6 February 2002

Svenn Erik Forsstrøm
State Authorised Public Accountant (Norway)

Note: The translation to English has been prepared for information purposes only.

Resolution of the Supervisory Council concerning the accounts for 2001

Pursuant to Section 5, third paragraph, of the Act relating to Norges Bank and the Monetary System, the Supervisory Council adopted at its meeting of 14 February 2002 the following resolution, which, with reference to Section 28, second paragraph, is to be sent to the Ministry of Finance for submission to the King and communication to the Storting:

The Supervisory Council has examined the Executive Board's proposal for the annual accounts for 2001 for Norges Bank, and has taken note of the Executive Board's report on the accounts, the profit and loss account, the balance sheet and the notes to the accounts.

Norges Bank's annual accounts for 2001 show a deficit of NOK 4.7 billion, compared with a profit of NOK 13.7 billion in 2000. The decline in prices in the international securities markets in 2001 has resulted in a loss of NOK 3.7 billion, compared with a capital gain of NOK 2.1 billion in 2000. Due to the appreciation of the Norwegian krone, foreign exchange reserves translated into NOK showed an exchange loss of NOK 4.9 billion in 2001, compared with an exchange gain of NOK 6.0 billion in 2000.

Interest income from foreign investments came to NOK 11.4 billion, NOK 0.3 billion less than in 2000.

Interest payments to the Treasury amounted to NOK 4.8 billion, of which NOK 49 million represents the return on the immunisation portfolio[1]. Total interest payments to the Treasury came to NOK 3.6 billion in 2000.

In accordance with the prevailing guidelines for the allocation and application of Norges Bank's profit or loss, originally established by the Council of State on 7 February 1986 and most recently amended by Royal Decree of 21 December 2000, the Supervisory Council adopted the following resolutions:

1) The Supervisory Council has no comments to the Auditors' Report dated 6 February 2002.

2) The Supervisory Council approves Norges Bank's accounts for 2001 as presented by the Executive Board, with the following allocations and transfers:
   2.1 Pursuant to point 3 of the guidelines, NOK 8.9 billion will be transferred to the Treasury from the Transfer Fund.[2]
   2.2 Pursuant to point 4 of the guidelines, the loss for the year, NOK 4.7 billion, will be covered by a transfer from the Adjustment Fund.[3]
   2.3 In accordance with a statement from the Ministry of Finance, NOK 8.3 million is to be transferred from other capital.

3) The Supervisory Council will forward the annual accounts, the Executive Board's report on the accounts, the auditors' report and the Supervisory Council's statement concerning the minutes of the meetings of the Executive Board to the Ministry of Finance, for submission to the King and communication to the Storting.

Oslo, 14 February 2002

Mary Kvidal
Chairman of the Supervisory Council

Jens Marcussen
Deputy Chairman of the Supervisory Council

Resolution of the Supervisory Council concerning the minutes of the Executive Board meetings

Pursuant to Section 5, third paragraph, of the Act relating to Norges Bank and the Monetary System, the Supervisory Council adopted at its meeting of 14 February 2002 the following resolution, which, with reference to Section 28, second paragraph, is to be sent to the Ministry of Finance for submission to the King and communication to the Storting:

The Supervisory Council has examined the minutes of the Executive Board meetings for 2001 and has received all the information requested. The Supervisory Council has no comments concerning the minutes which give grounds for a statement to the Ministry pursuant to Section 28, second paragraph, of the Norges Bank Act.

Oslo, 14 February 2002

Mary Kvidal
Chairman of the Supervisory Council

Jens Marcussen
Deputy Chairman of the Supervisory Council

1) The immunisation portfolio is coordinated with the Government's foreign debt in order to eliminate exchange rate and interest rate risk. Foreign debt, expressed in NOK, is included in the Treasury's sight deposit account.
2) Following this transfer, there is no capital in the Transfer Fund.
3) After the transfer, the Adjustment Fund will amount to NOK 36.3 billion. If the Adjustment Fund were to reflect the ratios in point 1 of the regulation, it would amount to NOK 40.4 billion.

Appendices

Appendices

Appendices

Appendix A. Tables

Table 1. Norges Bank's balance sheet at 31.12.2000 and each month of 2001 by sector. In millions of NOK

	31.12. 2000	31.1. 2001	28.2. 2001	31.3. 2001	30.4. 2001
ASSETS					
Foreign assets	**646 120**	**640 740**	**647 561**	**685 380**	**706 768**
International reserves	245 863	229 543	245 705	246 581	255 084
Investments for Government Petroleum Fund	386 126	397 484	388 005	424 747	437 873
Other foreign assets	14 131	13 713	13 851	14 052	13 811
Claims on Norwegian financial institutions	**22 194**	**14 035**	**44**	**1 157**	**44 408**
Loans to private banks	21 158	14 008	6	0	43 923
Other assets in the form of deposits, securities, loans and overdrafts	1 036	27	38	1 157	485
Claims on central government	**13 909**	**13 110**	**13 988**	**15 578**	**20 387**
Bearer bonds	10 743	10 744	10 823	11 936	14 637
Other securities	2 776	1 918	2 647	3 228	5 083
Other assets	390	448	518	414	667
Claims on other Norwegian sectors	**1 306**	**1 405**	**1 164**	**1 301**	**904**
Securities and loans	576	581	581	585	579
Other assets	730	824	583	716	325
Inventories, production units	**26**	**26**	**34**	**38**	**38**
Fixed assets	**1 939**	**1 932**	**1 920**	**1 920**	**1 915**
Valuation changes	**0**	**1 563**	**12 243**	**24 373**	**12 191**
Expenses	**0**	**2 567**	**2 368**	**3 777**	**5 261**
TOTAL ASSETS	**685 494**	**675 378**	**679 322**	**733 524**	**791 872**
LIABILITIES AND CAPITAL					
Foreign debt	**74 998**	**57 824**	**60 742**	**61 647**	**78 200**
IMF debt in NOK	14 107	13 689	13 826	14 028	13 787
Other foreign debt	60 891	44 135	46 916	47 619	64 413
Notes and coins in circulation	**46 952**	**43 153**	**42 381**	**42 034**	**42 107**
Domestic deposits	**505 837**	**510 430**	**504 947**	**518 683**	**597 138**
Treasury	96 083	100 735	107 497	81 113	139 155
Government Petroleum Fund	386 126	397 484	388 005	424 747	437 873
Central government	293	106	121	118	4 367
Private banks	21 647	10 495	7 711	11 051	14 177
Other financial institutions	1 591	1 512	1 513	1 545	1 478
Other domestic sectors	97	98	100	109	88
Accrued interest to the Treasury	**0**	**394**	**776**	**1 260**	**1 796**
Other domestic liabilities	**10 955**	**14 122**	**10 296**	**37 719**	**10 543**
NOK value of SDRs in the IMF	**1 934**	**1 922**	**1 942**	**1 970**	**1 936**
Adjustment Fund	**41 073**	**41 073**	**41 073**	**41 073**	**41 073**
Other capital	**3 745**	**3 745**	**3 745**	**3 745**	**3 745**
Valuation changes	**0**	**0**	**0**	**0**	
Income	**0**	**2 715**	**13 420**	**25 393**	**15 334**
TOTAL LIABILITIES AND CAPITAL	**685 494**	**675 378**	**679 322**	**733 524**	**791 872**
Off-balance sheet items, incl. Government Petroleum Fund					
Foreign exchange sold forward	32 595	35 995	32 976	69 121	51 094
Foreign exchange purchased forward	25 699	37 883	35 381	71 236	53 095
Derivatives sold	77 743	114 443	112 222	134 485	190 584
Derivatives purchased	83 094	188 116	154 784	193 285	214 497
Allotted, unpaid shares in the BIS	314	314	314	314	314

31.5. 2001	30.6. 2001	31.7. 2001	31.8. 2001	30.9. 2001	31.10. 2001	30.11. 2001	31.12. 2001
733 495	**759 403**	**752 495**	**767 968**	**806 585**	**792 356**	**841 278**	**837 262**
247 552	223 075	223 743	229 445	246 801	222 877	211 997	211 537
472 261	522 675	515 709	525 394	546 672	556 317	615 819	613 317
13 682	13 653	13 043	13 129	13 112	13 162	13 462	12 408
25 943	**16 451**	**11 202**	**155**	**1 102**	**1 150**	**1 078**	**15 242**
25 010	16 010	10 050	0	1	3	1	15 140
933	441	1 152	155	1 101	1 147	1 077	102
11 897	**11 168**	**12 341**	**12 491**	**11 857**	**12 177**	**10 954**	**11 813**
8 896	8 972	8 887	8 948	9 028	9 165	9 155	9 073
2 774	1 941	3 140	3 185	2 424	2 707	1 556	2 451
227	255	314	358	405	305	243	289
972	**1 102**	**1 055**	**1 178**	**1 180**	**1 121**	**1 246**	**1 327**
587	595	589	609	606	603	609	603
385	507	466	569	574	518	637	724
33	**21**	**21**	**17**	**21**	**30**	**31**	**27**
1 907	**1 882**	**1 838**	**1 836**	**1 834**	**1 829**	**1 823**	**1 832**
7 856	**22 199**	**31 725**	**45 180**	**64 042**	**55 037**	**44 754**	**0**
7 627	**8 254**	**9 437**	**10 620**	**11 711**	**12 934**	**14 179**	**0**
789 730	**820 480**	**820 114**	**839 445**	**898 332**	**876 634**	**915 343**	**867 503**
68 785	**53 792**	**55 993**	**52 690**	**60 587**	**50 600**	**57 659**	**56 211**
13 657	13 628	13 017	13 103	13 085	13 137	13 437	12 383
55 128	40 164	42 976	39 587	47 502	37 463	44 222	43 828
42 350	**43 608**	**42 839**	**42 026**	**41 591**	**40 969**	**42 084**	**46 633**
592 836	**618 864**	**625 754**	**628 652**	**629 697**	**661 563**	**692 282**	**719 980**
107 863	77 467	91 772	72 965	45 137	85 821	64 285	83 503
472 261	522 675	515 709	525 394	546 672	556 317	615 819	613 317
4 334	4 892	4 288	4 327	4 340	82	59	45
6 951	12 556	12 821	24 455	32 130	18 021	10 757	21 614
1 336	1 171	1 057	1 410	1 308	1 226	1 270	1 406
91	103	107	101	110	96	92	95
2 426	**196**	**566**	**975**	**1 312**	**1 690**	**2 064**	**0**
21 139	**29 768**	**10 812**	**17 415**	**47 962**	**11 277**	**19 336**	**2 697**
1 968	**1 944**	**1 926**	**1 904**	**1 921**	**1 897**	**1 898**	**1 898**
41 073	**41 073**	**41 073**	**41 073**	**41 073**	**41 073**	**41 073**	**36 347**
3 745	**3 745**	**3 745**	**3 745**	**3 745**	**3 745**	**3 745**	**3 737**
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**
15 408	**27 490**	**37 406**	**50 965**	**70 444**	**63 820**	**55 202**	**0**
789 730	**820 480**	**820 114**	**839 445**	**898 332**	**876 634**	**915 343**	**867 503**
71 980	28 093	33 236	33 735	24 868	20 451	23 720	11 541
101 681	29 810	35 653	35 549	26 957	22 608	25 001	13 311
204 863	105 877	96 112	109 239	101 623	60 555	59 039	121 116
233 580	135 826	114 493	128 576	135 873	70 744	78 120	145 597
314	314	314	314	314	314	314	324

Table 2. Norges Bank. Profit and loss account at 31 Desember, 1997-2001. In millions of NOK

	1997	1998	1999	2000	2001
Foreign interest income					
Interest on bank deposits/loans	1 177.9	719.5	1 023.0	2 584.6	3 226.9
Interest on Treasury bills	162.8	12.0	0.4	8.4	0.0
Interest on bearer bonds	11 507.0	9 688.2	7 315.8	8 717.4	7903.6
Other interest income	302.3	402.6	477.2	338.3	258.5
Share dividend, BIS	11.2	12.1	13.0	14.4	15.0
Total foreign interest income	**13 161.2**	**10 834.4**	**8 829.4**	**11 663.1**	**11 404.0**
Return on investments for Government Petroleum Fund	**4 873.9**	**21 571.5**	**30 295.5**	**14 178.4**	**(23 955.7)**
Foreign interest expenses					
Interest on deposits/borrowings	617.6	346.9	716.5	1 752.5	2 425.2
Interest to foreign customers	41.0	44.6	42.7	44.1	42.0
Total foreign interest expenses	**658.6**	**391.5**	**759.2**	**1 796.6**	**2 467.2**
Net foreign interest income	**17 376.5**	**32 014.4**	**38 365.7**	**24 044.9**	**(15 018.9)**
Domestic interest income					
Interest on bearer bonds	650.1	706.6	508.3	682.8	696.7
Interest on negotiable notes and bills	108.9	139.7	181.8	158.9	8.3
Interest on loans to banks	39.3	206.6	432.2	323.8	947.7
Interest on other loans	21.1	20.1	30.0	36.7	42.0
Total domestic interest income	**819.4**	**1 073.0**	**1 152.3**	**1 202.2**	**1 694.7**
Domestic interest expenses					
Interest to the Treasury	4 793.2	4 277.4	1 775.8	3 561.4	4 814.0
Interest to Government Petroleum Fund	4 873.9	21 571.5	30 295.5	14 178.4	(23 955.7)
Interest to public account holders	129.5	123.9	116.7	7.7	125.3
Interest to banks	590.2	659.6	661.2	1 012.4	1 082.3
Interest on tax-free allocations to funds	1.0	0.7	0.6	0.4	0.1
Other interest expenses	3.0	2.8	6.9	9.4	9.9
Total domestic interest expenses	**10 390.8**	**26 635.9**	**32 856.7**	**18 769.7**	**(17 924.1)**
Net domestic interest expenses	**9 571.4**	**25 562.9**	**31 704.4**	**17 567.5**	**(19 618.8)**
Net interest income, domestic and foreign	**7 805.1**	**6 451.5**	**6 661.3**	**6 477.4**	**4 599.9**
Dividend	**0.0**	**0.0**	**0.0**	**0.0**	**136.4**
Valuation changes					
Net gains/(losses) on foreign exchange	6 390.8	15 351.6	(887.3)	5 988.1	(4 877.1)
Net gains/(losses) on foreign securities and financial instruments	453.2	2 534.6	(7 345.0)	1 603.9	(3 836.8)
Net gains/(losses) on Norwegian securities	130.0	(167.2)	(809.8)	503.0	151.0
Net valuation changes	**6 974.0**	**17 719.0**	**(9 042.1)**	**8 095.0**	**(8 562.9)**
Net interest income and valuation adjustments	**14 779.1**	**24 170.5**	**(2 380.8)**	**14 572.4**	**(3 826.6)**
Operating income					
Fees and commission income	79.5	89.1	99.0	126.7	88.8
Sales income, production units	82.0	76.3	76.8	94.0	27.1
Other operating income	33.0	180.4	232.5	364.4	438.4
Total operating income	**194.5**	**345.8**	**408.3**	**585.1**	**554.2**
Operating expenses					
Wages, salaries and other personnel costs	455.4	484.0	506.0	555.7	501.9
Restructuring costs	0.0	0.0	8.0	129.9	103.0
Ordinary depreciation	118.2	114.6	116.2	120.2	108.4
Goods consumption, production units	76.2	97.8	85.1	90.3	69.0
Other operating expenses	250.0	309.6	426.9	539.8	679.4
Redeemed, invalidated notes	12.9	0.0	0.0	0.0	0.0
Total operating expenses	**912.7**	**1 006.0**	**1 142.2**	**1 435.9**	**1 461.7**
Net operating expenses	**718.2**	**660.2**	**733.9**	**850.8**	**907.5**
Operating profit before allocations and loan losses	**14 060.9**	**23 510.3**	**(3 114.7)**	**13 721.6**	**(4 734.0)**
Loan losses	0.0	0.0	(0.3)	0.0	(0.1)
Profit/loss for the year before transfers	**14 060.9**	**23 510.3**	**(3 115.0)**	**13 721.6**	**(4 734.1)**
Transfers					
Transferred from the Adjustment Fund	0.0	2 977.9	0.0	0.0	4 725.8
Transferred from the Transfer Fund[1)]	3 811.0	3 400.6	0.0	0.0	0.0
Transferred from 'Other capital'	93.9	83.7	3 371.8	80.2	79.4
Reserves	**17 965.8**	**29 972.5**	**256.8**	**13 801.8**	**71.1**
Transferred to 'Other capital'.	0.0	0.0	132.6	68.1	71.1
Transferred to the Treasury from the Transfer Fund[1)]	3 811.0	3 400.6	0.0	0.0	0.0
Allocated to the Transfer Fund	5 483.5	26 571.9	0.0	0.0	0.0
Allocated to the Adjustment Fund	8 671.3	0.0	124.2	13 733.7	0.0
Total allocations	**17 965.8**	**29 972.5**	**256.8**	**13 801.8**	**71.1**

1) The Transfer Fund was reclassified from equity capital to liability on 1 January 1999

Table 3. Norges Bank's loans to and deposits from banks in 2001

Month		D-loan quota % of basis of measurement	D-loans: Loan-potential in NOK bn	D-loans: Actual drawings in NOK bn	Fixed-rate loans: Daily average in NOK bn	Fixed-rate loans: Nominal rate	Fixed-rate deposits: Daily average in NOK bn	Fixed-rate deposits: Nominal rate	Sight deposits: Daily average in NOK bn
January	01-15	15.0	13.3	0	7.1	7.05	-	-	9.6
	16-31	15.0	12.4	0	18.1	7.04	-	-	8.5
February	01-15	15.0	13.3	0	4.7	7.05	-	-	10.6
	16-28	15.0	15.3	0.2	8.3	7.07	-	-	8.1
March	01-15	15.0	13.3	0	-	-	8.3	7.12	9.2
	16-31	15.0	12.4	0	7.8	7.07	-	-	11.8
April	01-15	15.0	13.3	0	28.8	7.02	-	-	20.7
	16-30	15.0	13.3	0.4	44.9	7.03	-	-	11.1
May	01-15	15.0	13.3	0	37.7	7.02	-	-	13.5
	16-31	15.0	12.4	0	44.9	7.02	-	-	12.0
June	01-15	-	-	0	21.9	7.05	-	-	11.0
	16-30	-	-	0	23.5	7.05	-	-	12.5
July	01-15	-	-	0	3.6	7.08	-	-	10.7
	16-31	-	-	0	17.0	7.04	-	-	12.4
August	01-15	-	-	0	2.7	7.05	-	-	9.9
	16-31	-	-	0	1.5	7.03	5.4	7.10	9.7
September	01-15	-	-	0	-	-	21.8	7.09	10.8
	16-30	-	-	0	-	-	12.7	7.10	13.6
October	01-15	-	-	0	20.6	7.05	-	-	16.6
	16-31	-	-	0	6.8	7.06	-	-	10.9
November	01-15	-	-	0	17.1	7.11	-	-	11.1
	16-30	-	-	0	1.2	7.05	-	-	13.0
December	01-15	-	-	0.1	6.2	6.91	-	-	8.6
	16-31	-	-	0	14.3	6.58	-	-	17.4

Table 4. Norges Bank's D-loan and sight deposit rates, 1999-2001

Period	D-loan rate: Nominal	D-loan rate: Effective	Sight deposit rate: Nominal	Sight deposit rate: Effective
28.01.99-02.03.99:	9.50%	10.0%	7.50%	7.8%
03.03.99-25.04.99:	9.00%	9.4%	7.00%	7.2%
26.04.99-16.06.99:	8.50%	8.9%	6.50%	6.7%
17.06.99-22.09.99:	8.00%	8.3%	6.00%	6.2%
23.09.99-12.04.00:	7.50%	7.8%	5.50%	5.7%
13.04.00-14.06.00:	7.75%	8.0%	5.75%	5.9%
15.06.00-09.08.00:	8.25%	8.6%	6.25%	6.4%
10.08.00-20.09.00:	8.75%	9.1%	6.75%	7.0%
21.09.00-13.12.01	9.00%	9.4%	7.00%	7.2%
13.12.01-	8.50%	8.9%	6.50%	6.7%

Table 5. Denominations of coins in circulation, 1997-2001. Annual average and at the end of each month of 2001. In millions of NOK. Figures are based on physical holdings at month- and year-end

	20-krone	10-krone[4]	5-krone[7]	1-krone[6]	50-øre[5]	25-øre[2]	10-øre[3]	Copper[2]	Total[1]
1997	655.1	1 009.5	415.2	518.4	142.1	40.3	131.2	25.6	2 937.4
1998	778.7	1 029.5	440.3	561.0	150.3		130.5		3 090.2
1999	873.4	1 046.3	473.9	590.2	157.2		130.0		3 271.0
2000	966.3	1 086.8	486.8	617.2	165.2		129.7		3 452.0
2001	1 124.0	1 110.9	496.8	640.8	174.0		129.5		3 676.0
2001									
January	1 022.0	1 098.5	486.0	625.7	169.6		129.6		3 531.4
February	1 036.2	1 098.9	487.1	627.4	170.2		129.6		3 549.4
March	1 045.6	1 097.3	487.0	628.2	170.7		129.6		3 558.4
April	1 060.1	1 101.5	489.4	631.0	171.5		129.5		3 582.9
May	1 088.9	1 117.2	496.6	638.5	172.6		129.5		3 643.3
June	1 098.9	1 113.0	497.9	639.2	173.3		129.5		3 651.8
July	1 135.0	1 125.2	502.9	645.7	174.6		129.5		3 712.9
August	1 158.1	1 125.0	504.4	649.7	175.4		129.5		3 742.1
September	1 172.4	1 114.1	501.0	648.4	176.2		129.5		3 741.6
October	1 187.4	1 100.5	499.1	648.5	177.0		129.5		3 742.1
November	1 209.4	1 106.2	501.0	649.8	177.9		129.5		3 773.8
December	1 274.3	1 133.1	508.8	657.7	179.5		129.5		3 882.9

1) Excluding silver coins totalling NOK 6 743 000, and commemorative coins issued by Norges Bank 1964-2001 (see note concerning banknotes and coins in Notes to the accounts).
2) 1-, 2-, 5- and 25-øre coins are no longer legal tender, but were redeemed by Norges Bank until 13 July 1998.
3) As of 1 March 1993, the 10-øre coin is no longer legal tender, but will be redeemed by Norges Bank until 1 March 2003.
4) A new 10-krone coin was put into circulation on 15 September 1995. At the same time, it was announced that the old 10-krone coin would cease to be legal tender from 15 September 1996, but will be redeemed by Norges Bank until 15 September 2006.
5) A new 50-øre coin was put into circulation on 16 September 1996. At the same time, it was announced that the old 50-øre coin would cease to be legal tender from 16 September 1997, but will be redeemed by Norges Bank until 16 September 2007.
6) A new 1-krone coin was put into circulation on 15 September 1997. At the same time, it was announced that the old 1-krone coin would cease to be legal tender from 5 September 1998, but will be redeemed by Norges Bank until 5 September 2008.
7) A new 5-krone coin was put into circulation on 15 September 1998.On 9 July 1999, it was announced that the old 5-krone coin would cease to be legal tender from 9 July 2000, but will be redeemed by Norges Bank until 9 July 2010.

Table 6. Denominations of banknotes in circulation, 1997-2001. Annual average and at the end of each month of 2001. In millions of NOK. Figures are based on physical holdings at month- and year-end

	1000-krone 5)	500-krone 1), 4)	200-krone	100-krone 3)	50-krone 2)	Total
1997	26 711.4	4 068.0	2 629.7	4 245.8	628.6	38 283.5
1998	27 772.9	4 875.1	3 649.5	3 473.3	716.6	40 487.3
1999	27 290.5	5 588.1	3 949.2	3 026.7	711.9	40 566.2
2000	26 336.4	6 106.5	4 274.7	2 684.4	717.3	40 119.3
2001	24 713.2	6 920.6	4 446.4	2 463.6	727.1	39 270.9
2001						
January	26 380.8	6 281.0	4 136.1	2 426.9	699.0	39 923.9
February	25 747.1	6 241.0	4 147.0	2 426.7	701.0	39 262.7
March	25 261.6	6 280.8	4 188.6	2 412.2	700.9	38 844.1
April	25 052.8	6 533.5	4 406.7	2 460.1	707.4	39 160.5
May	24 753.3	6 504.4	4 408.5	2 518.6	733.9	38 918.8
June	25 170.7	6 999.2	4 719.8	2 644.9	760.6	40 295.1
July	24 445.1	7 014.7	4 544.8	2 620.8	757.7	39 383.0
August	23 624.1	7 203.9	4 601.1	2 514.5	743.7	38 687.4
September	23 246.6	6 998.8	4 371.1	2 435.1	725.2	37 776.8
October	23 174.9	7 038.7	4 296.4	2 336.6	715.8	37 562.4
November	23 598.5	7 448.6	4 550.6	2 364.2	730.1	38 692.0
December	26 103.1	8 502.4	4 986.1	2 402.0	750.0	42 743.6

1) The 500-krone note in Series V ceased to be legal tender on 21 June 1991. The note will be redeemed by Norges Bank until 21 June 2002.
2) A new 50-krone note, Series VII, was put into circulation on 20 January 1997. At the same time, it was announced that the Series VI 50-krone note would cease to be legal tender from 20 January 1998, but will be redeemed by Norges Bank until 20 January 2008.
3) A new 100-krone note, Series VII, was put into circulation on 15 September 1997. At the same time, it was announced that the Series VI 100-krone note would cease to be legal tender on 5 September 1998, but will be redeemed by Norges Bank until 5 September 2008.
4) A new 500-krone note, Series VII, was put into circulation on 7 June 1999. On 17 April 2000, it was announced that the Series VI 500-krone note would cease to be legal tender from 17 April 2001, but will be redeemed by Norges Bank until 17 April 2011.
5) A new 1000-krone note, Series VII, was put into circulation on 19 June 2001. At the same time, it was announced that the Series VI 1000-krone note will cease to be legal tender from 26 June 2002, but will be redeemed by Norges Bank until 26 June 2012.

Table 7. Notes destroyed, 1997-2001. In millions of notes

	1000-krone 4)	500-krone 3)	200-krone	100-krone 2)	50-krone 1)	Total
1997	2.5	4.4	5.8	67.7	25.1	105.5
1998	1.0	3.8	7.2	26.8	12.5	51.3
1999	0.7	2.0	4.1	6.7	11.2	24.7
2000	3.4	15.6	20.4	17.6	13.6	70.6
2001	22.7	13.8	19.6	16.2	12.4	84.8

The table shows the total number of notes destroyed, with the exception of notes belonging to old series (50- and 100-krone notes in Series 3, 4 and 5 and 500-krone and 1000-krone notes in Series 3 and 4). Notes are destroyed when they are worn or damaged and when a new series replaces the old series. The figures in the table have been affected by the following new issues:

1) A new 50-krone note, Series VII, was put into circulation on 20 January 1997.
2) A new 100-krone note, Series VII, was put into circulation on 15 September 1997.
3) A new 500-krone note, Series VII, was put into circulation on 7 June 1999.
4) A new 1000-krone note, Series VII, was put into circulation on 19 June 2001.

The figures have also been affected by a decision to store notes rather than destroy them in 1998 and 1999 in order to have an inventory reserve for the millennium. These notes were destroyed in 2000/2001, increasing the figures for these years.

Table 8. Average life of notes, 1997-2001. In years

	1000-krone	500-krone	200-krone	100-krone	50-krone
1997	10.7	1.8	2.3	0.6	0.5
1998	28.2	2.6	2.5	1.3	1.1
1999	39.4	5.6	4.8	4.5	1.3
2000	7.8	0.8	1.0	1.5	1.1
2001	1.1	1.0	1.1	1.5	1.2

Figures show the volume of notes in circulation in relation to the number destroyed in the year in question. For an explanation of the changes in note life, see footnote to Table 7.

Table 9. Inflow of notes to Norges Bank, 1997-2001. In millions of notes

	1000-krone	500-krone	200-krone	100-krone	50-krone	Total
1997	33.0	71.1	144.8	241.0	27.6	517.5
1998	34.7	82.1	197.3	151.8	28.5	494.3
1999	35.6	97.6	214.3	147.6	29.8	524.9
2000	36.4	96.0	228.8	126.6	29.6	517.4
2001	39.5	99.8	221.0	110.9	30.0	501.3

The table shows numbers of notes delivered to Norges Bank.

Table 10. Velocity of banknote circulation, 1997-2001

	1000-krone	500-krone	200-krone	100-krone	50-krone	Total
1997	1.24	8.74	11.02	5.68	2.19	5.17
1998	1.25	8.38	10.78	4.37	1.99	4.71
1999	1.30	8.73	10.85	4.88	2.09	5.28
2000	1.38	7.86	10.70	4.72	2.06	5.31
2001	1.60	7.21	9.94	4.50	2.07	5.28

The table shows the average number of times notes pass through Norges Bank per year.

Table 11. Inflow of coins to Norges Bank, 1997-2001. In millions of coins

	20-kroner	10-kroner	5-kroner	1-kroner	50-ører	Total
1997	64.7	162.0	89.7	443.1	78.6	838.1
1998	82.7	169.2	85.4	474.7	74.7	886.7
1999	86.9	161.6	96.4	422.0	64.7	831.6
2000	86.5	159.7	88.2	383.7	58.3	776.4
2001	94.7	140.0	81.2	339.9	52.6	708.4

The table shows the number of coins delivered to Norges Bank.

Table 12. Velocity of coin circulation, 1997-2001

	20-kroner	10-kroner	5-kroner	1-kroner	50-ører	Total
1997	1,98	1.60	1.08	0.85	0.28	0.82
1998	2.12	1.64	0.97	0.85	0.25	0.81
1999	1.99	1.54	1.02	0.71	0.21	0.72
2000	1.79	1.47	0.91	0.62	0.18	0.65
2001	1.69	1.26	0.82	0.53	0.15	0.56

The table shows the average number of times coins pass through Norges Bank per year.

Table 13. Coin production at the Royal Norwegian Mint, 1997-2001 (1000 coins)[1)]

	20-krone	10-krone	5-krone	1-krone	50-øre	Total
1997	1 049	1 229	1 742	145 425 [2)]	24 089	173 558
1997				4 300 [3)]		
1998	5 007	1 058	47 701	139 493 [4)]	30 913	224 173
1999	6 171	1 059	21 970	75 174	25 314	129 688
2000	12 145	1 119	14 408	51 035	20 175	98 884
2001	4 188	9 838	460	50 484	30 140	95 110

1) The table shows figures for coins produced and delivered to Norges Bank, and cannot be used to indicate the number of coins minted with different years. Coin sets are included.
2) New 1-krone coins
3) Old 1-krone coins
4) 4.8 million of these coins were produced in Canada.

Table 14. Banknote production at Norges Bank's Printing Works, 1991-2001.
Number of packets, each containing 500 notes

	1000-krone	500-krone	200-krone	100-krone	50-krone
1991	10 000	18 604		51 600	33 800
1992	15 500	10 500		85 800	23 400
1993	4 400	0		61 400	24 800
1994	2 100	6 800	45 300 1)	46 800	31 200
1995	0	10 500	62 800	49 400	41 200
1996	0	14 600	5 150	20 000 2)	73 600 3)
1997	0	4 200	0	109 210	12 200
1998	5 800	16 600	51 950	43 600	45 400
1999	12 950	43 699 1)	44 340	33 800	38 400
2000	0	52 400	35 600	44 170	2 600
2001	72 131 4)	0	31 814	0	36 075

1) New series (Series VII)
2) Series VII - introduced in 1997
3) 13 600 Series VI and 60 000 Series VII (introduced in 1997)
4) Series VII put into circulation 19 June 2001

Table 15. Norges Bank's banknote series 1877-2001. Period of production

	Series 1	Series 2	Series 3	Series 4	Series 5	Series 6	Series 7
1000-krone notes	1877-98	1901-45	1945-47	1949-74	1975-89	1990-99	2001-
500-krone notes	1877-96	1901-44	-	1948-76	1978-85	1991-98	1999-
200-krone notes	-	-	-	-	-	-	1994-
100-krone notes	1877-98	1901-45	1945-49	1949-62	1962-77	1977-95	1996-
50-krone notes	1877-99	1901-45	1945-50	1950-65	1966-84	1984-96	1996-
10-krone notes	1877-99	1901-45	1945-53	1954-74	1972-85	-	-
5-krone notes	1877-99	1901-44	1945-54	1955-63	-	-	-
Low denomination banknotes							
1-krone notes	1917	1940-50					
2-krone notes	1918	1940-50					

Series I notes ceased to be legal tender on 13 July 1988. Series II notes were invalidated in connection with the monetary reform in 1945 and are no longer redeemable in Norges Bank. Notes in Series III and IV and 10-krone, 50-krone and 100-krone notes in Series V ceased to be legal tender on 13 July 1989. The 1000-krone note in Series V ceased to be legal tender on 1 August 1991, as did Series V 500-krone notes on 21 June 1992. 1- and 2-krone notes from the period 1917-1918 are no longer legal tender and are not redeemed by the Bank. 1- and 2-krone notes from the period 1940-1950 ceased to be legal tender on 13 July 1989.

Appendix B
Norges Bank's management, administration and organisation

The Bank's governing bodies

The supreme bodies of the Bank are the Executive Board and the Supervisory Council.

Pursuant to the Act on Norges Bank and the Monetary System of 24 May 1985, executive and advisory authority is vested in the Executive Board. It administers the Bank's activities and manages its resources. The Executive Board has seven members who are appointed by the King. The Central Bank Governor is Chairman of the Board and the Deputy Central Bank Governor is the Deputy Chairman. Both are employed in full-time positions for a period of six years. The other five members are appointed for four-year terms. Two employee representatives supplement the Executive Board when administrative matters are discussed. The Executive Board normally meets every three weeks. Every second meeting is a monetary policy meeting.

The Supervisory Council ensures that the rules governing the Bank's activities are observed. It organises the auditing of the Bank, adopts the annual accounts and approves the budget on the recommendation of the Executive Board. The Supervisory Council consists of fifteen members chosen by the Storting for a period of four years. The Storting appoints the Chairman and Deputy Chairman for a period of two years. The Supervisory Council usually meets four times a year.

Composition of the Executive Board and Supervisory Council as at January 2002:

The Executive Board

Central Bank Governor Svein Gjedrem,
Chairman (01.01.99-31.12.04)
Deputy Central Bank Governor Jarle Bergo, Deputy Chairman (12.04.96-11.04.02)*
Sigbjørn Johnsen (2002-2005)
Alternate: Eystein Gjelsvik
Torgeir Høien (2002-2005)
Alternate: Solveig Elisabeth Lothe
Vivi Lassen (2002-2005)
Alternate: Per Botolf Maurseth
Sylvi Røssland Sørfonn (2000-2003)
Alternate: Tore Johansen
Trond R. Reinertsen (2000-2003)
Alternate: Tine Sundtoft

Employee representatives:
Sonja Blichfeldt Myhre, Chairperson for Norges Bank's Employees' Union
Jan Erik Martinsen, Deputy chairperson for Norges Bank's Employees' Union
Alternate: Einar Alnæs
Alternate: Sven-Odd Rotbæk

Supervisory Council

Mary Kvidal (2002-2005), Chairman 2002-2003
Alternate: Bjørnar Olsen
Jens Marcussen (2002-2005),
Deputy chairman 2002-2003
Alternate: Nils Olav Skilbred
Terje Ohnstad (2000-2003)
Alternate: Ragnhild Weiseth
Johan Solheim (2000-2003)
Alternate: Jan Elvheim
Tom Thoresen (2002-2003)
Alternate: Rigmor Aasrud
Veslemøy Rabe (2000-2003)
Alternate: Camilla Bakken Øvald
Pål Julius Skogholt (2002-2005)
Alternate: Karin Westhrin
Hakon Lunde (2002-2005)
Alternate: Dag Sandstå
Solveig Nordkvist Haugerud (2000-2003)
Alternate: Monica Mæland
Morten Steenstrup (2000-2003)
Alternate: Liv Stave
Siri Frost Sterri (2002-2005)
Alternate: Vidar Andersen
Oddleif Olavsen (2002-2005)
Alternate: Kjellaug Nakkim
Hanne Varhaug Søberg (200-2003)
Alternate: Bjørn Arild Gram
Trude Brosvik (2002-2005)
Alternate: Steinar Løsnesløkken
Kåre Harila (2000-2003)
Alternate: Unni Hennum Lie

Audit

Svenn Erik Forsstrøm,
State Authorised Public Accountant
Mats Leonhard Pedersen,
State Authorised Public Accountant

The Bank's administration and organisation

Administration

In accordance with the Norges Bank Act, the Central Bank Governor is in charge of the Bank's administration and the implementation of Executive Board deci-

* On 8 February 2002, the Council of State appointed Jarle Bergo Deputy Central Bank Governor and Deputy Chairman of the Executive Board for a new six-year period.

sions. The Executive Board has also appointed a committee, the Administration Committee, which has decision-making authority in administrative matters (the Bank's own management). The committee consists of:

From management:
Svein Gjedrem, Central Bank Governor
Jarle Bergo, Deputy Governor
Inger-Johanne Sletner, Executive Director

Employee representatives:
Sonja Blichfeldt Myhre, Chairperson for Norges Bank's Employees' Union
Jan Erik Martinsen, Deputy chairperson for Norges Bank's Employees' Union

Organisation
The organisation chart on page 83 presents the Bank's organisational structure. The Report of the Executive Board on the annual accounts contains a table showing the number of individuals employed full-time, part-time and on a short-term basis at the end of 2001.

Management
Svein Gjedrem, Central Bank Governor
Jarle Bergo, Deputy Governor
Jan F. Qvigstad, Executive Director
Jon A. Solheim, Executive Director
Knut N. Kjær, Executive Director
Inger-Johanne Sletner, Executive Director
Bernt Nyhagen, Executive Director
Harald Bøhn, Executive Director
Poul Henrik Poulsson, Director, Corporate Communications

Norges Bank Monetary Policy
Jan F. Qvigstad, Executive Director
Jon Nicolaisen, Deputy Executive Director

Research Department
Øyvind Eitrheim, Research Director
Bent Vale, Head of Research
Fredrik Wulfsberg, Head of Research

International Department
Anne Berit Christiansen, Director
Anders Svor, Assistant Director

Market Operations Department
Morten Jonassen, Acting Director
Jannecke Ebbesen, Assistant Director

Monetary Policy Department
Kristin Gulbrandsen, Director
Ingvild Svendsen, Assistant Director

Department for Macroeconomic Analysis
Amund Holmsen, Director
Kjetil Olsen, Assistant Director

Statistics Department
Audun Grønn, Director
Vetle Hvidsten, Assistant Director
Marit Hoel, Assistant Director
Jan Tore Larsen, Assistant Director

Staff - Monetary Policy
Jon Nicolaisen, Director
Trond Munkerud Johansen, Assistant Director

Financial stability
Jon A. Solheim, Executive Director
Henning Strand, Deputy Executive Director

Financial Analysis and Market Structure Department
Thorvald Grung Moe, Acting Director

Financial Infrastructure and Payment Systems Department
Henning Strand, Director

Banking Department
Helge Strømme, Director
Eline Vedel, Assistant Director

Chief Cashier's Department
Trond Eklund, Director
Sylvi Johansen, Chief Cashier
Leif Veggum, Assistant Director

Securities Market and International Finance Department
Arild Lund, Director

IT Settlement
Bjørn Helge Vatne, Director
Semming Austin, Assistant Director

Norges Bank Investment Management
Knut N. Kjær, Executive Director

Equity Management and Tactical Allocation
Yngve Slyngstad, Director

Fixed Income Management
Dag Løtveit, Director
Jens Petter Olsen, Director (New York)

Business Administration and Personnel
Sigbjørn Atle Berg, Director

Legal and Compliance
Marius Nygaard Haug, Director
Bjørn Taraldsen, Assistant Director

Investment Support
John D. Fahs, Director

IT
Ilse Bache, Director

Central Bank Administration
Inger-Johanne Sletner, Executive Director

Administration Department
Harald Haare, Director
Berit Martinsen, Assistant Director

Health Services
Jean R. Campbell, M.D.

IT
Kjetil Heltne, Director
Marit Torgersen, Assistant Director

Budget and Accounting Department
Torkel Fagerli, Director
Unni Lærum, Assistant Director

Information Department
Brynjulv Vollan, Director

Security Department
Arne Haugen, Head of Security

Norges Bank's Printing Works (Oslo)
Jan Erik Johansen, Director

Legal Department
Bernt Nyhagen, Executive Director
Else M. Bøthun, Director

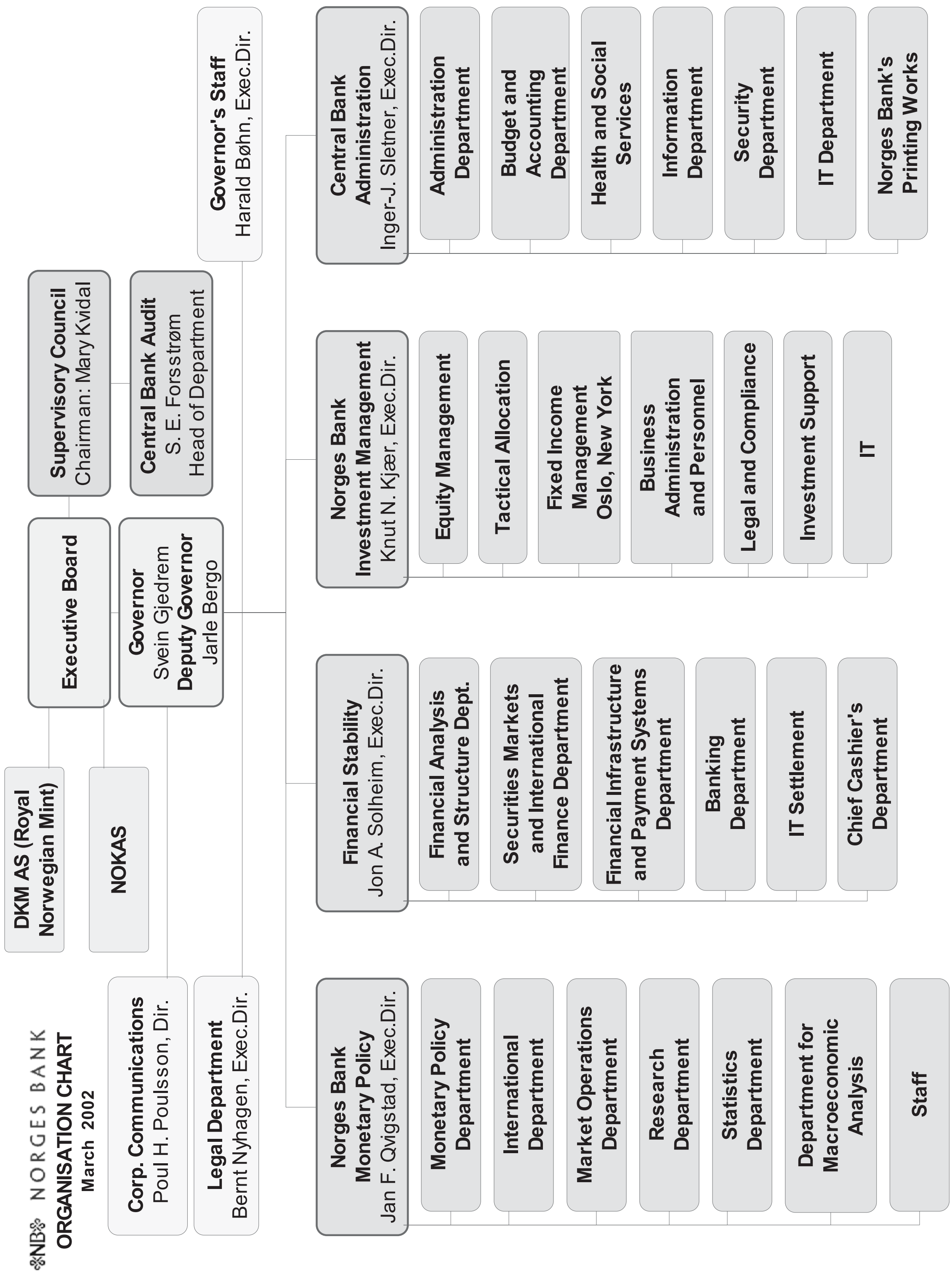
The Governor's Staff
Harald Bøhn, Executive Director
Hans Petter Wilse, Staff Director

Security, Data Security and Contingency Unit
Britt Amundsen Hoel, Director

Investment Strategy Section
Birger Vikøren, Director
Helge Eide, Assistant Director

Personnel Section
Anne-Britt Nilsen, Director

Secretariat
Ole Jonny Oldertrøen, Assistant Director


NORGES BANK
ORGANISATION CHART
March 2002
Corp. Communications
Poul H. Poulsson, Dir.
Legal Department
Bernt Nyhagen, Exec.Dir.
DKM AS (Royal Norwegian Mint)
NOKAS
Executive Board
Governor
Svein Gjedrem
Deputy Governor
Jarle Bergo
Supervisory Council
Chairman: Mary Kvidal
Central Bank Audit
S. E. Forsstrøm
Head of Department
Governor's Staff
Harald Bøhn, Exec.Dir.
Norges Bank Monetary Policy
Jan F. Qvigstad, Exec.Dir.
Monetary Policy Department
International Department
Market Operations Department
Research Department
Statistics Department
Department for Macroeconomic Analysis
Staff
Financial Stability
Jon A. Solheim, Exec.Dir.
Financial Analysis and Structure Dept.
Securities Markets and International Finance Department
Financial Infrastructure and Payment Systems Department
Banking Department
IT Settlement
Chief Cashier's Department
Norges Bank Investment Management
Knut N. Kjær, Exec.Dir.
Equity Management
Tactical Allocation
Fixed Income Management Oslo, New York
Business Administration and Personnel
Legal and Compliance
Investment Support
IT
Central Bank Administration
Inger-J. Sletner, Exec.Dir.
Administration Department
Budget and Accounting Department
Health and Social Services
Information Department
Security Department
IT Department
Norges Bank's Printing Works

Appendix C

Submissions by Norges Bank to the Ministry of Finance in 2001

(The complete text of the submissions is available on Norges Bank's website: http://www.norges-bank.no)

An analysis of the Government Petroleum Fund's equity allocation
Norges Bank's submission of 15 March 2001

Bonds with no government guarantee in the benchmark
Norges Bank's submission of 15 March 2001

Guidelines for monetary policy
Norges Bank's submission of 27 March 2001

Rebalancing regime for the Government Petroleum Fund
Norges Bank's submission of 22 August 2001

Remuneration for management of the Government Petroleum Fund
Norges Bank's submission of 23 August 2001

Choice of a new benchmark for the Government Petroleum Fund's fixed income investments
Norges Bank's submission of 23 August 2001

Draft amendment of the Regulation relating to the Management of the Government Petroleum Fund
Norges Bank's submission of 23 August 2001