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NORGES BANK

Norges Bank Annual Report 2000

2000 Annual Report

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Report and Accounts 2000

NORGES BANK

Norges Bank (Central Bank of Norway)
Oslo 2001

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Deputy Central Bank Governor:	Jarle Bergo

Norges Bank's Printing Works and the Royal Norwegian Mint are located in Oslo and Kongsberg, respectively. Norges Bank has a further 12 regional branches/cashier offices in Norway.

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The 100-krone coin to commemorate the new millennium.

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Part I: Report of the Executive Board

Report of the Executive Board

Pursuant to Section 5 of the Act of 24 May 1985 on Norges Bank and the Monetary System, executive and advisory authority is vested in the Executive Board, which administers the Bank's activities and manages its resources. As stipulated in Section 28, the Executive Board shall each year prepare an annual report and financial statements for the year. Two employee representatives supplement the Executive Board in its discussion of administrative matters. The members of the Executive Board are presented in Appendix B.

In 2000 the Executive Board held 21 meetings and reviewed 152 items, of which 85 concerned the central bank's external activities and matters of policy relating to the Bank's core responsibilities. The remaining items concerned the Bank's internal administration and management.

The Executive Board covers a broad range of issues, with particular focus on the central bank's responsibilities for monetary policy, financial stability and investment management. As in previous years, the Executive Board has issued a statement on the Government's economic programme. The Executive Board has considered applications for authorisations and approvals concerning corporate changes and capital increases and reductions. A number of consultative statements have also been issued. In 2000, the Executive Board devoted considerable attention to the Bank's overall utilisation of resources. This has led to changes in the Bank's range of tasks and branch structure, as described in the section below on use of resources. A more detailed account is presented in Chapter 3 of Part II of this Annual Report.

In addition to ordinary meetings, a number of seminars have been held, particularly on the subjects of monetary policy and investment management. In the autumn of 2000, the Executive Board visited the Bank of England and financial institutions in the City of London. This was the first time the Executive Board had arranged a study trip abroad.

Monetary policy

At every second meeting – normally every six weeks – the Executive Board conducts a separate review of monetary policy. Any decisions to change the key rate are taken at these meetings. The Executive Board sets the key rate 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 must be oriented in such a way that price and cost inflation is brought down towards the level aimed at by the European Central Bank (ECB). At the same time, monetary policy must not in itself contribute to deflationary recessions, as this could undermine confidence in the krone.

In the light of new information about economic developments and the change in the outlook for price and cost inflation, Norges Bank changed its monetary policy in the first quarter of 2000. In the period 12 April to 20 September, the Executive Board decided to increase the key rate in four steps by a total of 1.5 percentage points, twice by 0.25 percentage point and twice by 0.50 percentage point. At the end of 2000, the deposit rate was 7 per cent. A more detailed account of monetary policy is presented in Part II, Chapter 1.

Financial stability

The Executive Board closely follows developments in financial markets. In 2000 Norges Bank prepared two reports on developments in financial institutions, securities markets and payment systems, which provide a basis for evaluating the stability of the financial sector. The analyses showed that on the whole the financial position of households is satisfactory, and that the enterprise sector generally has a satisfactory debt-servicing capacity. Banks' loans losses remain low, and earnings are solid. However, banks' liquidity risk has increased. Strong lending growth has not been matched by corresponding growth in deposits, and banks have become more dependent on short-term financing in foreign money and capital markets. The Executive Board points out that there has not been a need for special measures to strengthen financial stability, but banks are now more vulnerable in the event of a cyclical downturn.

The Executive Board also points out that cooperation with banks on the organisation of domestic clearing and settling, and the development of Norges Bank's own settlement system (NBO) forms the basis for a more robust and secure payment system. This has led to a considerable reduction in credit and liquidity risk for participating banks. The Act on Payment Systems provides the framework for work on payment systems. The Act, which came into force in April 2000, places responsibility for authorisation and supervision of interbank systems with Norges Bank. A more detailed account is presented in Part II, Chapter 2.

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. In addition, Norges Bank manages the Government Petroleum Insurance Fund. At end-2000, Norges Bank managed capital of more than NOK 560bn in international capital markets.

Investment management has become an important area of responsibility for Norges Bank, and the Executive

Board monitors the activity closely. During a visit to London in the autumn of 2000, the Executive Board had the opportunity to visit central institutions that are involved in investment management. The Board stresses that management shall feature the utmost professional expertise and integrity, and that secure control and risk management systems shall be in place.

The Executive Board has drawn up the strategy and guidelines for management of foreign exchange reserves, and decided in 2000 that a proportion of the long-term portfolio is to be invested in equities. This will be carried out in the course of 2001.

The Ministry of Finance and the Ministry of Petroleum and Energy have established benchmark indices to form a basis for managing risk and measuring the results of Norges Bank's operational management of their respective portfolios. The Executive Board has defined similar indices for the management of foreign exchange reserves. In 2000 the actual return on all the portfolios was higher than the return on the various benchmark indices.

The accumulation of capital in the Government Petroleum Fund presents considerable challenges for Norges Bank. A strategy has been chosen for operational activity that combines extensive use of external managers with internal management in specific areas. In 2000 the scope of internal equity management was expanded, while mandates were awarded to new external managers for fixed income management, equity management and tactical asset allocation (choosing between the asset classes equities and fixed income instruments). Norges Bank is also responsible for the performance of external managers, and assiduously carries out its responsibility of selecting and monitoring managers.

A more detailed account of investment management is provided in Chapter 4, Part II. The management of the Government Petroleum Fund is also described in a separate Annual Report.

Use of resources

The Executive Board places emphasis on cost-effectiveness in Norges Bank's activities. All parts of the Bank should feature a high degree of adaptability.

In 1999, the Norges Bank Act was amended to permit the conversion of the production of notes and coins and other commercial activities into separate companies. In 2000, it was decided to convert the Royal Mint into a separate limited company, so that it can operate pursuant to Section 8a of the Norges Bank Act from 1 January 2001. The position of Norges Bank's Printing Works will also be evaluated. The choice lies between limiting activities to producing banknotes for Norges Bank and combining this with limited commercial activities, possibly in collaboration with other operators.

In autumn 2000 Norges Bank decided, on the proposal of the Executive Board, to close down the regional branches in Fredrikstad, Ålesund, Bodø, Hammerfest and Vardø, and in addition the cashier's office in Haugesund. When the closure of the regional branches has been completed in the first half of 2001, the number of branches in Norges Bank will have been reduced from thirteen to eight. It was decided to locate the Bank's switchboard and certain archive functions in Vardø. Norges Bank will provide central bank custodian services in Hammerfest, Vardø and Bodø through agreements with private banks. The remaining regional branches are now organised as a separate profit centre. The possibility of converting these branches into a separate limited company and inviting private banks to become co-owners is being considered.

Future operations and use of resources in other parts of the Bank's activities are also being reviewed.

Norges Bank is using personnel measures to facilitate restructuring. In 2000, early retirement applications were approved for almost a hundred employees at the Head Office and regional branches.

Activity in Norges Bank Investment Management is increasing. At the beginning of 2001, the number of authorised posts came to 101 permanent person-years. At end-2000, Investment Management had a total of 91 employees, compared with 79 at end-1999. An overview of staff levels in Norges Bank is provided in Table 9 in the Executive Board's report on the accounts.

At end-2000, Norges Bank had a total of 1 086 permanent and temporary employees, compared with 1 154 a year earlier. The main reduction in staffing as a result of the decision to close five regional branches will take place in 2001.

The physical working environment in the Bank appears to be highly satisfactory. At the same time, the Executive Board is aware that the psychosocial working environment has been affected by some uncertainty in parts of the Bank as a result of the closure of regional branches, the conversion of some activities into a limited company, reorganisation and reduction in tasks. The Executive Board wishes to commend employees on their positive contribution to the ongoing restructuring process.

As in previous years, Norges Bank has reported on developments in the Bank's use of resources to the Ministry of Finance.

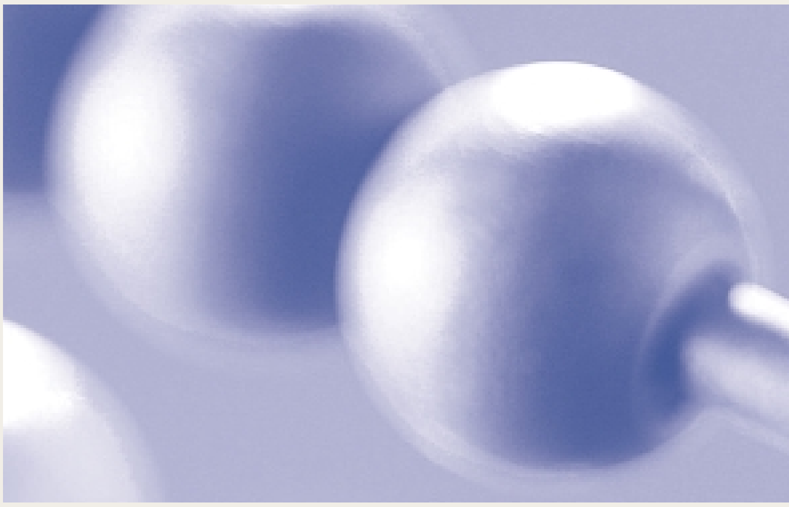
Svein Gjedrem   Jarle Bergo

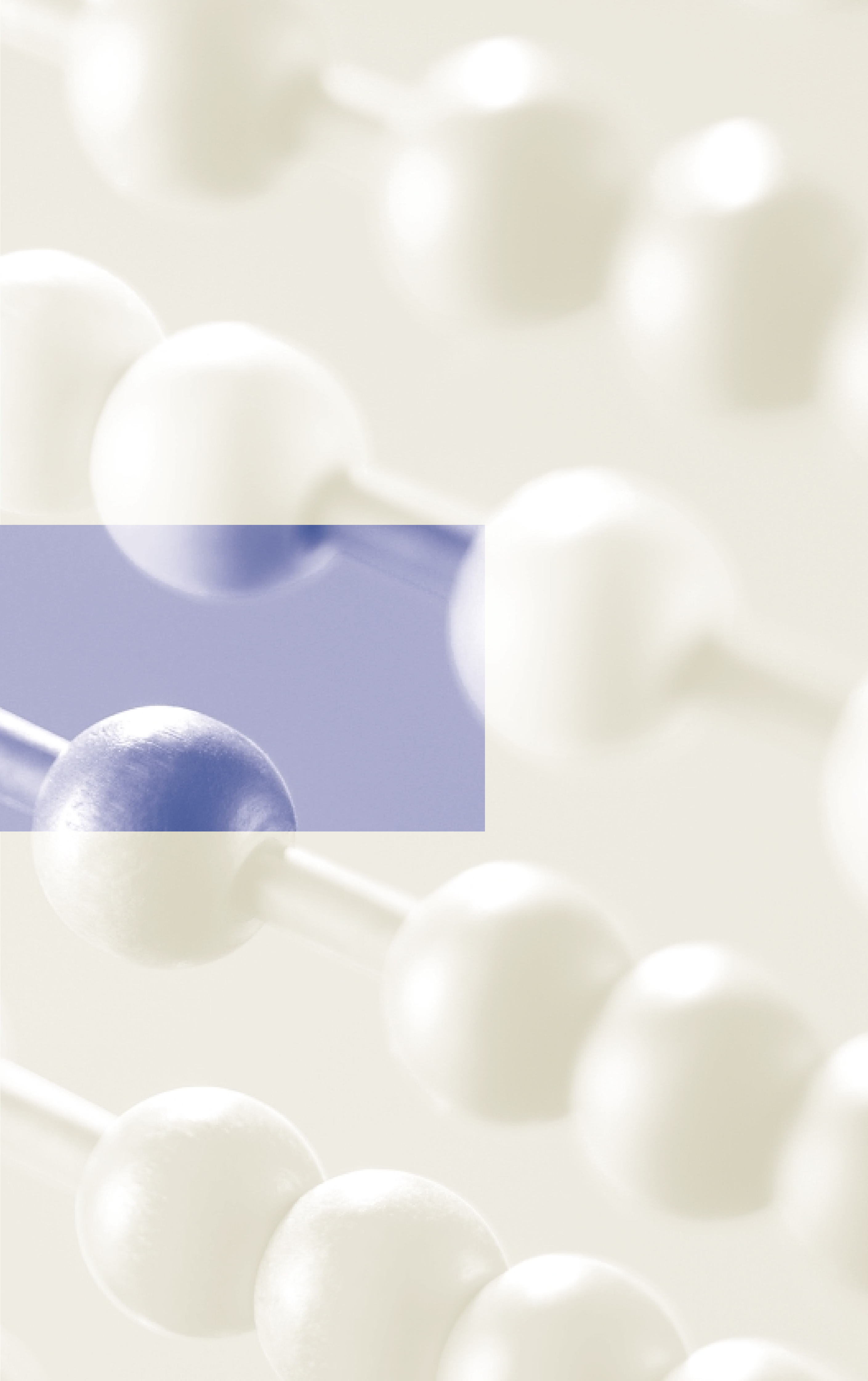
Sigbjørn Johnsen   Sylvi Røssland Sørfonn   Torgeir Høien

Esther Kostøl   Trond R. Reinertsen

Sonja Blichfeldt Myhre
(employee representative)

Jan Erik Martinsen
(employee representative)





Part II: 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. Sections 1 - 4 define the framework for monetary policy and Norges Bank's responsibility as executive authority. Pursuant to Sections 19 and 20, Norges Bank stipulates the conditions for and the interest rates on banks' deposits with and loans from the central bank.

The mandate for monetary policy is laid down in the Exchange Rate Regulation, which was adopted by Royal Decree of 6 May 1994[1]. Section 2 of the Regulation states:

"The monetary policy to be conducted by Norges Bank shall be aimed at maintaining a stable krone exchange rate against European currencies, based on the range of the exchange rate maintained since the krone was floated on 10 December 1992. In the event of significant changes in the exchange rate, policy instruments will be oriented with a view to returning the exchange rate over time to its initial range. No fluctuation margins are established, nor is there an appurtenant obligation on Norges Bank to intervene in the foreign exchange market."

Norges Bank does not have the instruments to fine-tune the krone exchange rate, which will vary in the short term. Attempts to fine-tune the exchange rate may undermine the credibility of monetary policy, and hence exchange rate stability, over time. Norges Bank has therefore chosen to orient monetary policy instruments with a view to achieving the fundamental preconditions for exchange rate stability.

Since January 1999, the concept "European currencies" has been defined as the euro. In order to achieve exchange rate stability against the euro, monetary policy instruments must be oriented in such a way that price and cost inflation is brought down towards the level aimed at by the European Central Bank (ECB). At the same time, monetary policy must not in itself contribute to deflationary recessions, as this could undermine confidence in the krone.

Decision-making basis and monetary policy instruments

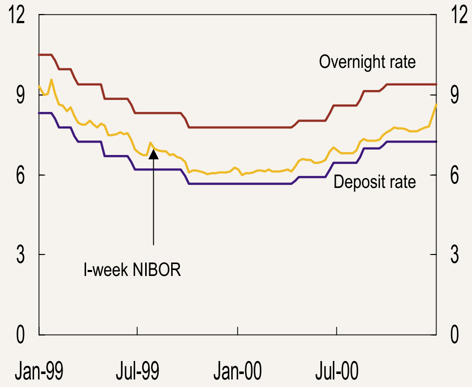
The Executive Board meets regularly for in-depth discussions on monetary policy. Until June 2000, monetary policy was discussed once a month. Since then, the Executive Board has held discussions every six weeks. Any decisions concerning interest rate changes or other important changes in the use of monetary policy instruments will normally be taken at these meetings. After the meetings, an announcement is made as to whether the Executive Board has decided to change the interest rate. A press conference is held at which further details are provided of any decision made, and of the Bank's stance with respect to the interest rate in the time ahead. The introduction to the press conference is published on Norges Bank's web site, and can be audio streamed.

Experience from the 1990s shows that in situations with pressure on the krone, extensive interventions may lead to a game situation between the central bank and market participants, which intensifies the pressure on the krone. In consequence, Norges Bank does not normally intervene in the foreign exchange market. The bank may nevertheless use interventions to a limited degree if the exchange rate moves significantly out of line with what we consider to be reasonable in the light of fundamentals or in the event of exceptional short-term volatility in thin markets. In such circumstances, there is less risk of ending up in a game situation with exchange market participants. In 2000, Norges Bank did not intervene to influence exchange rate developments.

The interest rate on banks' deposits with Norges Bank, the sight deposit rate, is the most important monetary policy instrument. Changes in the deposit rate influence money market rates with various maturities. Market rates have an effect on the krone exchange rate, securities prices, house prices and demand for loans and investment. Changes in Norges Bank's 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 deposit rate establishes a floor for money market rates. The 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). Money market rates will normally be close to the deposit rate. In special situations, however, short-term fluctuations in market liquidity may influence the shortest money market rates.

Chart 1 Short-term interest rates. Norges Bank's overnight lending and sight deposit rates and 1-week NIBOR. Effective interest rate, per cent per annum. Weekly figures, 1999-2000



Source: Norges Bank

1) A new Regulation on Monetary Policy was issued on 29 March 2001 establishing an inflation target of 2.5%. For further information, see Norges Bank's website.

Historically, administered rates have had a fairly strong impact on the shortest money market rates, ie overnight and weekly rates. Money market rates for somewhat longer maturities are not affected as directly through this channel. Expectations concerning economic developments and the central bank's response pattern also play a part, as does the level of interest rates at the short end of the market.

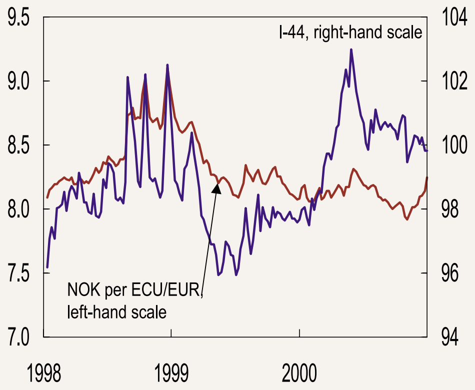
It normally takes a couple of years before an interest rate change has a significant effect on price and cost inflation. Monetary policy must therefore be forward looking, so that Norges Bank can achieve the objective that has been set. The assessment of the economic outlook therefore plays an important part in the setting of interest rates. Owing to the uncertainty associated with both economic developments and the effects of interest rate changes, Norges Bank adopts a gradualist approach to the setting of interest rates.

The analyses in Norges Bank's inflation reports, together with a continuous evaluation of the outlook for price and cost inflation and conditions in money and foreign exchange markets, provide a basis for interest rate decisions. The inflation reports contain a review of the outlook for the Norwegian economy and price and cost inflation with a two-year horizon. The Central Bank Governor or the Deputy Governor summarises Norges Bank's assessment in a leader presented in the reports, which are published on the Bank's website. In connection with the presentation of the reports, a press conference is held which can be audio streamed over the Internet.

Norges Bank raised its key rate four times during 2000, by a total of 1.5 percentage points. At the end of 2000, the deposit rate was 7 per cent. The interest rate differential against the euro area increased from 21/2 to 23/4 percentage points. The krone-euro exchange rate weakened from 8.06 at the beginning of the year to 8.23 at end-2000 (see Chart 2). The value of the krone in relation to the euro was lowest at the end of May at 8.34, and highest at the end of October at 7.87. The import-weighted krone exchange rate index, which is the best measure of the influence of exchange rates on imported inflation, weakened from 97.66 in the first week in January to 99.89 in the last week of December.

The section below provides a more detailed description of the use of instruments and of economic developments in 2000.

Chart 2 The ECU/euro-krone exchange rate and the import-weighted nominal exchange rate (measured by I-44). Weekly figures 1998-2000



Source: Norges Bank

Monetary policy in 2000

The situation at the beginning of 2000 was characterised by the growth pause in the Norwegian economy through the first half of 1999. Mainland fixed investment stagnated, petroleum investment declined and household saving increased substantially, partly as a result of weaker expectations and interest rate increases in the wake of the Asian crisis. Fresh information in the late autumn of 1999 indicated that economic activity was picking up again, partly reflecting resumed growth in household consumption. There were also signs of renewed growth internationally, and a rise in oil prices. However, there was also some uncertainty in financial markets and some signs of strong demand for liquidity associated with the possible effects of the transition to the new millennium.

In the course of the winter of 2000, it became steadily clearer that the growth in the economy was unexpectedly strong. There were several reasons for this. There was a high rate of growth in the international economy and in world trade, and the oil price and some other commodity prices continued to rise. The value of traditional merchandise exports increased substantially, partly due to the rise in metal prices and strong growth in fish exports. The oil price rose above USD 30 per barrel in the first half of the year. Estimated GDP growth among Norway's trading partners was revised upwards from 2¾ per cent to 3½ per cent. This upward revision was strongest for the US, but the outlook for the euro area and Sweden also improved. Price inflation in these countries rose from a year-on-year rise of 1.7 per cent at end-1999 to 2.3 per cent in June. One important reason for the higher inflation was the continuing rise in oil prices.

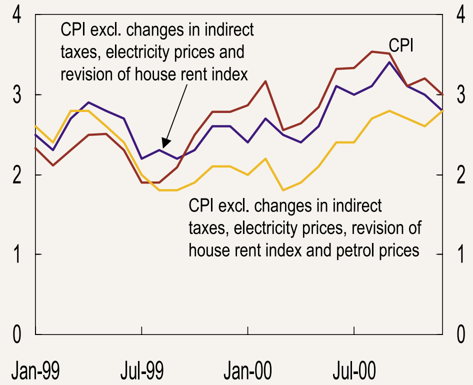
After some uncertainty and a high saving ratio in 1999, households gradually became more optimistic. House prices rose sharply, and growth in credit to households increased. The decline in household saving and rise in private consumption were both more pronounced than expected. Investment in service industries also

Table 1 Key aggregates for mainland Norway in 2000
Percentage change from previous year

	First six months	Second six months	2000
GDP	2.7	0.8	1.8
Private sector			
Consumption	3.5	0.8	2.1
Fixed investment	9.1	0.8	4.6
Employment	0.1	0.3	0.2
Public sector			
Consumption	2.4	0.5	1.4
Fixed investment	3.1	-2.6	0
Employment	1.6	0.9	1.3

Sources: Statistics Norway's Economic Survey

Chart 3 Consumer prices (CPI). Total and underlying. 12-month rise. Per cent 1999-2000



Sources: Statistics Norway and Norges Bank

showed solid growth. The decline in manufacturing investment was smaller than expected, partly because of the strong international upswing.

The situation in the labour market reflected the changes in the level of economic activity. Contrary to Norges Bank's projections at end-1999, overall employment rose (see Table 1), although employment in manufacturing dropped as a result of the expected decline in petroleum investment. However, the decline was dampened by the international turnaround and the rise in domestic demand. There was high employment growth in private and public services, resulting in unexpectedly strong pressures in many labour market segments.

Consumer price inflation increased (see Chart 3). At the end of 1999, the year-on-year rise in consumer prices was 2.8 per cent, but during the first half of the year it rose to over 3 per cent. Prices for services continued to rise, partly as a result of the relatively high pay increases of the previous two years. The persistently high oil price was also an important cause of higher price inflation. Excluding prices for energy-related products (electricity, petrol and heating oil), indirect taxes and the revision of the house rent index, underlying price inflation remained at around 2 per cent in the first half of 2000. However, the outlook for underlying price inflation had changed, among other things as a result of developments in the labour market, the depreciation of the krone and the persistently high oil price. Norges Bank's projections for price inflation in 2000 and 2001 were revised upwards in both the March 2000 and the June 2000 Inflation Report.

In the light of new information about economic developments and the changed outlook for price and wage inflation, Norges Bank changed its monetary policy stance. Overall, recent trends in the economy and the balance of risks made it more probable that the next change in interest rates would be an increase rather than a reduction. On 12 April 2000, Norges Bank's Executive Board decided to increase the sight deposit rate by 0.25 percentage point to 5.75 per cent. On 14 June, the deposit rate was raised by a further 0.50 percentage point, to 6.25 per cent.

Wage settlements in the spring of 2000 resulted in substantially higher wage growth than was previously estimated. The wage settlement provided a framework for wage growth in both 2000 and 2001. On average, labour costs, including the costs associated with additional vacation days, increased by 5 per cent from 1999 to 2000. The sharp rise in labour costs must be viewed in the light of developments in the labour market, and the shortage of labour in private and public services. Improved profitability in some manufacturing sectors may also have contributed to high wage growth. The strong increase in business sector labour costs added further impetus to domestic price inflation.

Exchange rate movements also contributed to price inflation. At end-May, the import-weighted krone exchange rate index, which provides the best indication of inflationary impulses generated by the exchange rate, had depreciated by 51/2 per cent from the level at the beginning of 2000 (see Chart 4). Despite the stable, strong krone-euro exchange rate, the effective krone exchange rate weakened, partly as a result of the weakness of the euro against other major currencies, primarily the US dollar. The wide fluctuations in international foreign exchange markets reflected cyclical differences, with strong growth in the US economy and a substantial

Chart 4 The import-weighted nominal exchange rate (measured by I-44) and the USD/EUR exchange rate. Weekly figures 1999-2000

Source: Norges Bank

Chart 5 Movements in the oil price. USD per barrel Daily figures 1999-2000

Source: Norges Bank

price rise in the US stock market. At the same time, a number of countries raised interest rates in order to counteract overheating tendencies, and there were expectations of further interest rate increases. In the US and the UK in particular, market participants expected further action. It is likely that the depreciation of the krone also reflected this trend to some extent, with high market expectations regarding returns on investments in the US, boosting the dollar and causing a generally weaker trend in European currencies. Unrest in connection with the wage settlement and greater uncertainty about the stability of the Norwegian economy may also have contributed to a particularly weak krone in May.

In the summer and autumn the krone, measured by the import-weighted exchange rate, appreciated again from about 103 at end-May to around 100 in the final months of the year. This helped to counter higher international price inflation and reduce the risk of further acceleration. Prices for imported consumer goods fell.

Overall, price inflation declined slightly during the autumn, but remained at over 3 per cent. The rise in labour costs contributed to maintaining price inflation at a high level, and there were prospects of high labour cost inflation and a tight labour market also in 2001. The rise in prices for services in which wages are the dominant cost component moved up again in the second half of the year, following a fall through 1999. The oil price remained at well over USD 30 per barrel through most of the second half of the year (see Chart 5). There were clear signs that persistently high oil prices had begun feeding through to business sector costs. For example, prices for transport services and some imported goods rose strongly through the autumn months.

Against the backdrop of continued high price inflation, strong growth in domestic demand through the first half of the year and the outlook for price and wage inflation in 2001, the deposit rate was raised further on 9 August and 20 September by a total of 0.75 percentage point, bringing it up to 7 per cent.

During the autumn the first signs appeared of a slowdown in growth among several of our trading partners. Lower expectations, high oil prices and a pronounced turnaround in stock markets pointed to slower growth in the world economy, particularly in the US.

Growth in the Norwegian economy also declined during the autumn. Growth in private consumption slowed, and consumer confidence showed a decline on the level earlier in the year. These developments partly reflected the interest rate increases through the year.

The impact of the interest rate increases was uncertain, and it was necessary to await developments. There were also prospects of continued growth in employment in service industries, particularly in the public sector. Credit growth continued to rise, exports of traditional goods were high and the decline in petroleum investment appeared to have come to a halt.

Partly because of weaker global economic growth and an expected slowing of growth in domestic demand, Norges Bank concluded after the interest rate increase in September that the probability that the next change in interest rates would be a reduction was the same as the probability of an increase. The sight deposit rate has since remained at 7.0 per cent. At the end of 2000, price inflation was projected to move down to just under 2 per cent from the end of 2002, given an unchanged interest rate over the next two years.

Preliminary evaluation of monetary policy in 2000

Norges Bank's mandate is to maintain a stable krone exchange rate against European currencies, which the Bank has defined as the euro. A precondition for exchange rate stability against the euro is that price and cost inflation in Norway must over time be brought down towards the corresponding aim for inflation of the European Central Bank (ECB).

Price inflation rose through much of 2000, and was higher than the level aimed at by the ECB. As explained in the previous section, this was largely due to two factors: the oil price was higher than expected, and labour costs increased more than assumed. The first factor is due to external circumstances which also applied to other European countries. However, excluding indirect taxes and energy prices, underlying inflation rose through the year, from about 2 per cent in January to 2.8 per cent in December (see Chart 3).

The inflation differential between Norway and euro area countries was around 1 percentage point through most of the year. This differential must be viewed in the light of the fact that for several years Norway has had a higher rise in labour costs than other European countries. This trend continued in 2000, and led to higher Norwegian interest rates compared with euro area rates.

At end-1999, labour costs were projected to increase by 33/4 per cent, whereas the figure now appears likely to be about 5 per cent. The low projected rise in labour costs was related to the weak economic growth expected in 2000, with a decline in employment and half a percentage point rise in unemployment. Both employment and the labour supply increased, and unemployment rose less than expected. Measured in terms of unemployment, the labour market did not turn out to be appreciably tighter. It nevertheless appears that the rise in labour costs was more than 1 per cent higher than estimated. One explanation may be that when unemployment has dropped to such a low level, even small changes lead to changes in wage growth. Another factor may be that unemployment is too imprecise a measure of pressures in the economy when capacity utilisation is high. This measure does not capture possible bottlenecks in the economy in the sense that a shortage of certain types of labour may contribute to pressing overall wage growth up to a higher level than the unemployment level would suggest.

In the following, the monetary policy conducted by Norges Bank is evaluated using two sets of criteria:

- A measure of confidence in monetary policy
- A measure of monetary policy performance

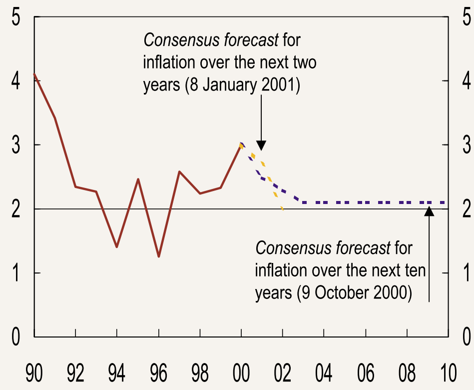
Chart 6 shows market participants' inflation expectations, according to Consensus Forecasts. With a proviso regarding the accuracy of such forecasts, the survey indicates that price inflation is expected to fall in the years ahead and approach the interval aimed at by the ECB. In its latest survey of 8 January 2001, Consensus Forecasts' inflation projection was 2.0 per cent in 2002.

Movements in long-term interest rates are another indicator of inflation expectations. Implied forward rates, which reflect market expectations concerning future short-term rates, can be derived from long-term rates. If Norwegian long-term forward rates are substantially higher than corresponding rates in the euro area, this may be an indication that, over time, market participants expect higher price inflation in Norway than in euro area countries. However, because expectations regarding interest rates on risk-free investments cannot be directly observed, allowance must be made for some uncertainty with regard to the calculation method.

Chart 7 shows movements in the long-term forward rate differential against Germany. To some extent, a positive forward rate differential reflects the relatively small market for Norwegian government bonds by international standards. The yield on Norwegian government bonds is therefore normally higher than the yield on corresponding German bonds in order to compensate for liquidity risk.

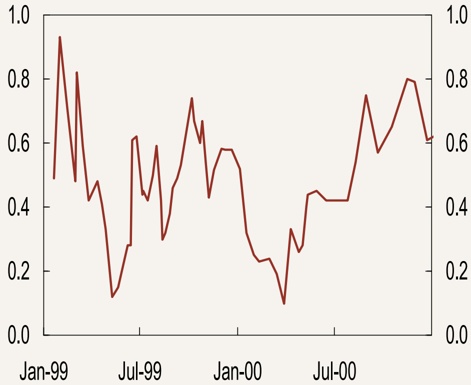
The forward rate differential is generally narrow, indicating that in the long run inflation in Norway is not expected to be substantially higher than inflation in euro area countries. Like the information provided by Consensus Forecasts, forward rates also indicate that participants in financial markets have a reasonable degree of confidence in monetary policy.

Chart 6 Consumer price inflation. Historical rise and market participants' projections for future consumer price inflation



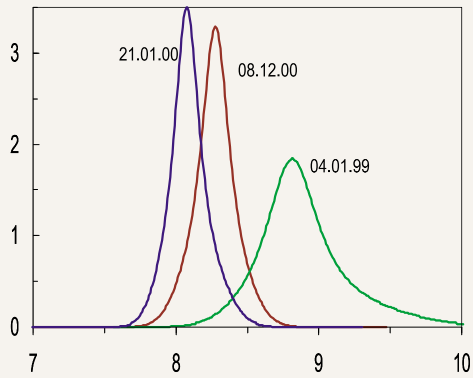
Source: Norges Bank and Consensus Forecasts

Chart 7 Differential between implied forward rates in Norway and Germany. 1999-2000



Source: Norges Bank

Chart 8 Implied probability distributions for NOK/EUR



Source: Norges Bank

Although the forward rate differential is generally narrow, there have been wide short-term fluctuations, which may be partly due to random factors. From July to November, however, the forward rate differential showed a fairly clear upward tendency. There may be several reasons for this. One possible explanation is increasing greater concerning future price inflation in Norway, as the economy was close to capacity limits. However, since November the differential has narrowed again to a more normal level.

The degree of confidence in monetary policy is also reflected in the foreign exchange market. Waning confidence results in a weaker and more unstable krone exchange rate. Chart 8 shows developments in the market's evaluation of the probability distribution for the krone exchange rate one month ahead. A flat curve reflects considerable uncertainty. The curves, which are derived from prices for currency options, show that uncertainty with regard to the future krone exchange rate was substantially lower at end-2000 than it was at the beginning of 1999, and approximately the same as at the beginning of 2000. Thus changes in monetary policy and in the economic outlook do not appear to have had any appreciable impact on confidence in krone through the year.

Table 2 provides a simple form for evaluating monetary policy performance. If the krone exchange rate is stable around the initial range, as defined in the Exchange Rate Regulation, and inflation is roughly on a par with the level aimed at by the ECB, then monetary policy has been successful with respect to the established objective. A weak exchange rate and high inflation would suggest that monetary policy might have been too expansionary. Similarly, a strong exchange rate and inflation close to zero or deflation would suggest that monetary policy had probably been too tight.

If price and cost inflation is on a par with the level aimed at by the ECB, one of the fundamental preconditions for exchange rate stability has been satisfied. The exchange rate may nevertheless be regarded as "too strong" or "too weak" in relation to the initial range. This may be because conditions in the real economy imply a real appreciation or real depreciation of the krone. For example, increased use of petroleum revenues in the government budget may mean that the internationally exposed sector has to be scaled back in order to create room for higher domestic consumption. The equilibrium level for the krone exchange rate may then change. In such a situation, Norges Bank should

Table 2 Retrospective evaluation of monetary policy

Situation	Deflation	Price inflation as in euro countries	Inflation
Weak krone for sustained period	Monetary policy should counter deflationary tendencies	Conditions in the real economy may imply weak krone exchange rate	Monetary policy may have been too expansionary
Krone approx. as in initial range	Unstable situation. Monetary policy should counter deflationary tendencies	Monetary policy has been successful	Unstable situation. Monetary policy should counter inflationary tendencies
Strong krone for sustained period	Monetary policy may have been too contractionary	Conditions in the real economy may imply strong krone exchange rate	Monetary policy should counter inflationary tendencies

have carefully evaluated the reasons for exchange rate movements. If the exchange rate were expected to remain strong or weak for a prolonged period, Norges Bank should have notified the government authorities that measures other than those available to the central bank were necessary.

A deflationary recession could conceivably be accompanied for a period by a krone value that is consistent with the initial range. However, this would not be a stable situation. If monetary policy is oriented towards avoiding deflationary recessions, the situation in the economy should be normalised after a period. If not, it is unlikely that confidence in the krone can be maintained in the longer run.

Similarly, a krone exchange rate around the initial range combined with high inflation would also be an unstable situation. If monetary policy is oriented towards avoiding inflation, the situation in the economy should be normalised after a period. If not, it is unlikely that confidence in the krone can be maintained in the longer run.

The Norwegian economy may be exposed to economic disturbances that contribute to both higher inflation and a temporary appreciation of the krone exchange rate. In such a situation, monetary policy should counter persistently higher inflation because higher inflation later leads to instability in the krone exchange rate.

The Norwegian economy may also be exposed to negative events that give rise to prospects of a deflationary recession accompanied by a depreciation of the krone. A fall in oil prices, for example, could have this effect on the economy. A retrospective evaluation should then determine whether monetary policy contributed to countering deflationary tendencies.

During the autumn of 1999 and spring of 2000 there was growing evidence that the growth pause in the Norwegian economy would be shorter than assumed, and price and cost inflation appeared to be picking up. In order to contribute to satisfying the fundamental preconditions for exchange rate stability, Norges Bank decided to raise the interest rate. This occurred at a time when the krone had strengthened further against the euro, and was stronger than the initial range. There was therefore a risk that the economy would end up in the situation represented by the bottom right-hand square in Table 2. This was the opposite of the economic situation expected to materialise at the beginning of 1999. Norges Bank's decision to reduce the interest rate in the first case, despite the krone’s weakness against the euro, and in the latter to increase it, although the krone was strong in relation to the euro, reflects the symmetry of the Bank’s response pattern.

In the light of the cyclical upturn and rising price inflation through the first half of 2000, the combination of reductions in the interest rate in 1999 and more favourable growth prospects globally, as reflected in a higher oil price, for instance, appear to have had an effect on consumer confidence and business sentiment that the Bank underestimated. It was difficult to predict international developments. The effects of interest rate changes are uncertain, and dependent on other economic factors. When unforeseen events occur, it is essential that monetary policy be adjusted in time, so that nominal economic stability is maintained.

Given the Bank’s decision-making basis in 1999, it seemed likely that the Norwegian economy would experience a pause in growth and that price and cost inflation would fall. Moreover, the international financial market was fragile as a result of the many financial crises the previous year. Growing evidence of higher growth in Norway and internationally, along with prospects of higher-than-expected price and cost inflation, prompted an increase in the interest rate. At the end of 2000, this appeared to have helped to stabilise movements in the krone exchange rate and prospects for price inflation and growth in overall demand in the Norwegian economy.

Foreign exchange transactions

Norges Bank’s mandate for the conduct of monetary policy is defined in the first section of this chapter. Norges Bank has explained its interpretation of the Exchange Rate Regulation, for example in a submission on economic policy in 2000 dated 17 December 1999 to the Ministry of Finance. The submission contains the following on use of monetary policy interventions in the foreign exchange market:

"In Norges Bank's experience, extensive exchange-market interventions have yielded poor results. If the central bank intervenes heavily to defend the krone, a game situation may evolve in which market participants perceive central bank intervention as an interesting opportunity to make a profit. Market agents know that a situation in which the krone is being propped up by intervention from Norges Bank cannot be sustained. It is then tempting to take positions in the foreign exchange market against the central bank. This implies that heavy interventions may intensify the pressure on the krone over time, steadily increasing the necessary volume of interventions. If market participants assume that Norges Bank will use the interest rate to defend specific exchange rate levels, this may lead to a similar game situation.

"Norges Bank does not intend to act in a way that will prompt such game situations. The bank may nevertheless use interventions to a limited degree if the exchange rate moves significantly out of line with what we consider to be reasonable on the basis of fundamentals or in the event of exceptional short-term volatility in thin markets. In such circumstances, there is less risk of ending up in a game situation against exchange market operators."

In 2000 Norges Bank did not intervene in the foreign exchange market. Reference is made to the description of developments in the foreign exchange market in the previous section.

Norges Bank is prepared to intervene in the foreign exchange market on short notice, as described in the account of the Bank's international reserves in Chapter 4. Norges Bank also performs 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. In addition, Norges Bank executes some small transactions for customers.

Purchases of foreign currency for the Government Petroleum Fund take place partly through the transfer of government revenues in foreign currency 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 portion of Norges Bank's foreign exchange purchases are use to build up the Government Petroleum Insurance Fund. In 2000, transfers from SDFI were equivalent to NOK 98.4bn, while Norges Bank purchased foreign exchange equivalent to NOK 52.9bn to build up the Government Petroleum Fund and the Government Petroleum Insurance Fund.

In order to assure greater predictability in the market concerning Norges Bank's foreign exchange purchases for the Petroleum Fund, these purchases are made daily, and planned for one month at a time. The foreign exchange purchases planned for the next calendar month are published on the last business day of each month.

The annual allocation to the Government Petroleum Fund, and therefore the need for foreign exchange purchases, is uncertain, and depends largely on the oil price. Monthly purchases are set on the basis of the estimates in the Government Budget for the annual allocation and for government SDFI revenues. In addition, Norges Bank tries to take account of movements in the oil price by adjusting monthly purchases on a discretionary basis in line with the estimated effects on government revenues as a result of deviations in the oil price from the assumptions in the Government Budget. This makes it possible to avoid abrupt changes in foreign exchange purchases in connection with changes in the assumptions in the Budget concerning oil price movements through the fiscal year. Furthermore, a phasing in 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.

Norges Bank's purchases of foreign exchange for the Government Petroleum Fund and the Government Petroleum Insurance fund increased through 2000. Each business day in January, foreign exchange for NOK 130m was purchased, of which NOK 3m went to the Government Petroleum Insurance Fund. In December the amount was NOK 370m per business day, with the exception of the last three business days, when no foreign exchange purchases were made.

Liquidity management

Norges Bank's Executive Board sets the interest rates on banks' overnight deposits with and loans from Norges Bank. The Bank's liquidity policy shall ensure that the Executive Board's interest rate decisions have a broad impact on short money market rates. This is achieved by using Norges Bank's liquidity policy instruments in such a way that the banking system's marginal rate is the interest rate on banks' overnight deposits with Norges Bank (the deposit rate). Thus the deposit rate is the key rate in the Bank's monetary policy.

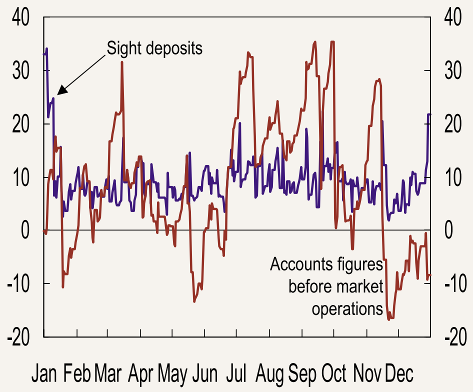
Banks' *structural liquidity* is what their sight deposits with Norges Bank would have been without the central bank's supply or withdrawal of liquidity by means of liquidity policy instruments. This structural liquidity is influenced by government incoming and outgoing payments, government loan transactions,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

Through 2000, the structural liquidity situation of banks varied systematically between substantial deposits in Norges Bank and a need for substantial loans (see Chart 9). If Norges Bank had not offset these liquidity fluctuations, the banking system's marginal rate would have varied between Norges Bank's sight deposit rate and the overnight lending rate. This could have fuelled uncertainty about Norges Bank's monetary policy, and led to considerable variation in the shortest money market rates.

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 by the central bank to mop up liquidity. Interest rates for fixed-rate loans and deposits are determined by ordinary auction.

By using liquidity policy instruments to supply and withdraw liquidity, Norges Bank ensured through 2000 that at the end of each day the banking system had sight deposits in Norges Bank of a size (see chart 9) sufficient to keep the shortest money market rates

Chart 9 Banks' liquidity in 2000. Daily figures. In billions of NOK



Source: Norges Bank

down towards the sight deposit rate. The sight deposit rate thus determined the shortest money market rates.

Chart 1 shows that in 2000 the shortest money market rates were generally close to the sight deposit rate, but they fluctuated substantially at the end of the year. Short-term interest rates in the currency swap market were highly volatile at the end of December, despite ample bank liquidity in the form of sight deposits of NOK 10-20bn in Norges Bank. The effects on interest rates were partly due to the reluctance of banks to extend NOK loans through currency swaps, because of balance sheet adjustments at year-end. Given this situation, Norges Bank supplied additional NOK liquidity through currency swaps in order to dampen the impact on interest rates.

Research and work with economic models

Much of the research in Norges Bank is focused directly or indirectly on improving the basis for monetary policy decisions. The projections for economic develop-ments in the inflation reports are based largely on the use of the RIMINI macroeconomics model. The model is being developed further and maintained operational in Norges Bank's Research Department. It contains data on economic behaviour, including demand relation-ships and models of the labour market and wage and price formation. It also takes account of the need for a consistent analysis of the interplay between these relationships. The model captures important aspects of the transmission mechanism, and is also used – along with other analytical instruments – to estimate the impact of a change in the interest rate on the real economy and on price inflation in Norway. The model is also used to analyse financial exposure in reports on financial stability.

Norges Bank's research work is documented as it is carried out, among other things in the Bank's series of publications. In 2000, sixteen pieces of work were published in the Working Papers series (*Arbeidsnotater*), while five articles from international journals were published in the *Reprints* series. During the past three years, members of Norges Bank's staff have published more than three articles annually in international journals with a referee arrangement. A doctoral thesis, "Rules and Institutional Arrangements for Monetary Policy", by Øistein Røisland, has been published as no. 29 in Norges Banks *Skriftsserie.* A Norwegian-language collection of articles, *Perspektiver på pengepolitikken* (ed.: Jan Fredrik Qvigstad and Øistein Røisland) was published in 2000 by Gyldendal Akademisk. The collection is the result of cooperation between Norges Bank staff members and researchers at Norwegian universities and colleges who were temporarily associated with Norges Bank during the work on their contributions to the book .

Production of statistics

Norges Bank's work on statistics is the result of a need for relevant and current information to form a basis for the conduct of monetary policy and the Bank's surveillance of financial markets and payment systems, and for monitoring cross-border payments. The work is additionally intended to meet needs for data used for official statistics in collaboration with Statistics Norway, much of the data on financial enterprises needed by the Banking, Insurance and Securities Commission, and to fulfil Norway's international reporting commitments.

In 2000 Norges Bank continued its production of statistics on money, credit and foreign exchange markets along much the same lines as the previous year. As part of restructuring and development work in the field of statistics, Norges Bank made a review of its statistics products with a view to achieving a more future-oriented product range. The restructuring commenced in 2000, but will take place mainly in 2001.

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 is used for official statistics, regular analyses of developments in credit and securities markets and financial stability work.

Norges Bank is responsible for the updating and maintenance of the central banking statistics database (the FIKS base), which is also used by the Commission and Statistics Norway. The Bank collects, checks, processes and publishes the most detailed statistics on banks, state lending institutions, finance and mortgage companies and securities funds. These statistics are published in the periodical *Finansstatistikk.* In 2000, twelve booklets of monthly balance sheet data were published, four containing quarterly profit and loss accounts, overviews over borrowing from and deposits with financial enterprises and their average deposit and lending rates, and two booklets with detailed statistics based on final annual accounts for 1999. The Statistics Department is improving and automating the transfer of data from our reporters. We now use the Bank's website on the Internet as the chief medium for providing financial enterprises with relevant information for their reporting.

The primary statistics on banks and other financial enterprises form the main basis for the preparation of monthly indicators of developments in credit (credit indicators) and in the money supply, and quarterly financial sector balances. In 2000 improvements were made in the credit indicator, C2, and money supply statistics were restructured. The broad money supply, M2, now complies with international recommendations to a greater extent than previously.

Each quarter, Norges Bank collects in interest rate reports from all banks, life insurance companies, mortgage companies and state lending institutions. The reports quote the average interest rates and commissions charged to the public for specific types of loan and deposit as at the end of each quarter. On the basis of these reports, the official interest rate statistics are prepared which show developments in the setting of interest rates in the various financial sectors.

The Norwegian Central Securities Depository is a very important source of data for charting financial holdings and the flows between institutional sectors of the financial objects registered there, ie listed equities, bonds, notes and short-term paper and primary capital certificates issued in Norway. The Depository enters the institutional sector codes of the various owners and issuers in its system, and this makes it possible to create overviews at aggregate sector level. On the basis of these quarterly reports from the Depository, Norges Bank prepares overviews of holdings registered in the Depository broken down according to owner and issuer sector and transactions between sectors. These data form important input to Norges Bank's data bank for quarterly financial balance sheets and for analyses of developments in the domestic securities markets.

Foreign exchange statistics

The foreign exchange statistics provide the main basis for the external account, which Statistics Norway publishes every month. Most of the information consists of regular reports on payments between Norway and abroad, partly from Norwegian banks, partly from enterprises with accounts in foreign banks or settlement arrangements with foreign companies.

As a result of amendments in Norges Bank's Foreign Exchange Regulations in March 2000, the possibility of granting exemption from the notification requirement regarding accounts in foreign banks and other settlement arrangements with non-residents was extended. Accounts and settlement arrangements with an annual turnover – or average balance at month-end over a period – of NOK 100m or less, are regarded as of minimal importance to the foreign exchange statistics and the external account. Almost 400 enterprises were exempted from this reporting, and at end-2000 there were about 350 enterprises reporting accounts or other settlement arrangements with foreign business connections. In the same revision, about 35 small banks were exempted from reporting foreign exchange statistics because they have very limited foreign activity.

In autumn 1999, the Statistics Department commenced a study of possible future reporting systems for foreign exchange statistics as part of its restructuring work. The purpose is to establish a new system geared to future more stringent requirements regarding statistics quality, relevance and the use of resources associated with their regular production.

In its report in 2000, Norges Bank concluded that it will not be possible to target a reporting system based on banks providing information about their customers' cross-border payments for this purpose, and the Bank will therefore discontinue use of the BRAVO system as a source of foreign exchange statistics. The new reporting system will be based to an even greater extent than today on direct reporting from primary sources. Norges Bank will also look at the possibilities of coordinating the reports on foreign exchange and financial statistics (ORBOF).

The restructuring of the foreign exchange statistics system will change the basis for the Bank's cooperation with the supervisory authorities. The detailed underlying data required by these agencies will no longer be available.

Against this background, the Bank has initiated a dialogue with Statistics Norway on a change in the division of work in connection with the gathering of data for the external account. The result of these discussions is expected to be available early in 2001. There are plans to change to a new foreign exchange statistics system by 2005.

Financial sector balances

Norges Bank's database for quarterly reconciled financial sector balances (Findatr) is used in the Bank's work with macroeconomics models, in monetary policy studies and in financial stability work. The statistics product *Household financial accounts*, which is based on Findatr, shows for example developments in household assets and debt.

Chapter 2 Payment systems and financial markets

Responsibility for the stability of the financial system

Norges Bank's mandate and functions in the area of financial stability are governed by Section 1 of the Norges Bank Act, which states that the Bank shall:

"… promote an efficient payment system in Norway and 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 of developments in monetary, credit and foreign exchange conditions.

The Act relating to Payments Systems, which entered into force in 2000, assigns to Norges Bank the responsibility for authorising banks' clearing and settlement systems (the interbank systems).

Central banks have traditionally been responsible 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 them with a basis for appraising and issuing warnings about factors that may constitute a risk to financial stability.

Norges Bank is responsible for promoting robust and efficient payment systems and financial markets and thereby contributing to 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 contribute to boosting confidence in the financial system.

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

- contributing to limiting risk associated with clearing and settlement systems, to prevent liquidity and solvency problems spreading among participants in these systems
- monitoring the financial industry in order to identify trends that may weaken the stability of the financial sector and lead to systemic problems
- 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 industry

Norges Bank's Financial Stability report is published twice a year, and is a key component of the monitoring of the financial industry. The report contains an evaluation of trends in the financial industry, with particular emphasis on banks, and an analysis of the industry's ability to cope with any major disturbances in the economy.

Experience has shown that effective surveillance involves more than monitoring the earnings and capital adequacy of banks and other financial institutions. Developments in other markets should also be monitored, and analyses of the interplay between the real and financial sectors of the economy have high priority in this monitoring. This provides a better basis for predicting future developments in the financial sector. The report presents an overall evaluation of how cyclical trends, conditions in credit, property and securities markets, the debt burden and the financial situation of households and enterprises, along with the competitive situation in the financial sector, influence the robustness of the sector.

Surveillance of international conditions was intensified in 2000. National financial markets have become more closely integrated, and there are constantly new examples of how rapidly turbulence spreads from country to country. The securities markets are an important channel for the spread of turbulence. In its analysis of international conditions, Norges Bank therefore places considerable emphasis on developments in securities markets. In consequence, analyses of the Norwegian securities markets and their significance for financial stability have also been expanded.

The domestic risk to which Norges Bank pays particular attention in its analyses is credit risk inherent in banks' loan portfolios, as this type of risk constitutes a substantial proportion of overall risk in banks. Credit risk is defined as the risk that a borrower is unwilling or unable to service loans. In order to analyse the credit risk associated with loans to the enterprise sector, both microdata and aggregate data from the national accounts are used. Irrespective of the source of the data, the analyses concentrate on enterprise earnings. A substantial portion of banks' lending to enterprises consists of loans for financing commercial property. Consequently it has been found appropriate to assess developments in property markets at regular intervals, looking at developments in vacancy rates, rental prices and prices for commercial buildings.

However, it is also important to monitor the exposure of households, primarily because households' share of aggregate borrowing is larger than that of enterprises. Moreover, there is close link between the financial situation of households and enterprises. House price movements are monitored continuously, as they influence household wealth and banks' risk exposure to the retail market.

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

Analyses of financial institutions focus primarily on the situation in the banking sector and important groups of institutions. This is because Norges Bank's responsibility for financial stability is for the system, and not for individual institutions. Nevertheless, analyses of the largest individual institutions are necessary, because Norges Bank has large financial transactions with these banks. Analyses can also strengthen our understanding of macroeconomic developments. Any problems in one or more of these institutions could also have a serious systemic impact.

Cooperation with the Banking, Insurance and Securities Commission takes place at several levels. There are regular meetings at management level between the two institutions, at which the economic situation and developments in financial institutions are reviewed. Norges Bank is represented on the Board of the Commission by an observer. Efforts are made to utilise the specialist expertise in the two institutions, and to avoid unnecessary duplication, while maintaining the independent roles and responsibilities of the institutions. In 2000 Norges Bank and the Commission issued joint statements to the Basel Committee and the EU Commission on new capital adequacy regulations for banks and securities firms.

Norges Bank cooperates with the Commission, Statistics Norway and the Central Securities Depository on the collection of data and preparation of statistics on the credit and securities market. Since 1996, the work of collecting, checking, processing and publishing the most detailed statistics on private and commercial banks and finance companies has been carried out by Norges Bank. A central database (the FIKS base) has been established and is used by Norges Bank and the Commission in their monitoring of financial institutions and financial markets. This is described in further detail in Chapter 1.

Norges Bank's research is aimed at acquiring knowledge of the behaviour of financial institutions and the functioning of financial markets. Several projects analysing the behaviour of financial institutions have shed light on competition between Norwegian banks. In addition, a study of price elasticities of Norwegian consumer demand for payment services (cards, ATMs, cheques) was concluded in 2000. A separate study was also conducted of demand for notes and coins. In 2000, analyses were also made of insolvency risk. Research work is documented as it is carried out. For example, the work on demand for cash was published as Working Paper No. 2000/14 from Norges Bank.

Solid bank performance in 2000

Commercial and savings banks recorded sound results in 2000. Profits before tax, measured as a share of average total assets, were on a level with those of the previous year for commercial banks, while savings banks showed a positive profit trend due to the one-off effect of the sale of holdings in Fellesdata. Both banking groups showed lower net interest income as a share of average total assets through 2000. This is attributable to reduced interest margins as a result of increased competition for deposits and loans and higher financing costs due to a lower deposit-to-loan ratio. In contrast to savings banks, commercial banks showed a positive trend for other operating revenues. Securities and foreign exchange trading made a smaller contribution for savings banks. The accounts figures indicate that banks are gradually reaping the benefits of rationalisation measures implemented over the past few years. Bank losses remain low. The sharp rise in lending through 2000 contributed to weakening banks' core capital ratio, despite favourable results.

Higher liquidity risk

In 2000 bank lending increased more than deposits, causing their deposit-to-loan ratio to fall. As a result of decreasing deposit-to-loan ratios, banks have increasingly had to finance lending in money and capital markets. A large proportion of this funding is obtained by raising short-term debt, and an increasing number of banks are turning to foreign funding sources. Against this background, banks' liquidity risk is considered to have increased.

Continued relatively high credit exposure to the enterprise sector

Total enterprise debt continued to rise in 1999, and the debt burden is now approaching the levels seen in the late 1980s. On the other hand, enterprises' equity ratios rose in the course of the 1990s, and interest rates are far lower than they were ten years ago. Enterprises' 1999 accounts showed higher earnings than in the previous year, and the volume of debt in weak enterprises was reduced. As a result, enterprises are now better equipped to cope with a cyclical turnaround than they were in the late 1980s. Developments in a selection of listed companies in the first half of 2000 may indicate somewhat weaker earnings in 2000 than in 1999. The

credit risk associated with enterprise debt is considered to be somewhat lower than a year ago. However, the high debt burden means that enterprises are vulnerable to developments that erode earnings.

Towards the end of 1999 and in 2000, the household debt burden (debt as a share of disposable income) increased substantially for the first time in several years, as a result of both a high – and accelerating – rise in debt and slower growth in disposable income. The debt burden nevertheless remains low compared with the level at the end of the 1980s, and has a partial corollary in higher household fixed assets (dwellings). Although certain groups of households have considerable debt and a high interest burden (after-tax interest expenses as a percentage of cash income), the credit risk associated with households as a whole is still considered to be relatively low.

Continued uncertainty internationally

In 2000, international equity markets were characterised by considerable fluctuations. Although equity prices have declined since the peak level in March 2000, particularly in the IT sector, high pricing in equity markets remains an important source of uncertainty internationally. The telecommunications sector has borrowed heavily to finance investments and acquisitions. This has increased the exposure of banks and other investors to this sector. Turbulence in international securities markets may have negative consequences for Norwegian securities markets, and hence for the earnings of a number of financial institutions, first and foremost insurance companies. Financial institutions will also be influenced to the extent that the turbulence has consequences for the real economy. There is also some uncertainty associated with the growing US current account deficit, the continued weak financial position of Japanese enterprises and financial institutions and the economic situation of some emerging economies such as South Korea and Argentina.

Satisfactory financial stability

In the short term, overall risk in the banking sector is considered to be relatively limited. In the slightly longer term, special attention should be paid to the relatively high credit risk associated with enterprises and continued high liquidity risk associated with banks' substantial foreign debt. The macroeconomic outlook does not suggest the occurrence of disturbances that could result in a substantial weakening of financial stability. Consequently, Norges Bank had no basis for proposing the implementation of special measures by other authorities with a view to reducing the risk of systemic problems in 2000.

Payment systems and means of payment

Norges Bank's responsibility for the payment system has been expanded by the new Payment Systems Act, which entered into force in April 2000. The Act assigns Norges Bank the authority to licence and supervise banks' systems for clearing and settlement of payments between banks (interbank systems). Norges Bank has both general supervisory responsibility for the payment system as a whole, as stipulated in the Norges Bank Act, and specific authority to authorise those payment system operators that execute interbank clearing and settlement.

Norges Bank's work to promote a robust payment system consists of:

- as the institution responsible for authorisation and supervision pursuant to the Payment Systems Act, establishing the financial infrastructure through the agreements and rules regulating banks' partici-

pation in Norges Bank's Settlement System (NBO), by reducing NBO's technological and operational vulnerability, and by providing for Norwegian participation in cross-border (multi-currency) clearing and settlement systems. In addition, the Bank contributes to the banking industry's own work to make payment systems more robust
- maintaining preparedness through systems and routines that can solve systemic problems when they arise
- monitoring of the exposures that arise between banks in connection with their participation in the Norwegian and international payment system.

The Bank carries out the final settlement of interbank claims and receivables arising as a result of banks' financial transactions and participation in the payment system through the banks' accounts in Norges Bank. In connection with settlement, Norges Bank offers liquidity against collateral, so that settlement can take place efficiently and banks receive settlement in the form of claims on the central bank without credit or liquidity risk. An efficient settlement system enables the Bank to conduct monetary policy effectively. Norges Bank is also responsible for settlement of the cash leg of trades in equities, bonds and derivatives.

Banks' risk in connection with their participation in the payment system can be divided into credit risk, liquidity risk and operational risk. Credit risk depends primarily on whether banks credit customers' accounts before the banks themselves have received settlement for a transaction. Liquidity risk is linked to a shortage of liquidity due to delays in the clearing and settlement process. Operational risk is linked to the risk of failure in data systems, manual routines or telecommunications, or other operational problems implying costs for participants. The potential propagation of solvency or liquidity problems with an attendant threat to financial stability figures prominently in Norges Bank's work to reduce the level of risk in the Norwegian settlement system.

In addition to its statutory responsibility for interbank systems, Norges Bank monitors developments in payment services systems. This forms part of the Bank's work to promote an efficient payment system (cf. Section 1 of the Norges Bank Act). In its evaluation of the efficiency of the payment system, Norges Bank places emphasis on payments taking place rapidly, securely and at reasonable cost. The Payment Systems Act has divided the responsibility for payment systems between Norges Bank and the Banking, Insurance and Securities Commission, so that 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 systems for payment services.

Cash still plays an important part in the Norwegian payment system, and the Norges Bank Act assigns responsibility for the issue and destruction of notes and coins to Norges Bank. A key prerequisite for the efficient functioning of the cash system is that notes and coins enjoy general confidence and have a practical design. It is also important that physical circulation, transport, storage, control and replacement take place securely and efficiently.

Through the Supervisory Council's decision to convert cash handling into a separate profit centre, Norges Bank has continued the work on identifying the Bank's responsibility with respect to cash, which includes cash denomination and design, and wholesale functions for banks. These functions comprise the supply, exchange and renewal of notes and coins, and the redemption of notes and coins that are no longer legal tender.

The Payment Systems Act

The Act of 17 December 1999 relating to Payment Systems, etc., entered into force on 14 April 2000, and gave rise to a need for some organisational changes and a clarification of responsibilities with respect to the established interbank systems. A transitional arrangement was therefore introduced whereby systems that were already operating when the Act entered into force can continue operating until their application for authorisation is decided. The deadline for applications for these systems was the end of 2000, and according to plan decisions regarding authorisations should be made in the first quarter of 2001. The Act specifies the information that must be provided in application. Norges Bank has prepared a special guide, which provides further information as to what the application should contain, and has held a number of information meetings with the operators of the clearing and settlement systems. The Norwegian payment systems are highly integrated, and the Act stipulates that the systems themselves shall draw up the boundaries between them. Norges Bank has provided guidance and clarification of the types of system covered by the authorisation requirement according to the definition in the Act.

The Payment Systems Act is based on international recommendations. For several years work has been proceeding under the auspices of the G10 and in the Bank for International Settlements (BIS) to find means of reducing risk in settlement systems. In 2000, revised recommendations were presented on the main principles for achieving greater security and efficiency in payment systems that may be of importance to financial stability (the Trundle Report). The main principles will be taken into account in Norges Bank's processing of applications for authorisation of interbank systems pursuant to the Act relating to Payment Systems etc.

Norwegian interbank systems vary considerably in size and function, and are not all of equal significance to financial stability. The Act allows Norges Bank to grant exemption to systems of such a limited size that they are assumed to have no significant effect on financial stability. In considering whether a system should be subject to or exempt from the authorisation requirement, special emphasis will be placed on the system's turnover, the number of participants and the size of the exposures that arise between participants in the system. Other factors that may be of importance are the system's significance with respect to risk in other interbank systems, whether the system is used for settling securities trades etc., and the importance of the system for confidence in and the efficiency of the payment system as a whole. Exemption from the authorisation requirement will be decided at the same time as the decision regarding authorisation.

Risk reduction and improving the efficiency of payment settlements

The bulk of ordinary customer payment transfers (giros, card payments, cheques) are cleared in the Norwegian Interbank Clearing System (NICS) for retail settlement, and interbank exposures are settled in Norges Bank's Settlement System (NBO). Interbank exposures settled in this way are generally small, but could potentially belarge, since there are no limits on the size of interbank exposures, or on the size of transactions that may be processed in this system. To reduce this credit risk, the banking industry introduced routines in 2000 as a result of which the bank of a beneficiary no longer credits the customer's account before the settlement has taken place in NBO. This change eliminates most of the credit exposure involved in retail payments. There has also been a significant portion of advance crediting in other interbank transaction netting. In 2000 the banking industry made a general decision to reduce the scale of advance crediting in this type of netting as well.

The changeover to crediting after settlement reduces credit risk, but may have negative consequences for the efficiency of payment transactions because it takes longer before beneficiaries have the funds at their disposal. On 26 June 2000 Norges Bank introduced an extra settlement of retail payments in the morning to make it possible for banks to maintain rapid updating of customer accounts, which increases efficiency.

In order to participate in NBO, banks must have liquidity in their settlement account. This places stringent demands on banks' liquidity management, and may potentially give rise to greater liquidity risk. However, Norges Bank has introduced a number of measures to improve liquidity. Of particular importance is banks' borrowing facility in NBO, which at present is limited only by their collateral in the form of securities pledged to Norges Bank. In 2000, Norges Bank increased the range of securities that can be used as collateral (cf. Circular no. 9 of 29 June 2000) and removed the requirement of earmarking of funds for retail settlement (cf. Circular no. 7 of 14 June 2000).

If a bank fails nevertheless to provide sufficient liquidity to cover its position in a netting process, some of the bank's transactions have to be withdrawn from the process and new positions have to be calculated. In connection with the changeover to crediting after settlement, a solution has been developed which makes such settlement reversals possible.

Norges Bank is the settlement bank for the cash leg of settlements associated with securities transactions that are cleared in the Norwegian Central Securities Depository (VPS) and the Norwegian Futures and Options Clearing House (NOS). In order to improve the securities settlement system, Norges Bank and VPS initiated a technical specification project in 2000 to prepare a technical solution that makes it possible to carry out a number of net settlements through the day. This will permit more efficient securities settlements and prepare the way for the subsequent establishment of systems for continuous settlement of individual transactions. In accordance with the new draft Act on Registration of Financial Instruments (NOU 2000:10), user rights for financial instruments can be transferred with immediate effect. This is a key prerequisite for multiple daily net settlements and also contributes to reducing the volume of securities banks must provide as collateral to Norges Bank.

Norges Bank is participating in the cooperation between central banks to help reduce the risk in payment systems. In recent years, an important part of this work has involved monitoring the development of a new global foreign exchange settlement system called Continuous Linked Settlement (CLS). CLS is a system involving banks in a number of countries for settlement of foreign exchange transactions and is based on the principle of simultaneous delivery of bought and sold foreign exchange to eliminate the credit risk associated with foreign exchange settlements. The plan is that settlement of the most important currencies through CLS will commence in the autumn of 2001, and the system will gradually be expanded to include more currencies and participants. In autumn 1999 Norges Bank's Executive Board decided to continue preparing for Norwegian participation in CLS, ie participation of Norwegian banks and use of NOK as a settlement currency. The work on preparing Norwegian systems, clarifying the legal situation and evaluating technical and organisational solutions in CLS, is proceeding in Norges Bank. According to the present work schedule, NOK is expected to be included in the CLS system in 2002.

In 2000, Norges Bank carried out a survey of the risk level associated with clearing and settlement n the payment system. The conclusion of the analysis was that exposures are generally at a level that netting participants can manage. The review also showed that a substantial reduction of risk has been achieved through the introduction of continuous settlement of individual transactions and more frequent settlement of netting results in Norges Bank's settlement system. On the other hand, it appears that Norwegian banks incur a substantial settlement risk through participating in international payment systems and foreign exchange trading. Although exposures to counterparties are of relatively short duration, and spread over a large number, in combination they represent more than three times the equity of the banks involved.

The central government's consolidated account with Norges Bank

In 2000, all incoming and outgoing payments under the central government's consolidated account arrangement were carried out by Postbanken, Den norske Bank (DnB), Christiania Bank and Union Bank of Norway. Transactions involving accounts in these banks form an integral part of NBO settlements. A fundamental principle of the consolidated account system is that all government liquidity is to be transferred at end of day to government accounts in Norges Bank. The role of Norges Bank in the central government's consolidated account system is defined in an agreement with the Ministry of Finance. The agreement sets out requirements with regard to account maintenance, supervision, exchange of information and efficiency of central government payment transfers. There are now about 1500 central government settlement accounts for incoming and outgoing payments in Norges Bank, and most government agencies are included in the consolidated account system.

Contingency arrangements for the financial sector

In connection with the responsibility for promoting an efficient payment system and contributing to financial stability, Norges Bank is responsible for coordinating the elaboration of contingency plans and the implementation of contingency measures in the financial sector. This applies to both Norges Bank's own systems, including Norges Bank's settlement system, and other parts of the payment system in Norway.

In connection with the transition to the year 2000, Norges Bank, together with the Banking, Insurance and Securities Commission, the Ministry of Finance and central participants in the financial sector, had established a special contingency arrangement for both the transition to 2000 and for 29 February 2000. The contingency arrangement was based on the experience acquired through extensive testing and other work carried out over a longer period. The transition to the year 2000 did not cause major problems in the financial infrastructure.

In order to increase the efficiency of Norges Bank's work on contingency in the financial sector and take account of the structure and vulnerability of a modern payment system, Norges Bank's Executive Board decided in October 2000 to establish a new Contingency Committee for Financial Infrastructure. The decision was made in consultation with the Ministry of Finance and central participants in the financial sector. The Contingency Committee, which replaces several other contingency bodies in the financial sector, has two main responsibilities: (i) to elaborate and coordinate measures to prevent and resolve crisis situations and other situations that may result in major disruptions in the financial infrastructure, and (ii) carry out necessary coordination of contingency work in the financial sector, including the preparation and implementation of warning plans and contingency measures in connection with national security crises and war, using the civil defence and emergency planning system as a basis. The Contingency Committee's management and secretariat are in Norges Bank and include representatives of government bodies and central participants in the financial sector.

Monitoring of payment service systems

Each year Norges Bank issues an annual report on payment systems which provides an account of national and international regulatory work and developments in the use of payment systems and the use and withdrawal of cash. Deposits are used by means of various payment instruments such as giros, payment cards and cheques.

The efficiency of payment transactions depends on both the means of payment available to users and the settlement method for the means of payment and payment instruments used. Electronic services are more lost-effective than paper-based services, so increased use of electronic services will lead to a more efficient payment system. More rapid transfer of deposits to and from accounts will also lead to a more efficient system. The use of cash also entails costs for users, among other things for control, security and transport of cash on the part of the payer, the beneficiary and banks. There may thus also be some efficiency gains associated with the changeover from cash payment to the use of payment cards.

A new Act relating to Financial Agreements entered into force on 1 July 2000. Among other things, the Act regulates agreements between customers and banks and introduces clear rules on the division of responsibilities in connection with the use of payment instruments such as giros and payment cards. In principle, the Act also eliminated the float in the payment system, ie banks can no longer earn interest on amounts transferred between customers.

Cash remains the means of payment used for most household payment transactions, while the corporate and public sectors mainly use other payment instruments. A total of 738 million transactions for an aggregate value of NOK 5 471bn were made using giros, cards and cheques in 1999. Three quarters of these transactions were carried out electronically. This share is increasing, and is due to a rise in both the number of electronic giro transfers and the number of card transactions. The use of cost-effective electronic payment services in Norway is high and rising. The Norwegian payment system is therefore relatively efficient by international standards.

Notes and coins

As part of the work of promoting an efficient cash system, a new series of notes is being introduced (Series VII). The notes in this series have a design and features intended to make it easier to recognise genuine notes under different conditions, visually, tactilely and mechanically. Their introduction started in 1994 with the issue of the 200-krone note. A new 50-krone note and a new 100-krone note came in 1997, and in 1999 a new 500-krone note was issued. A new 1000-krone note will be issued in 2001, and the new series will then be complete.

Norges Bank is working to improve the efficiency of the part it plays in the cash supply system. One aspect of this work involves making a clearer distinction between Norges Bank's statutory responsibility and services performed for banks. In 2000 work was done to separate cash handling into a separate unit functioning according to commercial principles, which carries out central bank tasks on assignment from Norges Bank and other handling

Table 3. Notes and coin in circulation

	1991	1993	1995	1997	1999*	2000*	Change 1991-2000
Cash in circulation (in NOK bn)	30.7	33.4	38.4	41.2	43.8	43.6	42%
Cash in circulation, % of private consumption	8.8	8.8	8.8	8.3	8.0	7.7	

*For "Private consumption", see preliminary figures from Statistics Norway for 1999 and projections for 2000.

services on assignment from private banks. Cash handling services will thus be priced to a greater extent than previously, and the various assignors must bear the costs associated with their assignments to a greater extent. This will contribute to efficiency, in that we will avoid excessive use of services that are costly to provide, but cheap to use. Moreover, it will contribute to efficient sharing of work between Norges Bank and others that handle cash.

Norges Bank cooperates with the National Bureau of Crime Investigation, the banking associations and the executive management of Norway Post to disseminate information about the seizure of counterfeit notes and about authenticity features in Norwegian notes. An established notification service ensures that information about counterfeits and other infringements is rapidly spread to Norges Bank's regional branches, banks and post offices and the local police.

Payment statistics indicate that giro and card payments are increasingly replacing cash as a means of payment. Viewed in relation to private consumption, the value of notes and coin in circulation showed a decline in the period 1995-2000. The value of cash in circulation increased in the 1990s, however, but seems to be levelling off now. In 2000 there were notes and coins for an average value of NOK 43.6bn in circulation.

The average value of notes in circulation was NOK 40.2bn, which was 1.0 per cent less than the average in 1999. The breakdown of the total value of notes in circulation represented by the various denominations has changed significantly. Most pronounced are the decline for the 100-krone note and the increase for the denominations 200-krone and 500-krone. Norges Bank has encouraged increased use of 200-krone and 500-krone banknotes in ATMs in order to reduce the number of notes necessary to meet demand. The 1000-krone note still represents the largest share by value of notes in circulation, although there has been some decline in recent years. The average value for the year of coins in circulation was NOK 3.5bn, which is an increase of 5.5 per cent on 1999. The 20-krone coin continued to increase its share, and at the end of 2000 represented 28.0 per cent of the value of coins in circulation.

Cash handling

Outstanding holdings of notes and coins are determined by deliveries of new notes and coins from Norges Bank and withdrawal because of wear and tear, invalidity etc. In addition, cash is recycled as a result of fluctuations in demand for different denominations and qualities. In 2000, about 517m notes were delivered to Norges Bank's regional branches, compared with 525m in 1999, which is a reduction of 1.5 per cent. An aggregate of 776m new coins were put into circulation in 2000, compared with 832m in 1999, which is a reduction of 6.7 per cent.

Table 4. Costs and revenues associated with cash handling
In millions of NOK

	1998	1999	2000
Total coin production costs	47.2	50.3	49.2
Total note production costs	74.1	50.0	41.6
Costs administration centrally and transport	15.1	13.5	10.9
Costs regional branches	216.4	219.8	228.0
Revenues regional branches	-94.4	-102.4	-129.7
Net costs regional branches [1]	122.0	117.4	98.3
Total costs for distribution of notes and coins	258.4	231.2	200.0

1) Costs to regional branches are excluding rent and share of joint costs.

Norges Bank's costs in connection with cash handling consist of the costs of producing new notes and coins and distributing them to banks. Distribution consists of transport to regional branches, storage, further distribution, destruction and replacement of damaged, worn and invalid notes and coins, and services for banks (counting, authenticity verification, sorting, packing). Norges Bank receives remuneration for performing these services for banks.

Costs will vary from year to year, particularly in connection with replacements in notes and coin series. Table 4 shows that the Bank's costs have been reduced by around NOK 58m in recent years. There has been a reduction in both production and distribution costs. The figures also show that both costs and revenues at regional branches have increased, which reflects an increase in the volume of services for banks, and indicates that prices have increased.

In 2000 new prices were therefore introduced for the delivery of notes and coins from Norges Bank to banks. Previously, two different qualities of quality- and counterfeit-controlled notes were delivered. The one was free of charge, and the other cost NOK 0.08 per note. With effect from 1 July 2000, only one quality is delivered, which has to be suitable for use in ATMs and other cash-dispensing machines. The price for this service was fixed as NOK 0.09 per note. The price for coins packaged in rolls was raised from NOK 1.00 to NOK 1.50 per roll. As a result, revenues from quality- and counterfeit-controlled notes rose from about NOK 24m in 1999 to about NOK 35m in 2000, and revenues from checking and packaging of coins increased from around NOK 19m in 1999 to about NOK 22m in 2000. At the same time, revenues from other cash-related services provided by banks increased from some NOK 49m in 1999 to about NOK 61m in 2000.

Chapter 3 The organisation of cash handling

Norges Bank is required pursuant to the Norges Bank Act to issue notes and coins. In recent years, the requirement regarding appropriate organisation and efficiency in this part of the payments system has led to major changes in Norges Bank's responsibilities with respect to the production and distribution of notes and coins.

The Royal Norwegian Mint as a separate limited company

The Royal Norwegian Mint (DKM), which is located at Kongsberg, has previously been organised as a separate department in Norges Bank. In addition to supplying Norges Bank with circulation, anniversary and commemorative coins, DKM has built up a considerable and stable production of medals and other collectors' items. Products accounting for roughly half of DKM's turnover have been sold to external customers. Although the enterprise has carried out substantial organisational and operational changes in order to cut costs, the market prospects for its product range have been uncertain. The Executive Board therefore decided in 1997 that at the end of 1999 it should be considered whether developments in DKM were acceptable in the light of the market situation and the enterprise's financial objectives.

The result of this evaluation was positive. During the period, the enterprise achieved greater competitiveness, and the evaluation of market prospects indicates a basis for commercial operations. It was furthermore established through a statutory amendment of December 1999 that Norges Bank has the right to spin off production activities into limited companies.

As a result, the Bank worked in 2000 to convert DKM into a separate limited company. The general objective was to create as efficient an enterprise as possible, to justify the production of coins in Norway in the future as well. The conversion into a limited company would still allow a broad product range. In this way better and more efficient use could be made of investments, expertise and capacity. At a meeting of 24 May 2000, the Executive Board reached the conclusion that DKM should be converted into a limited company wholly owned by Norges Bank. According to Section 8 of the Norges Bank Act, the Supervisory Council of Norges Bank has the competence to make a decision on such a matter at the proposal of the Executive Board, and at a meeting of 5 September, the Supervisory Council decided that the separation could take place with effect from 1 January 2001. It was additionally decided that temporary equity capital of up to NOK 25m may be provided.

Organisation of the activities of the regional branches

Over time, the activities of the regional branches have become increasingly commercial. In the past, regional branches played an important role in the execution of banking, credit and regional policy, and they supplied banking services for local government and banks. This is no longer the case, and operations today are concentrated on the supply and processing of notes and coins. In addition to the cash-related tasks following from the Norges Bank Act, the branches perform tasks that could alternatively be performed by banks and security transport companies, or in competition with them. One prerequisite for developing this aspect of activities is that the costs be covered by revenues from elsewhere than Norges Bank, and that activities be developed in line with currently applicable rules regarding competition and government subsidies.

At a meeting on 12 January 2000, the Executive Board reached a general decision to establish the regional branches as a separate profit centre. The intention was that the profit centre would have responsibilities associated with Norges Bank's role as issuer of notes and coins, and at the same time aim to develop payment services for banks and other external customers in the field of cash handling as a commercial activity. Emphasis was placed on making the best and most efficient use in the overall cash-handling system of the infrastructure and expertise in this field that Norges Bank has built up over the years. At the same time, a committee made up of all the parties concerned in Norges Bank was set up to determine which measures would be necessary to ensure that after a transitional period the profit centre should at least break even.

Against the background of the report from this committee, consultative submissions and subsequent evaluations, the Executive Board decided at a meeting on 19 July 2000 to recommend to the Supervisory Council that the branches in Bodø, Fredrikstad, Hammerfest, Vardø and Ålesund, and the cashier's office in Haugesund should be closed.

Since any change in the regional branch structure will be a decision of "special importance", the matter was submitted to the Ministry of Finance in May 2000, in accordance with the second paragraph of Section 2 of the Norges Bank Act.

As a result of the Executive Board's recommendation and comments received from the Ministry of Finance, the matter was taken up for a final decision at a meeting of the Supervisory Council held on 6 September. In the press release issued after this meeting, the Supervisory Council's majority decision was summed up as follows:

> "Norges Bank shall maintain the branches in Lillehammer, Oslo, Larvik, Kristiansand, Stavanger, Bergen, Trondheim and Tromsø for distribution of cash and business operations relating to

cash. Norges Bank will continue to develop cash handling at these regional branches as a business activity on commercial terms in competition with other operators. The bank will use its expertise and infrastructure for quality and counterfeit control and processing of notes and coins in order to create effective solutions for the cash-handling market. The regional branches that are being closed are Fredrikstad, Ålesund, Bodø, Hammerfest and Vardø, and in addition the cashier's office in Haugesund. Norges Bank has not found a basis for commercial operations at these branches within the framework of an organisation based on profit centres. Security and control routines require too large a staff in relation to the level of activity in the northernmost counties. It is therefore better to base the distribution of cash to the banking sector in these areas on local banks undertaking to administer Norges Bank's depots alongside their other banking operations. The closure of the branches will take place in the first half of 2001.

The Executive Board of Norges Bank recently decided to locate the switchboard and some archives functions in Vardø, in order to contribute to employment there. This will provide from 5 to 7 person-years of employment in the future. Until these responsibilities have been transferred, the branches in Finnmark will be maintained as depots run by Norges Bank."

As a result of the decision to establish Norges Bank's cash-handling activities as a profit centre and Den norske Bank's need to find a secure solution for its cash-handling in the Oslo area, Norges Bank and Den norske Bank commenced discussions in autumn 2000. The objective was to form a jointly owned limited company in order to meet the two parties' need for secure, efficient and profitable cash-handling solutions and to realise market opportunities through an interaction of the parties' expertise and position.

Later in the autumn, on the initiative of Norges Bank, the project was expanded to include the establishment of a jointly owned limited company to deal with cash-handling for several of the banks in Norway. The intention is that by joining the banks in a cash-handling company, Norges Bank will contribute to a significant structural rationalisation of cash-handling in Norway. A further condition on Norges Bank's part is that the company must have a satisfactory capital base and operate according to commercial principles, with a view to profitability after an introductory period. The project will continue in 2001.

Chapter 4 Investment management in Norges Bank

At end-2000, Norges Bank managed resources worth over NOK 560bn in the international capital markets. The bulk of this 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.

Foreign exchange reserves

The market value of net foreign exchange reserves (less foreign liabilities and net foreign exchange sold forward) was NOK 167.6bn at end-2000. The reserves are divided into four sub-portfolios: an immunisation portfolio to match government foreign currency debt and neutralise the currency and interest-rate risk associated with this debt; a buffer portfolio for the Petroleum Fund, to accumulate foreign currency purchases for transfer to the Government Petroleum Fund at regular intervals; a liquidity portfolio, to be used for operations in the foreign exchange market in connection with the conduct of monetary policy, and a long-term portfolio, which is to be available for interventions, but to be invested according to more long-term considerations. With the exception of the buffer portfolio, foreign exchange reserves are invested exclusively in fixed income instruments. The Executive Board decided in 2000 that 20 per cent of the long-term portfolio shall be invested in equities. Adaptation to the new investment strategy will take place in 2001. In addition to the Executive Board's guidelines, the Governor has stipulated guidelines for the four sub-portfolios, which specify how the portfolios are to be managed.

Management of the immunisation portfolio is determined by the composition of government foreign currency debt. In 2000, the return on the portfolio was 0.67 percentage point higher than the costs of servicing the government's foreign debt. The market value of the immunisation portfolio was about NOK 8bn at end-2000. In 2004 the existing government foreign debt will be settled in its entirety.

The funds transferred to the buffer portfolio for the Petroleum Fund consist of foreign currency transferred 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 combined amount up to the level to be allocated to the Government Petroleum Fund. Capital may also be transferred to the Petroleum Fund from the other foreign exchange reserves. In order to avoid unnecessary transaction costs, the Petroleum Fund buffer portfolio is managed according to much the same guidelines as the Petroleum Fund.

The liquidity portfolio represents the portion of foreign exchange reserves with the shortest time horizon. The portfolio should be large enough to meet most requirements for undertaking operations in the foreign exchange market. The other reserves may also be used for interventions if conditions in the foreign exchange market indicate a need. In accordance with Norges Bank's guidelines, the lower limit for liquidity reserves was NOK 10bn and the upper limit was NOK 50bn. During most of 2000, the liquidity portfolio was in the range NOK 30-35bn.

The long-term portfolio constitutes the largest portion of foreign exchange reserves, with in excess of NOK 100bn. It 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 this is regarded as 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 submarkets. 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.

A limit has been set for how much the manager may deviate from the benchmark portfolio. This limit is a measure of relative market risk (tracking error). In practice this means that the difference in returns on the actual portfolio and the benchmark portfolio will normally be small. The upper limit for tracking error is 0.5 percentage point for the liquidity portfolio and 1.0 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 portfolio and on the actual portfolio will lie between -1 and +1 percentage points in 2 out of 3 years on average.

The composition of the liquidity portfolio shall deviate to only a limited extent 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 three years or less and a low interest-rate risk. The portfolio is primarily composed of government paper, which has a low credit risk and is highly liquid.

In terms of the currency distribution of the benchmark portfolio, the return on the liquidity portfolio was 5.56 per cent in 2000. Measured in NOK, the return was 9.48 per cent. The difference is due to the depreciation of the Norwegian krone against the currency basket of the benchmark portfolio. The portfolio outperformed the benchmark portfolio by 0.06 percentage point. The liquidity portfolio tracked the benchmark portfolio closely throughout the year.

The return on the long-term portfolio was 8.49 per cent measured against the currency basket that corresponds to the composition of the benchmark portfolio. Measured in NOK, the return was 12.40 per cent. This was 0.12 percentage point higher than the return on the benchmark portfolio.

The Government Petroleum Fund

The market value of the currency portfolio of the Government Petroleum Fund at end-2000 was NOK 386.2bn. 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 management costs, on the principle of full coverage of expenses.

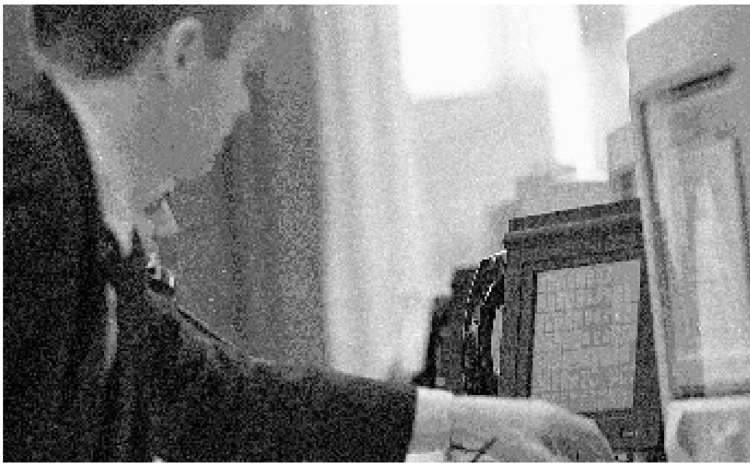
During 2000 the Ministry of Finance transferred the net amount of NOK 150.0bn to the Petroleum Fund. The equivalent of this amount was immediately transferred to the currency portfolio. Four transfers were made, consisting of NOK 30bn on 31 March, NOK 40bn on 30 June, NOK 45bn on 30 September and NOK 35bn 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 delegating authority's investment strategy for the Petroleum Fund. It serves as 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 limits for the deviation of the actual portfolio from the benchmark portfolio.

In 2000 the return on the Government Petroleum Fund was 2.50 per cent measured against 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 Fund. The return on the Fund’s equity portfolio was –5.82 per cent, whereas the return on the fixed income portfolio was 8.41 per cent.

Measured in NOK, the total return was 6.53 per cent. This was 0.20 percentage point higher than the return on the benchmark portfolio. Both internal and external equity management and internal fixed-income management outperformed the benchmark portfolio. The costs of investing new capital in the markets had a definitely negative impact on the excess return, since the amount of new capital added in 2000 was very substantial in relation to the size of the Petroleum Fund.

The nominal return on the Petroleum Fund over the past three years has been 26 per cent, calculated in relation to the Fund's currency basket. A return of 43 per cent was recorded on the equity portfolio, while the return on the fixed income portfolio was 17 per cent. The net real return over the three-year period after deductions for management costs has been 21 per cent.



A more detailed presentation of the management of the Fund in 2000 is to be found in the Annual Report of the Government Petroleum Fund.

The Government Petroleum Insurance Fund

The market value of the Government Petroleum Insurance Fund at end-2000 was NOK 10.8bn. The Fund is owned by the Ministry of Petroleum and Energy, which acts on behalf of the government in its capacity as self-insurer of holdings in petroleum activities. All damages payments from the Ministry are charged to the Insurance Fund. The Fund is managed by Norges Bank. The return in 2000 was 6.90 per cent measured against the currency basket corresponding to the composition of the Fund’s benchmark portfolio, and 9.86 per cent measured in NOK. This was 0.15 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 with 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 with the Bank of England are constantly on loan to other financial institutions for periods of up to six months. The market value of the gold reserves was NOK 2.6bn at end-2000.

Claims on the IMF comprise three components: SDR (Special Drawing Rights), reserve positions in the IMF and loans to the IMF (PRGF). Norges Bank aims to maintain reserves of between SDR 200m and SDR 300m. At end-2000 the reserves amounted to SDR 235m. Reserves in the IMF amounted to the equivalent of NOK 5166m. Norway’s share of the IMF Poverty Reduction and Growth Facility – PRGF – accounted for about SDR 110m.

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 rights and fulfil the corresponding commitments ensuing from participation in the International Monetary Fund (IMF).

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 provides interim financing in the event of balance of payment problems and serious balance of payment crises. At the end of 2000, the IMF had 183 member countries.

The supreme body of the IMF is the Board of Governors, on which Norway has been represented by the Governor of Norges Bank, Svein Gjedrem, and the Secretary General of the Ministry of Finance, Tore Eriksen, as alternate.

Day-to-day activities in the IMF are managed by an Executive Board composed of 24 members. The five Nordic and three Baltic countries comprise one constituency with a joint representative on the board. In 2000, Olli-Pekka Lehmussaari, Finland, was the Executive Board representative for the constituency, with Åke Törnqvist, Sweden, as alternate. There is an informal agreement to the effect that the country with a representative on the board also takes care of the day-to-day coordination of the Nordic and Baltic countries' stance on the issues discussed by the board.

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, and meets twice a year. The Finnish Minister of Finance, Sauli Niinistö, has been the constituency's representative on the IMFC.

The Nordic-Baltic Monetary and Financial Committee (NBMFC) coordinates the activities of the constituency at the highest level. The committee chairman is Johnny Åkerholm, Permanent Under-Secretary of the Ministry of Finance, Finland. 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, Norges Bank.

Surveillance and lending policy

Surveillance of economic developments in member countries constitutes a substantial proportion of the IMF's activities. The main emphasis is placed on bilateral surveillance through the so-called Article IV consultations, which normally take place annually. Surveillance has traditionally been concentrated primarily on member countries' macroeconomic conditions and external account. In recent years, developments in the financial sector have increasingly been subject to surveillance. In collaboration with the World Bank, the IMF has initiated a project designed to evaluate the financial stability of some member countries. Norway has not taken part in this project.

The IMF has developed codes of good practices on transparency in fiscal and monetary policy and financial market policy. Greater weight has been attached to this work as a result of the financial crises experienced in recent years. The IMF has launched a project intended to assess the compliance of some member countries with various standards, but Norway has not been involved.

As part of its policy of greater transparency, the IMF has encouraged voluntary publication of the IMF's reports on member countries This applies to both the ordinary reports on the economic policy of member countries (Article IV reports) and the more specialised reports on financial stability and compliance with international standards. The purpose of publishing the reports is to enhance the effectiveness of the surveillance, and to fuel more public debate on the IMF's analyses and views.

The annual Article IV consultations with Norway were held from 17 – 24 October 2000. The IMF delegation's preliminary evaluation was published on 24 October. The final report was published on 5 February 2001.

In 2000 the IMF made a thorough review of its financial assistance programme with a view to establishing a more transparent lending system. A number of financial assistance facilities that had originally been established for special purposes, were discontinued.

Certain changes were made in the interest rate structures of the ordinary lending programmes SBA – Stand-By Arrangement – and EFF – Extended Fund Facility, to the effect that the interest rate increases with the size of the loan. To reduce the term of loans, a system of time-based repayment expectations was introduced.

The terms of the Contingent Credit line, established in 1999, have been eased. No countries applied for CCL loans in either 1999 or 2000.

Debt strategy and financing programmes for developing countries

In 2000 the IMF intensified work to forgive the debt of the poorest developing countries. A simplified process was established to bring as many countries as possible under the scheme debt relief for Heavily Indebted Poor Countries (HIPC). At year-end, debt relief for a total of 22 countries had been initiated.

Countries applying for debt relief under the programme must prepare a strategy for combating poverty (Poverty Reduction Strategy Paper – PRSP). The country must demonstrate its ability and willingness to conduct a sound economic policy. The objective is for the country to conduct a sustainable economic policy that brings about a permanent improvement of the debt situation. The

PRSP must be endorsed by the IMF and the World Bank.

The IMF has a special loan facility for combating poverty and fostering growth – the Poverty Reduction and Growth Facility (PRGF). The facility is an extension of the Enhanced Structural Adjustment Facility, which was established in 1987. The PRGF is not financed through the IMF’s ordinary resources, but through member countries’ making resources available. These resources either take the form of capital which is used for loans, or contributions to a Trust which permits the IMF to lend these resources at a very low interest rate.

Norges Bank has committed capital totalling SDR 150m (about NOK 1.7bn) to this facility. The agreement between the IMF and Norges Bank is formulated to the effect that the Fund must have drawn this amount by a given date. Once the IMF draws on the resources, they are tied for up to 10 years as far as Norges Bank is concerned. In August 2000, the IMF requested that the commitment period in which the Fund can draw on the resources be extended to 31 December 2005. Pursuant to Section 26 of the Norges Bank Act, the matter was submitted to the Ministry of Finance, which approved the extension on the advice of Norges Bank.

Federal Republic of Yugoslavia new member

In late 2000, the Federal Republic of Yugoslavia applied for its membership of the IMF to be reactivated. The resumption of normal relations was made conditional on full repayment of the country's arrears to the IMF, which amounted to approximately SDR 100m. Norway and Switzerland agreed to provide a same day bridge loan to Yugoslavia to enable the country to repay its debt to the IMF. Norway's share was SDR 50m. The operation was carried out on 20 December. On the same day, Yugoslavia was readmitted as a member, and was granted a new loan which was immediately used to repay the loan provided by Norges Bank. The loan from Norges Bank was granted pursuant to section 26 of the Norges Bank Act, which requires satisfactory security and the approval of the Ministry of Finance.

The Bank for International Settlements (BIS)

The responsibility of the Bank for International Settlements (BIS) is to promote 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 attends meetings at the BIS on a regular basis in order to discuss international issues in the area of central banking.

The central banks of the European Union (EU)

As of 1 January 1999, the European Central Bank (ECB) is responsible for formulating and implementing monetary policy in EMU. Economic developments and monetary policy in the EU provide important framework conditions for Norwegian monetary policy. Norges Bank therefore seeks to maintain regular contact with the ECB and with central banks in the EU.

Norges Bank has entered into a swap agreement with the ECB which gives Norges Bank access to credits for use in interventions to support exchange rate management. Norges Bank has undertaken to carry out interventions in a manner that is compatible with the ECB’s monetary policy objectives, and to cooperate with the ECB on intervention policy vis-à-vis third-country currencies. Norges Bank is required to use its foreign exchange reserves and monetary policy instruments to a reasonable extent before drawing on the agreement. Furthermore, it is stipulated that Norges Bank may not draw on the agreement as long as the krone is floating against the euro. The agreement, limited upwards to EUR 1 500m, was renewed for a 12-month period as of 1 January 2001.

Norges Bank has a similar agreement with the Bank of England for EUR 290m. This agreement was also renewed for a 12-month period as of 1 January 2001.

Up to 31 December 2000, Norges Bank had a swap agreement with the Bank of England for EUR 25m. Greece joined the euro area on 1 January 2001, and the agreement was therefore not renewed.

Nordic central banks

There is close cooperation between the Nordic central banks in a number of areas. The annual meeting of the Nordic central bank governors was held in Norway in 2000. The main topic was developments in the Nordic banking and financial markets and the consequences for central banks' role as lender of last resort.

Staff from the various departments of the central banks meet regularly to discuss issues relating to monetary policy, management of foreign exchange reserves, financial stability, payment systems, central bank legislation, personnel policy, etc.

On 1 January 1999, the central banks of Denmark, Iceland, Norway and Sweden entered into an agreement on mutual foreign exchange support. The central banks of Denmark, Norway and Sweden each have the right to draw up to EUR 2bn, whereas the amount for the central bank of Iceland is EUR 200m. Each central bank that is a party to the agreement undertakes to provide currency support up to an amount equivalent to EUR 1bn, or EUR 100m in the case of the central bank of Iceland. Before the agreement is activated, the borrower country must have used its foreign exchange reserves and monetary policy instruments to a reasonable extent. The credit period under the agreement is three months, with an option for a three-month extension. The agreement remains in force until it is terminated by one of the parties.

Chapter 6 Other responsibilities

International reporting and cooperation

Norges Bank's reporting of statistics to international organisations has increased in recent years, and there are constant new requests and desires for more data from these organisations. 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 statistical standards and international reporting is discussed. One such forum is Eurostat's Committee on Monetary, Financial and Balance of Payments Statistics 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. In the first half of 2000, more detailed publishing of foreign exchange reserves and foreign exchange liquidity commenced as a result of new SDDS requirements.

Foreign exchange regulation and exchange controls

Norges Bank's Lillehammer branch has the day-to-day responsibility for foreign exchange regulation and controls according to agreement with the Statistics Department at head office. This applies among other things to cooperation with other controlling bodies and work in connection with monitoring and control associated with UN sanctions against other countries and other similar matters.

In 2000 Norges Bank's Foreign Exchange Regulations of 27 June 1990 were amended in the following areas:

The provisions in the present Chapters 6 and 7 concerning the establishment of settlement arrangements with non-residents and/or accounts in foreign banks have now been combined into one chapter, in order to make the rules simpler and more consistent. The reporting requirements concerning such arrangements and accounts were also eased, so that if turnover in the past 12 months and/or the average balance at month-end over the past 12 months does not exceed NOK 100m, the party concerned is exempt from the reporting requirement.

Changes have additionally been made in Chapter 14 concerning rules for foreign exchange banks that are exempt from computerised reporting. The existing BRAVO reporting system for banks is maintained, with exemption for banks with limited foreign activities. Banks that are exempt from BRAVO reporting may now also be exempted from reporting on paper. Information based on banking statistics (ORBOF), Report 10 are used for evaluating applications for exemption. The limit is set as NOK 3m.

A technical change has also been made in Chapter 18 in order to bring the rules of the regulation into line with statutory amendments.

The number of inquiries from control and supervisory bodies was 966 in 2000 compared with 928 in 1999, and as a result searches were made for 1589 named enterprises or private persons in the database. This resulted in responses concerning 17444 transactions, which is only just over one thousandth of the total number of transactions Norges Bank received for foreign exchange statistics purposes.

Norwegian authorities have adopted regulations which implement UN sanctions concerning economic boycott of countries and/or regions, and the Ministry of Finance has delegated the responsibility of functioning as supervisory and authorising body for financial transactions to Norges Bank. In 2000 Iraq and the Federal Republic of Yugoslavia were subject to UN sanctions. Sanctions against Libya have been temporarily suspended with effect from 5 April 1999. The UN sanctions in 2000 against the Federal Republic of Yugoslavia only applied to deposits or similar investments in Norway made by official Yugoslavian authorities or by bodies corporate owned or controlled by Yugoslavia. These sanctions were repealed with effect from 1 November 2000. In 2000 Norges Bank received no applications concerning transfers to Iraq.

On 25 June 1999 the Storting passed a law concerning special measures against the Federal Republic of Yugoslavia. With this law forming the legal basis, the Government adopted a regulation concerning the implementation of the measures on 6 August 1999, and the Ministry of Finance delegated to Norges Bank the responsibility of operating as a monitoring and licensing body for financial transactions. All transactions that an institution plans to carry out in accordance with the exemption rules in the regulation must have advance approval from Norges Bank. In 2000, 121 applications to transfer assets to the Federal Republic of Yugoslavia were processed. This "EU action" against Yugoslavia has been amended five times, and the changes have been conveyed to financial institutions through circulars from Norges Bank.

Government debt management

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

In 2000, the Government's issue programme for short and long paper was published twice yearly in auction calendars. On the whole, auctions were arranged according to the same principles as in previous years. In 2000 five auctions of government bonds were held and thirteen of short-term government paper (Treasury bills and notes). The total issue volume, excluding Norges Bank's primary purchase, was NOK 16.1bn in government bonds and NOK 42.0bn in short-term government paper.

At the end of 2000, government domestic securities debt registered in the Central Securities Depository amounted to NOK 175.2bn, calculated at nominal value. Of this, 95.7 per cent was concentrated in ten benchmark loans with liquidity that was high by Norwegian standards. Over 36 per cent was foreign-owned, while life insurance companies and private pension funds held 25 per cent. Norwegian government domestic securities debt amounted to 12½ per cent of the gross national product in 2000, which is very low by comparison with other countries.

In 2000 major changes were made in both the nature of instruments, the auction method and the issue programme for short-term government paper. In the second half of the year, interest-bearing Treasury notes were replaced by Treasury bills, ie zero-coupon paper. In October bills were auctioned for the first time over the Oslo Stock Exchange's electronic trading system. As a result, the time taken was reduced from a good hour to 4-5 minutes. At the same time, the Bank used uniform price auction open to all, including non-members of the Stock Exchange, with the aid of a telefax-based option. This had previously only been offered for bond auctions.

In December a change was announced in the issue system, with publication of the auction calendar for a whole year at a time. Five auction dates were announced for bonds and sixteen for bills. The increased issue frequency is due to the fact that from now on Treasury bills are issued on IMM days (international standard for settlement days, the third Wednesday in March, June, September and December), with the due date on the IMM day one year later. These loans are extended by new tranches after only two or three weeks, ie at the beginning of the following month. Eight more auctions of notes will be held at the beginning of each of the remaining months. Notes that mature in mid-May or November will then be issued (in connection with due dates for taxes) or further increases will be made in notes with IMM maturities in March or September. Normally these notes would have a residual maturity of only 3-4 months. The purpose of the new note programme was to bring it better into line with demand from investors and fluctuations in government cash holdings.

In the secondary market, Norges Bank was engaged throughout the year in market making for the largest government loans on the automatch board at the Oslo Stock Exchange. The purpose was to improve turnover, so as to achieve the lowest possible loan costs, and provide the market with thorough information about yields. The Bank itself sets bid and offer prices for Treasury bills simultaneously, while agreements for government bonds have been signed with a group of primary dealers, who continuously set bid and offer prices for NOK 5m each. Each primary dealer was given the right to borrow bonds for up to NOK 200m in each of the loans in question.

Information activities

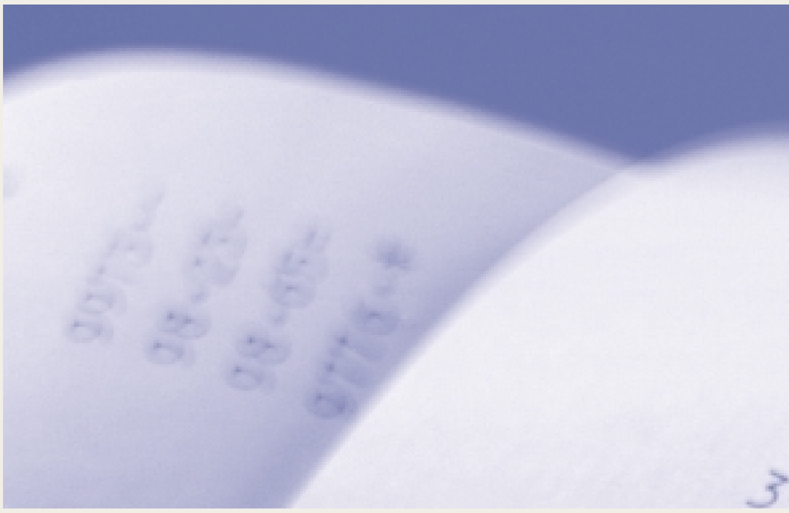
Norges Bank is obliged pursuant to the Norges Bank

Act 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 the monetary policy it conducts 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 at all of the Executive Board's monetary policy meetings and in connection with the publication of the inflation reports and the quarterly reports of the Government Petroleum Fund. During 2000, four press seminars were also arranged, at which a more thorough presentation was made of the Financial Stability reports and international economic developments, and the management of the Government Petroleum Fund was reviewed. Forty eight press releases were issued.

Use of the Internet constitutes an ever more important part of the Bank's information strategy. During the year, the Bank's website was restructured to make this service more user-friendly and functional. From the second half of the year, the sound from press conferences in connection with the monetary policy meetings and inflation reports has been streamed over the internet. Speeches and contributions to debates by executives in Norges Bank are also published on the Bank's website. There were 21 such publications during the year. Taking the number of visits to the site as an indication of the use of this service, the figure was found to be almost 176 000 per month by the end of 2000 compared with 136 000 the previous year (an increase of 29 per cent).

Norges Bank issues a number of publications. Penger og Kreditt and its English counterpart, Economic Bulletin, are published quarterly. Other publications issued were 16 Working Papers on research projects, 15 circulars and 5 reprints, in addition to Norges Bank's Annual Report.



Part III: Report of the Executive Board on the accounts for 2000

Report of the Executive Board on the accounts for 2000

The issue of banknotes and coins is one of Norges Bank's main responsibilities. This means that Norges Bank at all times has non-interest-bearing debt. The offset to this is the Bank's interest-bearing claims on other participants. The monopoly on banknotes thus means that, prior to corrections for fluctuations in exchange rates and securities prices, the accounts of a central bank will normally show a profit (seigniorage). Moreover, Norges Bank's accounts are special in that the profit is largely determined by the monetary policy that has been conducted in the course of the accounting year.

Norges Bank's accounts for 2000 show a profit of NOK 13 722m, compared with a deficit of NOK 3 115m in 1999. This is attributable to changes in prices for Norwegian and foreign securities resulting in a capital gain of NOK 2 107m in 2000, compared with a loss of NOK 8 155m in 1999[1)] In addition, exchange gains came to NOK 5 988m in 2000, compared with losses of NOK 887m in 1999.

Interest income from foreign assets came to NOK 11 663m, ie NOK 2 834m more than in 1999.

Interest payments to the Treasury amounted to NOK 3 561m, of which NOK 627m represents the return on the immunisation portfolio[2)]. Total interest payments to the Treasury came to NOK 1 776m in 1999.

In accordance with existing guidelines, Norges Bank transferred NOK 10 685m to the Treasury from the Transfer Fund.

Norges Bank's foreign assets

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

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. The guidelines stipulate limitations on credit exposure, interest rate risk and currency risk.

Norges Bank's international reserves are divided into separate portfolios according to purpose. The composition of the liquidity portfolio is intended to facilitate ongoing exchange rate management and to influence liquidity and interest rates in the Norwegian money market. The long-term portfolio is to be available for interventions, but is also invested with a view to achieving the highest possible return subject to the applicable guidelines. 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 accumulated quarterly for transfer to the Government Petroleum Fund with the lowest possible transaction costs. For this reason, this sub-portfolio includes futures contracts on foreign equity indices in addition to interest-bearing securities. All sub-portfolios are to be available for monetary policy purposes if necessary.

Size and composition of international reserves

At 31 December 2000, international reserves[3)] amounted to NOK 185 998m, of which foreign exchange reserves amounted to NOK 174 530m. The distribution of international reserves in the individual main portfolios is shown in Table 1. The table also shows the value of futures, forward contracts and interest rate swap agreements reaching maturity after the year-end. The distribution of foreign exchange reserves on instruments is shown in note 2.

The distribution of Norges Bank's foreign exchange reserves by currency at end-2000 and end-1999 is shown in Table 2.

Changes in the value of foreign exchange reserves

Foreign exchange reserves[4)] amounted to NOK 153.5bn at end-1999. In the course of 2000, foreign exchange reserves increased by NOK 21.0bn to NOK 174.5bn. This increase is mainly attributable to the return on the foreign exchange reserves in 2000. See Table 3 for the change in the foreign exchange reserves broken down by main items.

1) NOK 3 290m of this loss in 1999 was due to the changeover to valuation of securities at market value.

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

3) International reserves in the balance sheet, NOK 245 862, taking into account repurchase agreements and loans from the foreign sector, including total accrued interest charges of NOK 59 864m.

4) International reserves less gold reserves and claims on the IMF.

Table 1. Composition of international reserves at 31 December 2000 and 31 December 1999 measured in market values, and current financial instruments. In millions of NOK

	Foreign exchange reserves						**International reserves total**	
	Liquidity portfolio	Long-term portfolio	Immuni-sation portfolio	Buffer portfolio	**Foreign exchange reserves total**	Gold reserves IMF	**2000**	**1999**
Total international reserves	**44 652**	**105 469**	**7 551**	**16 858**	**174 530**	**11 468**	**185 998**	**167 187**
Interest rate futures purchased	43	13 288		61			**13 392**	**3 909**
Interest rate futures sold		11 717		965			**12 682**	
Equity futures purchased				6 435			**6 435**	**4 658**
Foreign exchange purchased forward	10	3 705		1 238			**4 953**	
Foreign exchange sold forward	8 145	3 705					**11 849**	**7 737**
Interest rate swaps purchased		4 687					**4 687**	
Interest rate swaps sold		4 726					**4 726**	

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

Currency	**2000**	**1999**
USD	21.9	27.2
CAD	1.9	1.3
JPY	12.6	12.9
GBP	14.1	13.0
Other currencies	4.0	3.3
EUR	45.5	42.3
Total	**100.0**	**100.0**

Table 3: Changes in foreign exchange reserves in 2000. In billions of NOK

	Changes 2000	Holdings
Foreign exchange reserves at 31 December 1999 (market value)		**153.5**
Foreign exchange purchases for the Petroleum Fund	53.0	
Foreign exchange purchases for the State's		
Direct Financial Interest in petroleum activities (SDFI)	99.0	
Transfers to the Government Petroleum Fund	-150.0	
Foreign exchange purchases for the liquidity portfolio	0.4	
Change IMF	2.0	
Investment in branches of foreign banks in Norway	-1.0	
Return	17.6	21.0
Foreign exchange reserves at 31 December 2000 (market value)		**174.5**

Return on international reserves

Measured in NOK, the total return on reserves comprises current interest income, capital losses/gains on securities holdings and losses/gains resulting from changes in exchange rates against NOK.

The exchange rate gains in Table 4 have no effect on the international purchasing power of the reserves.

Bond yields declined in most international markets and contributed to capital gains on securities[5] of NOK 1 536m in 2000, compared with capital losses of NOK 7 478m in 1999.

Interest income on the foreign exchange reserves was NOK 9 896 in 2000, compared with NOK 8 100 in 1999. The change is mainly attributable to larger average holdings of fixed income financial instruments in 2000 than in 1999.

Table 4: Return on international reserves in 2000 and 1999. In millions of NOK

	Liquidity portfolio	Long-term portfolio	Immuni-sation portfolio	Buffer portfolio	**Foreign exchange reserves total**	Gold reserves IMF	**International reserves total 2000**	**International reserves total 1999**
Exchange rate and gold reserves adjustments	2 256	3 478	204	631	**6 569**	-706	**5 863**	**-814**
Securities adjustments	-59	2 434	-77	-762	**1 536**	67	**1 603**	**-7 478**
Current interest income	1 908	5 899	393	1 319	**9 519**	377	**9 896**	**8 100**
Total	**4 105**	**11 811**	**520**	**1 188**	**17 624**	**-262**	**17 362**	**-192**

5) This relationship exists because decreased yields increase the value of future cash flows on bonds already in the portfolio in relation to new bonds.

The 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 2000, 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 market value of the Petroleum Fund was NOK 222 278m at end-1999. An additional NOK 150 000m was transferred to the Fund in 2000, consisting of transfers of NOK 30 000m on 31 March, NOK 40 000m on 30 June, NOK 45 000m on 29 September and NOK 35 000m on 30 November 2000. These amounts, combined with the return on capital, brought the market value of the Petroleum Fund to NOK 386 126m at end-2000.

Table 5 shows changes in the composition of the Government Petroleum Fund in 2000 and comparable figures for 31 December 1999.

At end-2000, approximately half of the equity portfolio was invested by external managers who are required to follow an indexing strategy. This portion of the portfolio almost exactly replicates the benchmark portfolio and has generated approximately the same return. Just over a quarter of the equity portfolio is managed by eight external managers with mandates to engage in active management. On average, these portfolios achieved a higher return than their benchmark portfolios.

At end-2000, over 90 per cent of the fixed income portfolio was managed internally by Norges Bank, while the remainder of the portfolio was managed by three external managers with mandates to employ active strategies. There was also a certain degree of active management in Norges Bank's internal management of the fixed income portfolio, and this made a positive contribution to the excess return. A limited amount of tactical asset allocation is engaged in by two external managers and internally in Norges Bank.

The market value of the return on the Government Petroleum Fund in 2000 was NOK 14 178m, of which NOK 7 907m is attributable to exchange rate gains following a weakening of the krone against most investment currencies through 2000. Exchange gains have no effect on the international purchasing power of the Fund. Securities gains realised by the Petroleum Fund in 2000 amounted to NOK 1 661m, while the Fund had unrealised losses of NOK 6 318m at end-2000.

Table 5: Composition of the Government Petroleum Fund after quarterly transfers, taking account of accrued management remuneration. Market value in millions of NOK

	31.12.99	**31.03.00**	**30.06.00**	**30.09.00**	**31.12.00**
Equity portfolio	93 120	105 635	121 798	142 738	152 829
Fixed income portfolio	129 320	158 703	182 815	214 237	233 627
Accrued management remuneration	-162	-213	-112	-239	-330
Total	**222 278**	**264 125**	**304 501**	**356 736**	**386 126**

Table 6: Currency distribution of the Government Petroleum Fund. Per cent

Currency	**2000**	**1999**
USD	26.9	28.0
CAD	2.3	1.7
Asian currencies	18.4	20.2
BBP	11.8	11.7
EUR	35.0	33.5
Other European currencies	5.6	4.9
Total	**100.0**	**100.0**

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 negotiable bills and bonds issued by the Norwegian state. Treasury bills are used by the Bank for market-making purposes in the secondary market.

Norges Bank's net purchases of Treasury bills and notes in the secondary market amounted to NOK 1.5bn. Norges Bank purchased Treasury bills and notes totalling NOK 2bn in the primary market. When Norges Bank's holdings of particular Treasury bills and notes become too low for market-making purposes, the Ministry of Finance may make a new issue for subscription by Norges Bank. In 2000, Norges Bank subscribed for NOK 1bn.

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. Under the agreement, primary dealers may purchase government bonds with an agreement to sell them back within five days (repurchase agreements). Norges Bank's holdings of government bonds form the basis for this borrowing facility. Norges Bank subscribed for NOK 1.6bn of the new 10-year loan issued by the government in June 2000.

Commitments to Norwegian banks

Fixed-rate deposits (F-deposits)

Norges Bank issues F-deposits with short maturities during periods of substantial excess liquidity in the banking system. The interest rate on F-deposits is fixed through standard auction. In 2000, maturities for F-deposits ranged from 2 to 7 days. The daily average for F-deposits was NOK 5.2bn in 2000, compared with NOK 1.7bn in 1999.

Intraday loans/overnight loans (D-loans)

The banks' D-loans are divided into loans during the day (intraday loans) and overnight loans. Banks are required to furnish collateral equivalent to at least 100 per cent of the loan for D-loans from Norges Bank. For overnight loans, semi-monthly total drawing limits are also stipulated. In 2000, the drawing limit was 15 per cent of each bank's basis of measurement, ie total assets less overnight debt to Norges Bank. No interest or fees are charged on intraday loans.

In Circular no. 9 of 29 June 2000, certain rules for the approval of securities which can be accepted as collateral for loans in Norges Bank were amended. When the Ministry of Finance replaced Treasury bills with Treasury notes in the form of zero-coupon paper, these were deemed acceptable collateral for loans in Norges Bank. Treasury notes are accorded a loan value equivalent to 95 per cent of their nominal value. VPS-registered bond and money-market funds may also be furnished as collateral. The loan value of bond and money-market funds is fixed as 80 per cent of their redemption value. Certain amendments were also made to the credit rating requirements for foreign securities.

Extraordinary loans (E-loans)

E-loans are an extraordinary intraday borrowing facility for banks and branches, introduced to provide for the execution of special payment settlements specified by Norges Bank. E-loans may be granted for cash withdrawals, for securities settlements, including settlements in the Norwegian Futures and Options Clearing House, for retail netting in the banks' joint clearing and liquidity information system (NICS), and for currency trading with Norges Bank. No collateral is required for E-loans, but a fee is charged to deter banks from drawing on this facility. E-loans must be repaid on the same day they are issued. The basis of measurement is the same as for F-loans. Norges Bank stipulates a total borrowing limit as a percentage of the basis of measurement.

Since 1998 the fee for E-loans has been 0.05 per cent of the loan amount, equivalent to the full rate. The full rate corresponds to the rate charged when a bank exceeds its overnight borrowing limit.

Eighteen E-loans totalling just over NOK 14m were issued in 2000 to 14 different banks. This is considerably less than in 1999, when a total of 47 loans with a combined value of NOK 1.4bn were issued. A collateral requirement for F-loans was introduced on 1 September 1999, which means that E-loans can no longer be used for redemption of F-loans. Banks have also adapted to the requirements for liquidity management through the day, and this has led to a general increase in the collateral furnished. A total of 136 banks had furnished collateral for loans at end-2000, against 108 at end-1999.

Loans to banks (fixed-rate loans and currency swaps)

Norges Bank issues F-loans (fixed-rate loans) when the banking system has a liquidity deficit. F-loans are set so that the banking system as a whole has an aggregate sight deposit in Norges Bank every day. F-loans are issued against collateral in the form of securities. Collateral furnished by a bank to Norges Bank may be used for either D-loans or F-loans. Interest rates on F-loans in 2000 were fixed through standard auction. The maturity of F-loans ranged from 1 to 10 days. The daily average for F-loans was NOK 5.1bn in 2000, compared with NOK 4.4bn in 1999. No liquidity was supplied through repurchase agreements for securities in 2000. Towards the end of the year, Norges Bank entered into currency swap agreements to curb the effect on interest rates of the poorly functioning interbank market at the turn of the year.

Norges Bank's Printing Works and the Royal Norwegian Mint

Norges Bank's two production units, the Royal Norwegian Mint (RNM) and Norges Bank's Printing Works (NBPW), primarily design and produce Norwegian coins and banknotes for Norges Bank. Goods are also produced on a commercial basis.

The combined operating expenses of the two production units (less calculated costs, depreciation and write-downs) were NOK 161.4m in 2000, of which NOK 77.7m was related to commercial activities. The total turnover for commercial activities was NOK 95.3m, ie a profit after joint costs and depreciation of NOK 5.1m in 2000.

In 2000, inventories at the Royal Norwegian Mint were written down by NOK 7.3m. NOK 5.1m related to write-downs of contingency reserves of Norwegian coins, while the remaining NOK 2.2m related to other holdings. The write-downs relate largely to obsolete inventories, some of which should have been written down in previous years. In addition, NOK 2.8m was charged to income in 2000 as a result of misinterpretation of VAT rules in 1999. After taking account of these items, the Royal Norwegian Mint recorded a profit of NOK 0.3m. NOK 4m was also written down on machinery, fittings and fixtures. At Norges Bank's Printing Works, write-downs of NOK 0.9m relating to banknote paper and a loss of NOK 1.2m on the sale of machinery for the production of stamps were also recorded against income. After taking account of these items, Norges Bank's Printing Works recorded a profit of NOK 4.7m. (See note 13 for further details of the production units' operating income, operating expenses and results.)

The average production cost is NOK 0.45 per coin and NOK 0.73 per banknote. The average unit cost will depend partly on the relative quantities of denominations. The production of the new 500-krone banknote incorporating more sophisticated security features will result in considerably higher unit costs for banknotes. Writing down of contingency reserves of metal following the replacement of the coin series will lead to higher unit costs for coins.

The Royal Norwegian Mint

A total of 98.7 million circulation coins were issued in 2000. Over the next few years, the annual production volume will probably be around 100 million circulation coins.

A special 20-krone coin was minted to commemorate the start of the new millennium.

There was a considerable amount of commercial activity, including deliveries of 230 000 silver medals and 6 600 gold medals. A commemorative set of coins was also produced to mark the new millennium.

As of 1 January 2001, the Royal Norwegian Mint was converted into a limited company wholly owned by Norges Bank. The company's share capital is NOK 25m. All inventory, fixed assets, equipment, fittings and fixtures were transferred from the Royal Norwegian Mint to the new company on the date of its incorporation.

Table 7: Production figures for circulation coins at the Royal Norwegian Mint

	2000	1999
Blanks	487 tons	580 tons
20-krone coins	12.1 million coins	6.2 million coins
10-krone coins	1.1 million coins	1.1 million coins
5-krone coins (new series)	11.4 million coins	24.3 million coins
1-krone coins (new series)	46.0 million coins	78.8 million coins
50-øre coins (new series)	20.1 million coins	25.3 million coins

Table 8: Production figures for Norwegian banknotes, stamps and Norwegian passports in 2000 and 1999. (One package = 500 notes)

	2000	1999
1000-krone notes	0 packages	13 000 packages
500-krone notes	52 400 packages	43 700 packages
200-krone notes	35 600 packages	44 300 packages
100-krone notes	44 170 packages	33 800 packages
50-krone notes	2 600 packages	38 400 packages
Norwegian passports	364 800	387 900
Personalised passports	108 847	68 590
Norwegian stamps	65 434 880	151 646 000
of which		
–intaglio	14 325 400	38 682 500
–offset	41 029 000	98 035 500
–stamps in booklets	10 080 480	14 928 000

Norges Bank’s Printing Works
Norges Bank's Printing Works went through a major restructuring in 2000. On 1 July 2000 the last stamps were delivered and production ceased after 38 years of printing stamps for the Norway Post Philatelic Service. This decision was made as a result of falling volumes and low prices. New finishing equipment for banknotes was used in 2000. This investment freed up a certain amount of production capacity, and the staff was reduced by one third in the course of 2000.

Throughout 2000 Norges Bank's Printing Works delivered passports including personal data direct to customers. In all roughly 109 000 passports were personalised in the trial project which is due to finish in 2001. Norges Bank's Printing Works is a subcontractor in a tender for a nationwide personalisation system. Approximately 365 000 normal blank passports were produced. The development of the new 1000-krone banknote was completed in late 2000, and production is set to start in early 2001.

Activities in the Chief Cashier’s Department

Gross expenses for handling and distribution of banknotes and coins at Norges Bank's 14 regional branches amounted to approximately NOK 234.2m including depreciation (less the share of overheads at the Head Office) in 2000. With an income of approximately NOK 129.7m, net expenses for this activity came to about NOK 104.5m in 2000.

Withdrawal of notes and coins
Through an announcement published on 17 April 2000, the Series VI 500-krone banknote ceased to be legal tender. These banknotes may be redeemed in Norges Bank until 17 April 2011.

Commemorative coins
The UN coin project was discontinued in 2000 and profits of NOK 3.5m from the programme were transferred to the Ministry of Finance.

A silver commemorative coin was issued on 1 September 1999 to mark the new millennium, and on 15 January 2000 a gold commemorative coin was issued. A total of 50 000 silver coins were issued in proof quality with a nominal value of NOK 100, and 7 500 gold coins with a nominal value of NOK 1 500. The coins are legal tender. The coins were produced at the Royal Norwegian Mint. The UN coin project has been discontinued and profits of NOK 15.2m from the programme were transferred to the Ministry of Finance.

Commercial activities
Commercial activities in the Chief Cashier’s Department comprise various money-handling services for banks and the postal system, based on the principle

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

	Permanent employees							
	Full-time		Part-time		Short-term		**Total**	
	2000	1999	2000	1999	2000	1999	**2000**	**1999**
Head Office	562	565	71	81	10	11	**643**	**657**
Regional branches outside Oslo	275	296	61	69	1	1	**337**	**366**
Norges Bank's Printing Works and the Royal Norwegian Mint	91	122	15	9	0	0	**106**	**131**
Total	928	983	147	159	11	12	**1086**	**1154**

of full cost coverage. The services include business settlement, coin sorting, stocking of ATM dispensers with subsequent settlement, and packaging of notes and coins for post offices and bank branches.

Revenues from commercial activities totalled NOK 62.4m in 2000, compared with NOK 49.0m in 1999, ie an increase of 27.3 per cent.

Other revenues

In 2000, revenues from sales of rolls of coins and notes of ATM quality amounted to NOK 22m and NOK 35m respectively. The corresponding figures for 1999 were NOK 19m for rolls of coins and NOK 24m for notes of ATM quality.

The Bank's administration

Staff

At end-1999, Norges Bank had a total of 1 086 permanent and temporary employees, which is 68 fewer positions than at end-1999. Table 9 shows the distribution between full-time and part-time positions and short-term contracts in the main areas of the Bank.

The 1 086 employees at year-end corresponded to 1 025 person-years. Costs for temporary staff amounted to NOK 21.3m in 2000, compared with NOK 23.5m in 1999.

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.

Absenteeism due to illness was 6.1 per cent of the total number of working days in 2000. The corresponding figure for 1999 was 6.2 per cent.

Norges Bank's activities have an insignificant impact on the external environment in the form of pollution in excess of approved limits. Metal waste from coin production at the Royal Norwegian Mint is treated at a municipal treatment facility. The waste level remained within approved limits, with the exception of nickel, the level of which was brought within the approved limits by the second half of 2000.

Working conditions

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

Norges Bank offers loans to its employees, and in 2000 the interest rate was linked to the norm rate[6]. 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 1.7 per cent of total personnel costs.

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.

6) The norm rate for loans on favourable terms for employees, which in accordance with the Storting's tax resolution for the fiscal year 2000 is set at 5 per cent.

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 all year round. In 2000, a total of approximately 8 000 guest-nights were recorded. Vindåsen, which is located in Tjøme, is only open during the summer. In 2000, it recorded approximately 3 000 guest-nights. Together with contributions to other associations and clubs in Norges Bank, these costs accounted for 0.66 per cent of total personnel costs in 2000. The Bank has also granted interest- and principal-free loans of NOK 3.6m for the purchase of nine cottages which are run by regional branch employees.

Restructuring

In recent months the Bank has implemented and initiated a number of change processes aimed at more efficient use of resources and sharper focus on the Bank's core activities. On the proposal of the Executive Board, the Supervisory Council resolved in 2000 to close five of the Bank's regional branches and one cashier's office in 2001. Staff cutbacks were also made in various departments at the Head Office. For instance, Norges Bank's Printing Works commissioned new technical solutions in 2000 which led to excess production capacity. In connection with staff cutbacks, the same personnel packages will be offered 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-2000, 128 agreements had been entered into for redundancy or early retirement. Further agreements are expected in the remaining period of restructuring.

A decision will be reached by the Supervisory Council in February 2001 regarding the possible sale of buildings vacated on the closure of the regional branches. There has been some discussion as to whether it is necessary to write down the value of these buildings in the Bank's accounts. The accounting values of these buildings are based on valuations from 1994. However, these valuations are fairly consistent with the valuations carried out in the autumn of 2000, and consequently it was decided not to write down the value of these buildings in 2000.

Other commitments

Guarantees in connection with loans to Brazil

In the autumn of 1998, under the auspices of the International Monetary Fund (IMF) a financial package of USD 41.45bn was granted to Brazil. One of the lenders was the Bank for International Settlements (BIS). A prerequisite for the financing programme from the BIS was that Norges Bank provided a guarantee for USD 50m. A corresponding government guarantee was provided.

Brazil repaid the outstanding debt to the BIS on 12 April 2000, and the borrowing facility was therefore closed as of that date. Consequently, the guarantee furnished by Norges Bank to the BIS ceased, as did the government guarantee.

Poverty reduction and growth facility (PRGF)

The IMF has established a special loan facility for low-income countries – the Poverty Reduction and Growth Facility (PRGF). The programme is not funded over the IMF's ordinary budget, but instead capital is borrowed from the individual member countries. Norges Bank has on two occasions, in 1988 and 1994, made a total of SDR 150m 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 facility, the resources are 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.

Same day loan to Yugoslavia

In the autumn of 2000, the Federal Republic of Yugoslavia applied for its membership of the IMF to be reactivated. The resumption of normal relations was made conditional on full repayment of the country's arrears to the IMF, which amounted to approximately SDR 100m. Norway and Switzerland agreed to provide a same day loan to Yugoslavia to enable the country to repay its debt to the IMF. Norway's share was SDR 50m. The operation was carried out on 20 December 2000. On the same day, Yugoslavia was readmitted as a member, and was granted a new loan which was immediately used to repay the loan provided by Norges Bank. The loan from Norges Bank was granted within the parameters of section 26 of the Norges Bank Act, which requires satisfactory security and the approval of the Ministry of Finance.

Bankplassen Parkeringsanlegg A/S

Norges Bank owns 100 per cent of the shares in this parking facility company. The parking facility's accounts for 2000 show a profit before financial items of NOK 3.5m. After payment of interest on subordinated loans with Norges Bank, the accounts show a profit of NOK 0.1m. At 31 December 2000, the company's total assets amounted to NOK 110m. The company has negative equity of NOK 48m. Negotiations were carried out in the autumn of 2000 with the aim of selling off the company's assets. The negotiations have been completed and agreements concerning operation and future transfer are to be signed in the near future.

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/loss 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 considered by the Executive Board to carry 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:

NOK 13 734m shall be transferred to the Adjustment Fund for 2000. However, the Adjustment Fund has not reached the level set out in point 1 of the regulation. For the Adjustment Fund to reflect the percentages in point 1 of the regulation, the allocation for 2000 would have had to come to NOK 15 209m.

As a result, no allocations have been made to the Transfer Fund pursuant to point 2.

In accordance with point 3 of the guidelines, NOK 10 685m will be transferred from the Transfer Fund to the Treasury.

In accordance with a statement from the Ministry of Finance, the net sum of NOK 12m is to be transferred from other capital.

Profit and loss account

All figures in thousands of NOK	Note	2000	1999
Foreign interest income:			
Interest on bank deposits/loans	2	2 584 568	1 022 963
Interest income from Treasury bills	2	8 388	364
Interest on bearer bonds	2,5	8 717 458	7 315 838
Other interest income		338 292	477 193
Share dividend, BIS	7	14 373	13 015
Total foreign interest income		**11 663 079**	**8 829 373**
Return on investments for Government Petroleum Fund	18	**14 178 454**	**30 295 484**
Foreign interest expenses:			
Interest on deposits/borrowings	2	1 752 469	716 475
Interest to foreign customers		44 175	42 741
Total foreign interest income		**1 796 644**	**759 216**
Net foreign interest income		**24 044 889**	**38 365 641**
Domestic interest income:			
Interest on bearer bonds		682 771	508 366
Interest on negotiable notes and bills		158 910	181 772
Interest on loans to banks		323 779	432 181
Interest on other loans		36 689	30 000
Total domestic interest income		**1 202 149**	**1 152 319**
Domestic interest expenses:			
Interest to the Treasury	15	3 561 391	1 775 782
Interest (return) to Government Petroleum Fund	18	14 178 454	30 295 484
Interest to public account holders	15	7 707	116 712
Interest to banks		1 012 364	661 238
Interest on tax-free allocations to funds		353	585
Other interest expenses		9 373	6 873
Total domestic interest expenses		**18 769 642**	**32 856 674**
Net domestic interest expenses		**17 567 493**	**31 704 355**
Net interest income, domestic and foreign		**6 477 396**	**6 661 286**
Valuation adjustments:			
Net gains/loss (-) on foreign exchange	1,2	5 988 149	(887 332)
Net gain/loss (-) on foreign securities and financial instruments	1,2	1 603 856	(7 344 941)
Net gains/loss (-) on Norwegian securities	1	503 014	(809 838)
Net valuation adjustments		**8 095 019**	**(9 042 111)**
Net interest income and valuation adjustments		**14 572 415**	**(2 380 825)**
Operating income:			
Fees and commission income		126 693	99 023
Sales income, production units	13	94 014	76 820
Other operating income		364 404	232 486
Total operating income		**585 111**	**408 329**

Operating expenses:			
Wages, salaries and other personnel costs	16	555 713	505 905
Restructuring costs	16	129 860	8 026
Depreciation and write-downs	11	120 249	116 168
Goods consumption, production units		90 333	85 127
Other operating expenses	13,14	539 793	426 943
Total operating expenses		**1 435 948**	**1 142 169**
Net operating expenses		**850 837**	**733 840**
Operating profit before allocations and loan losses		**13 721 578**	**(3 114 665)**
Allocations and loan losses	1	(37)	357
Profit/loss(-) for the year		**13 721 615**	**(3 115 022)**
Transfers:			
Profit/loss(-) for the year		13 721 615	(3 115 022)
Transferred from the Adjustment Fund		0	0
Transfers from ‘Other capital’	20	80 197	3 371 763
Amount available		**13 801 812**	**256 741**
Allocated to ‘Other capital’	20	68 118	132 593
Allocated to Adjustment Fund		13 733 694	124 148
Allocated to Transfer Fund	19	0	0
Amount distributed		**13 801 812**	**256 741**

Balance sheet at 31.12.2000

All figures in thousands of NOK

ASSETS	Note	2000	1999
International reserves	1,2	**245 862 568**	**193 588 993**
Gold reserves	3	2 275 089	2 206 904
Special drawing rights on the International Monetary Fund		2 713 310	3 279 251
Reserve tranche position in the International Monetary Fund	4	5 165 992	6 836 795
Loans to the International Monetary Fund		1 268 506	1 337 865
Deposits and loans, foreign banks	6	73 397 053	48 255 324
Foreign Treasury bills	5	0	155 460
Foreign bearer bonds	5,6	157 892 576	128 461 248
Accrued interest, earned, incl. current assets		3 150 042	3 056 146
Investments for Government Petroleum Fund	18	**386 126 118**	**222 277 682**
Other foreign assets		**14 131 403**	**11 585 466**
The International Monetary Fund	4	14 106 703	11 560 766
Shares in the BIS	7	24 700	24 700
Norwegian securities	1,8	**13 519 082**	**10 771 925**
Treasury bills/notes	8	2 776 278	1 591 695
Government bonds	8	10 742 804	9 180 230
Domestic lending		**21 733 546**	**26 141 012**
Banks		21 158 064	25 574 500
Other domestic sectors	9	575 482	566 512
Deposits in Norwegian banks		**1 019 141**	**55 072**
Other domestic assets		**1 163 253**	**792 782**
Discounted bank drafts		6 035	4 503
Accrued interest, earned		414 032	361 169
Other assets		691 769	384 189
Shares in subsidiaries	10	25 050	50
Inventories, production units	1	26 367	42 871
Fixed assets	1,11,12	**1 938 975**	**2 010 107**
TOTAL ASSETS		**685 494 086**	**467 223 039**

All figures in thousands of NOK

LIABILITIES AND CAPITAL	Note	2000	1999
Foreign debt		**74 998 095**	**38 925 030**
Foreign banks		65 364	62 042
Borrowing, foreign banks	6	59 741 064	26 370 159
Foreign customers' sight deposits		695 690	757 628
The International Monetary Fund	4	14 107 001	11 561 063
Other foreign liabilities	7	388 976	174 138
Equivalent value of SDR allocations		**1 934 187**	**1 846 359**
Government Petroleum Fund's assets	18	**386 126 118**	**222 277 682**
Government Petroleum Fund's krone account	18	386 126 118	222 277 682
Notes and coin in circulation	14	**46 951 653**	**48 020 171**
Notes in circulation		43 353 807	44 607 985
Coins in circulation		3 597 846	3 412 186
Domestic sight deposits		**119 712 781**	**103 837 738**
Treasury		96 082 484	67 685 848
Central government registrars		137 035	123 373
Central government funds		156 420	92 440
Banks		21 646 967	33 344 296
State lending institutions and state enterprises		1 588 807	2 480 996
Other deposits	9	101 068	110 785
Other domestic liabilities		**10 953 463**	**21 219 885**
Borrowing from domestic banks	6	1 754 605	663 491
Domestic cheques		46	46
Accrued interest, payable		36 763	48 815
Other liabilities	16	304 748	965 105
Transfer Fund	19	8 857 301	19 542 428
Capital		**44 817 789**	**31 096 174**
Adjustment fund		41 072 933	27 339 238
Other capital	11,20	3 744 856	3 756 936
TOTAL LIABILITIES AND CAPITAL		**685 494 086**	**467 223 039**
Derivatives sold	1,17	29 257 235	7 736 569
Derivatives purchased	1,17	29 466 305	8 567 321
Government Petroleum Fund, derivatives sold	18	81 081 041	40 210
Government Petroleum Fund, derivatives purchased	18	79 326 184	4 757 660
Allotted, unpaid shares in the BIS	7	313 738	303 718

Oslo, 31 December 2000 / 7 Februar 2001 / Executive Board of Norges Bank

Svein Gjedrem Jarle Bergo Sigbjørn Johnsen

Esther Kostøl Trond R. Reinertsen Torgeir Høien Sylvi Røssland Sørfonn

Sonja Blickfeldt Myhre (Employees' representative) Jan Erik Martinsen (Employees' representative) Harald Haare (Financial Director)

Notes to the accounts

Note 1. Accounting policies

General
The accounts are presented in accordance with laws and regulations and generally accepted accounting principles, 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 29 December 2000 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 29 December 2000. The securities are classified as short-term, as they are to 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 an agreed price. In the case of Norges Bank these comprise forward exchange contracts, financial futures and interest rate swap agreements.

Forward contracts are recorded at forward rates. Forward premiums/discounts, futures contracts and interest rate swap agreements are marked-to-market at 29 December 2000. Fluctuations in the market value are recorded in the profit and loss account under valuation adjustments.

Valuation of stocks at production units
Stocks of raw materials at production units 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 fixed production costs. Obsolescence is taken into account.

Losses on loans/claims
Actual losses on loans/claims are charged to income. Estimated losses are charged to income on the basis of a concrete assessment of each loan. On the balance sheet, estimated losses are carried 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 245 862m, which includes bonds subject to repurchase agreements. The repurchase agreements must be seen in connection with borrowing from abroad, which, including accrued interest, amounts to NOK 59 864m. International reserves also include gold reserves and claims on the International Monetary Fund (IMF), neither of which is included in foreign exchange reserves. Net foreign exchange reserves, less deductions for bonds subject to repurchase agreements, amount to NOK 167 633m.

Net foreign exchange reserves at 31 December 2000:

All figures in thousands of NOK	**2000**	**1999**
Deposits and loans, foreign banks	73 397 053	48 255 325
Foreign Treasury notes and bills	0	155 460
Foreign bearer bonds	157 892 576	102 091 089
Repurchase agreements	0	26 370 159
Accrued interest	3 150 042	3 056 154
- Interest earned on gold lending	-4 967	-19 740
- Interest earned IMF	-40 269	-42 305
Borrowing, foreign banks	-59 741 064	-26 370 159
- Accrued interest on borrowing, banks	-122 957	-32 066
Gross foreign exchange reserves	**174 530 414**	**153 463 917**
- Forward foreign exchange purchases	4 952 418	0
- Forward foreign exchange sales	-11 849 380	-7 736 565
Net foreign exchange reserves	**167 633 452**	**145 727 352**

Return on net foreign exchange reserves:

All figures in thousands of NOK	**2000**	**1999**
Interest income from bank deposits/loans	2 584 568	1 022 963
- Interest from gold lending	-38 098	-36 330
Interest income from Treasury bills	8 388	364
Interest income from bearer bonds	8 717 457	7 315 838
Interest expenses on bank borrowing	-1 752 469	-716 475
Net interest income	**9 519 846**	**7 586 360**
Net valuation adjustments for foreign securities and financial instruments	1 603 856	-7 344 941
- Adjustments, gold	-68 118	-132 593
Income forward foreign exchange transactions	0	8 454
Net valuation adjustments for foreign exchange	5 988 149	-887 332
- Correction for SDR adjustments	706 265	-399 138
- Corrections for adjustment of gold reserves	646	-3 210
- Correction for adjustment of domestic foreign exchange investment	-126 230	-58 947
Net valuation adjustments	**8 104 568**	**-8 817 707**
Return on net foreign exchange reserves	**17 624 414**	**-1 231 347**

Note 3. Gold reserves

Gold reserves are marked at fair value, which is estimated at 20 per cent below market value as gold is traded in an illiquid market. The market price at 31 December 2000 was USD 272.65 per ounce of pure gold, ie a market price of NOK 77 302.04 per kg of gold.

At end-2000, 33 529.5 kg of gold bars were placed in international banks as short-term loans. The fair value of the gold on loan was NOK 2 073.5m.

Reserves of gold bars have been increased by 7.8 kg since end-1999. This is because the weight of gold bars on loan is not identical to the weight of that returned. The weight differential is settled at the market value of gold at the time it is returned.

Gold reserves consist of:	**Weight in kg 31.12.00**	**Fair value at 31.12.00 (NOKm)**	**Weight in kg 31.12.99**	**Fair value at 31.12.99 (NOKm)**
Bars	33 617.6	2 079.0	33 609.8	2 016.7
Coins*	3 171.4	196.1	3 171.4	190.2
	36 789.0	**2 275.1**	**36 781.2**	**2 206.9**

* The weight given for coins is the weight of pure gold in the coins. The same market price has been employed as for bars.

Note 4. Reserve tranche position in the International Monetary Fund

In millions of NOK	2000	1999
Norway's quota in the IMF	19 272.7	18 397.6
The IMF's holdings of NOK	-14 106.7	-11 560.8
Reserve tranche position	5 166.0	6 836.8

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 and amounting to NOK 14 107.0m, is entered under "Foreign liabilities" as the item "The International Monetary Fund".

Note 5. Foreign securities

In millions of NOK	2000	1999
Treasury bills	0	155.5
Bearer bonds	157 892.6	128 461.2
	157 892.6	128 616.7

Securities holdings include securities in repurchase agreements (see note 6). Securities are marked-to-market as from 1999.

Norges Bank participates in a lending programme for securities in foreign currencies with several of the custodian institutions used by the Bank. Income from interest-bearing paper, NOK 18.6m, is recorded under "Foreign interest income" as "Interest on bearer bonds".

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 repurchase agreements is NOK 59 741.1m. The market value of the securities is NOK 54 781.1m.

Reverse repurchase agreements for securities are recorded under "International reserves" as "Deposits with and loans to foreign banks". The book value of reverse repurchase agreements is NOK 21 057.1m.

Repurchase agreements for securities in NOK are included under "Other domestic liabilities". The book value (the transfer amount) of repurchase agreements is NOK 1 754.6m. The market value of the securities is NOK 1 725.6m.

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 to the Fund in 1931, of which 25 per cent were paid for the same year. In 1970 Norges Bank was allotted a further 4 000 shares, of which 1 000 were bonus shares. The shares have been entered on the balance sheet at a value of NOK 24.7m. This amount corresponds to the value of 4 000 shares in 1931 (NOK 7.2m), plus the value of 3 000 shares in 1970 (NOK 17.5m).

Norges Bank has a conditional obligation to pay for the remaining 75 per cent of shares in either gold francs or gold. Calculated on the basis of the price of gold on the London Stock Exchange at end-2000, the conditional liability amounts to NOK 336.7m. The portion of the conditional liability corresponding to the value of the shares at the time of allotment, ie NOK 22.9m, is recorded under the item "Other foreign liabilities". The remainder of the conditional liability, NOK 313.7m, is recorded as an off-balance sheet item. BIS share dividends received in 2000 amounted to NOK 14.4m.

Note 8. Norwegian securities

In millions of NOK	2000	1999
Treasury notes and bills	2 776.3	1 591.7
Norwegian government bonds	10 019.5	8 510.0
Norwegian government bonds in foreign currency	723.3	670.2
	13 519.1	10 771.9

Note 9. Loans to other domestic sectors

Housing loans to the Bank's employees and pensioners amounted to NOK 524.4m. Other loans to the Bank's employees and pensioners came to NOK 42.9m. Deposits from staff and pensioners amounted to NOK 74.5m, and are recorded under "Domestic sight deposits" as the item "Other domestic sectors".

Note 10. Shares in subsidiaries

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, ie the nominal value of the shares. Norges Bank has paid NOK 34m for its own parking places, and has also provided a subordinated loan of NOK 143.7m, of which NOK 22m was repaid to Norges Bank in 1997, 1998, 1999 and 2000. Bankplassen Parkeringsanlegg A/S had negative equity of NOK 48.0m at 31 December 1999. In 2000, NOK 4m in interest income on the loan was received.

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 25m, fully paid up in 2000.

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.	215 654	51 469	62 344	519 269	1 731 705	33 449	2 950	94 692	2 711 532
+ Transfers from plant under construction	23 376	2 039	0	6 267	0	(31 682)	0	0	0
+Additions	13 046	1 366	23 525	1 937	0	11 432	0	58	51 364
- Disposals	19 309	0	1 633	0	0	66	0	0	21 008
Original cost at 31.12.	232 767	54 874	84 236	527 473	1 731 705	13 133	2 950	94 750	2 741 888
- Accumulated depreciation and write-downs	167 384	37 239	37 722	279 094	281 474	0	0	0	802 913
Book value at. 31.12.	65 383	17 635	46 514	248 379	1 450 231	13 133	2 950	94 750	1 938 975
Non-depreciated remainder of revalued assets	0	0	1 604	219 501	1 437 046	0	2 950	92 180	1 753 281
Depreciation and write-downs for the year	23 855	5 077	10 394	40 588	40 335	0	0	0	120 249
Of which depreciation of revalued assets	0	0	942	39210	40 045	0	0	0	80 197
Depreciation rate	20	15	10	5	2	0	0	0	

Note 12. Real estate

Norges Bank's properties at 31 December 2000 are specified below.

Branch	Address	Year built/purchased	Subsequent building projects	Year completed	Gross area (m^2) incl. area let and staff flats
Bergen	Bradbenken 1 (50% ownership)	1989	Restoration	1989/90	5 364
Bodø	Dronningens gt. 36	1951	Restoration	1993	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	1 462
Haugesund	Strandgt.162	1938	Restoration	1975	2 500
Kr.sand S	Dronningensgt.30	1877	Restoration and extension	1975	2 009
Larvik	Bredochsgt.4	1884	Restoration and extension	1985,1996	1 987
Lillehammer	Stortorget 1	1913	Restoration	1977,1990	1 700
Stavanger	Domkirkepl.3	1964	Restoration	1991	3 254
	site, about 5 000 m^2	1999			
Tromsø	Bankgt.9 and 11	1971			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
DKM, Kongsberg.	Hyttegt.1	1960	Restoration	1988	2 998
	"	1688	Restoration	1997/2000	112
	"	1750	Restoration	1997	856
	"	1841	Restoration	1997/1998	1 243
	"	1993		1994/1999	336
Oslo,	Bankpl. 2	1978-86	New building/ restoration		65 000
	Bankpl. 4, 207/392	1899			
	(Previous headquarters)**				
	Bankplassen 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 at the regional branches in Stavanger, Hammerfest, Tromsø and Vardø on the bank premises.
* Including manager's residence and parking facility.
** Leased to the government for 80 years, expiring on 21 November 2066 (Museum of Contemporary Art). Lease dated 21 November 1986.
Deadline for notice of termination: 21 November 2065.

Rented properties

In 2000 the Bank had rental contracts for the following properties:

Address	Lease term	Area	Rent 2000
Bodø	One year	100 m^2	22 000
Kristiansund N	15.05.2003	486 m^2	413 000
Larvik	One year	70 m^2	12 000
Lillehammer	25 years beginning in 1990	3 588 m^2	4 403 200
Ålesund	01.02.99 – 31.01.2002	40 m^2	16 008
DKM	31.12.2002	600 m^2	220 000
New York:			
17 State Str.	30.06.2002	330 m^2	USD 93 054
25 Central Park West	30.11.2000	80 m^2	USD 44 910
115 Farley Rd	30.06.2000	280 m^2	USD 31 200
150 Duane Street #31H	31.08.2000	60 m^2	USD 17 120
150 W56 # Street #4802	31.07.2001	75 m^2	USD 22 500
150 W56 # Street #6303	30.11.2002	101 m^2	USD 4 850
London:			
14 Ryder Court	08.06.2005	170 m^2	GBP 40 720
14 Lower Sloane Street	25.05.2001	60 m^2	GBP 4 116
7 Belvedere Grove	05.08.2001	110 m^2	GBP 13 000
76 Redcliffe Square/Flat 4	05.10 2001	68 m^2	GBP 5 700
39 Welford Pl.	29.08.2001	160 m^2	GBP 14 188

Note 13. Norges Bank's Printing Works and the Royal Norwegian Mint

Norges Bank has two production units – Norges Bank's Printing Works (NBPW) and the Royal Norwegian Mint (RNM). After apportionment of shared administrative costs, the commercial segment of activities in 2000 breaks down as follows:

All figures in thousands of NOK	**NBPW**		**RNM**	
	Total	Of which commercial segment	Total	Of which commercial segment
Operating income	37 611	37 532	57 774	57 774
Sale of fixed assets	687	261		
Operating expenses	66 274	22 207	95 172	55 504
Contributions		**15 586**		**2 271**
To cover:				
Depreciation		1 256		821
Loss on obsolete machinery		1 494		
Estimated shared expenses		**8 060**		**1 118**
Profit/loss		**4 776**		**332**

The above figures are included in Norges Bank's accounts.
The figures are stated before eliminations. Write-downs of NOK 4.0m on machinery and fixtures at the Royal Norwegian Mint in 2000 are not taken into account in the table.

Note 14. Notes and coins

The Bank's cash holdings are deducted from the liability item "Banknotes 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 drafts for 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 2000, redeemed/invalidated banknotes were charged to the accounts in the amount of NOK 3m.

Norges Bank issued the following commemorative coins in the period 1964–2000:

10-krone 1964, 25-krone 1970, 50-krone 1978, 200-krone 1980, 100-krone 1982, 175-krone 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 mark the 50th anniversary of the liberation of Norway in 1995, a coin to mark the 50th anniversary of the United Nations in 1995 and a commemorative millennium coin. At 31 December 2000, a total of approximately 5.1 million of these coins were in circulation, with a nominal value of about NOK 390m. This amount is not included in "Notes and coins in circulation". Norges Bank is obligated to redeem the coins at nominal value.

Note 15. Interest to the Treasury

For the share of "Treasury deposits" corresponding to the central government's foreign debt, the central government receives the accounting return on a matching, earmarked part of the foreign exchange reserves (immunisation portfolio). The return for 2000 amounted to NOK 626.5m.

Interest of 3.5 per cent per annum was paid on the remaining share of the deposits from the Treasury in the period 1 January 2000 to 31 March 2000, 4.25 per cent per annum in the period 1 April 2000 to 30 September 2000, and 4.75 per cent per annum in the period 1 October 2000 to 31 December 2000, ie total interest earnings of NOK 3 561.4m. 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 2000 were NOK 1 027 700 and NOK 789 400 respectively. In addition, they have a company car at their disposal (benefits estimated at NOK 66 000 and NOK 96 000 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, albeit not until the age of 65. The earning period for a full pension is 12 years.

The members of the Executive Board receive an annual remuneration of NOK 85 000.

Norges Bank's total pension liabilities
Pension liabilities 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 sum of NOK 172.3m. Pension liabilities of NOK 91.3m have been arrived at by means of actuarial assessment, using a discount rate of 4 per cent. This figure does not include agreements concerning redundancy pay and early retirement which only come into effect in 2001. These liabilities are estimated at NOK 81m, and are included in "Total liabilities". As a result of the closure of several regional branches and other organisational changes in Norges Bank, a further increase is expected in liabilities recorded on the balance sheet in 2001.

Pension expenses charged to the Bank's operations in 2000
Total pension expenses in 2000 amount to NOK 135.9m. This includes NOK 14.5m charged to the Bank's current account. In addition, NOK 121.4m has been charged to the Bank's profit and loss account, corresponding to the increase in pension liabilities from end-1999 (NOK 50.9m) until end-2000 (NOK 172.3m).

Restructuring costs
As a result of major restructuring in the Bank, with effect from 2000 restructuring costs are being included as a separate item in the profit and loss account. Of the NOK 135.9m charged to current pensions and the increase in future pension liabilities, costs relating to redundancy pay and early retirement pensions amount to NOK 129.9m. These are shown in the item "Restructuring costs".

Pension fund
Norges Bank's ordinary pension liabilities are paid out of the Bank's own pension fund, which is organised in the form of a foundation. The Bank guarantees pension fund payments. The pension fund has a premium fund amounting to NOK 414.2m at end-2000. The employer's contribution to the pension fund in 2000 was covered by capital from the pension premium fund.

Pension liabilities as at 31 December 2000 amount to NOK 1 187.7m, according to an actuarial assessment based on the same principles as the assessment in 1999. 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 K-63 basis for group pension insurance. The pension liabilities item includes a supplement for future administrative costs of 3 per cent. Calculation of the pension liability for each individual is based on the pension benefits earned or being received by that individual as at 31 December 2000. Pension liabilities are equal to the calculated cash value of the benefit earned.

The pension fund has a total of 2475 members distributed as follows: 985 drawing a pension, 1132 active members contributing to the fund and 358 former employees with deferred rights.

Accounting standards for pensions are implemented in the Bank's accounts. Pension obligations calculated according to accounting standards for pensions (PBO – fixed benefit obligation) amount to NOK 1 313m. 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 amount in the national insurance system, 3 per cent future wage growth and standard turnover. Pension fund assets valued at fair value exceed the calculated liability by NOK 275m. For this to be recorded in the balance sheet, it must be shown that future use of this capital is probable. Since this cannot adequately be shown to be probable, the sum is not included in the balance sheet.

Note 17. Forward exchange contracts and derivatives

Norges Bank uses forward exchange contracts, listed futures contracts and interest rate swap agreements as part of its interest rate and risk management system for 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 foreign currency at a future date at a predetermined price. At 31 December 2000, currency had been purchased on forward contracts for a total of NOK 4 952.4m and sold on forward contracts for a total of NOK 11 849.4m.

Derivatives

Futures
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-2000, listed financial futures with a total market value of NOK 13 391.8m had been purchased. Listed financial futures with a market value of NOK 12 681.6m had been sold. At end-2000, equity index futures with a market value of NOK 6 435.4m had been purchased.

At end-2000, securities with a market value of NOK 915.4m had been pledged as collateral for the initial margin. All contracts have a maturity of less than one year.

Interest rate swap agreements
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 swap agreements. At end-2000, interest rate swap agreements with a market value of NOK 4 726.3m had been sold, and agreements with a market value of NOK 4 686.6m had been purchased.

Note 18. The Government Petroleum Fund

At 31 December 2000, the Government Petroleum Fund had krone deposits of NOK 386 126.1m in Norges Bank. The equivalent of the amount in NOK is invested in foreign currency in an earmarked portfolio.
The Petroleum Fund's portfolio is allocated among the following instruments:

All figures in thousands of NOK	**31.12.2000**	**31.12.1999**
Bank deposits and loans to foreign banks	34 316 982	16 843 299
Foreign Treasury bills	367 323	610 848
Foreign bearer bonds	240 942 738	125 705 270
Foreign equities/fixed income instruments	150 049 368	93 115 188
Short-term assets foreign Treasury bills	-118 984	-13 817
Foreign lending (reverse repurchase agreements)	53 212 113	5 999 573
Foreign lending (triparty agreements)	26 110 262	16 289 382
Accrued interest, earned	4 847 493	3 127 588
Accrued dividends incl. withholding tax	148 054	87 557
Adjustment of futures contracts/ interest rate swap agreements	150 257	-1 656
Borrowing, foreign banks	-123 309 624	-39 330 224
Accrued interest, payable	-259 846	0
Claims on Norges Bank		6 244
Accrued management remuneration	- 330 018	-161 570
Total investment for Government Petroleum Fund	**386 126 118**	**222 277 682**

The return for 2000, NOK 13 848.5m, was transferred to the Petroleum Fund's krone account at end-2000.
The return is broken down as follows:

All figures in thousands of NOK	**31.12.2000**	**31.12.1999**
Interest income	9 719 526	6 319 779
Dividends	1 552 377	1 150 698
Valuation adjustments for foreign exchange	7 907 405	2 630 182
Unrealised securities gains/losses	-6 318 289	17 336 928
Realised securities gains/losses	1 661 195	2 476 599
Brokers' commissions	-22 221	-12 789
Result forward exchange trading	-1 741	-4 913
Gains/losses futures	-319 798	399 000
Total return on investments	**14 178 454**	**30 295 484**
Accrued management remuneration	-330 018	-161 570
Net earned return	**13 848 436**	**30 133 914**

The Government Petroleum Fund's krone deposits in Norges Bank are composed of deposits and returns earned from the establishment of the Fund in 1996 to end-2000.

In millions of NOK	**1996**	**1997**	**1998**	**1999**	**2000**	**TOTAL**
Krone account at 1.1.	**0.0**	**47 538.8**	**113 313.0**	**167 643.7**	**222 277.6**	**0.0**
Total krone deposits	47 476.3	60 900.3	32 836.6	24 500.0	150 000.0	315 713.2
Value increase, return	62.5	4 873.9	21 494.1	30 133.9	13 848.6	70 412.9
Krone account at 31.12.	47 538.8	113 313.0	167 643.7	222 277.6	386 126.1	386 126.1
Petroleum Fund's portfolio at 31 December at market value	**47 583.0**	**113 508.5**	**171 786.3**	**222 277.6**	**386 126.1**	**386 126.1**

Derivatives in the Government Petroleum Fund
At end-2000, listed equity index futures with a market value of NOK 5 199.4m and listed financial futures with a market value of NOK 37 716.6m had been purchased. Equity index futures for NOK 1 497.8m and financial futures with a market value of NOK 43 129.6m had been sold. Securities with a market value of NOK 897.3 have been pledged as collateral for the initial margin. All contracts have a maturity of less than one year.

At end-2000, foreign exchange with a market value of NOK 20 746.1m had been bought forward, and foreign exchange for the same amount had been sold forward.

At the end of 2000 interest rate swap agreements with a market value of NOK 15 707.4m had been sold, and interest rate swap agreements with a market value of NOK 15 664.1m 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 in accordance with guidelines for the transfer and application of Norges Bank's surplus, which are earmarked for transfer to the Treasury in the course of a three-year period.

Transfers from the Transfer Fund are effected in accordance with guidelines for the allocation and application of Norges Bank's surplus/deficit. One-third of the additions to the Transfer Fund from 1997, 1998 and 1999 (no transfer) will be transferred from the Fund in 2000. This amounts to NOK 10 685.1m. In 2002, NOK 8 857.4m will be transferred for 2001.

No transfer will be made to the Fund for 2000.

Note 20. Other capital

In accordance with a letter from the Ministry of Finance, an item "Other capital", may be used, which includes the former Revaluation Fund. In addition to non-written-down components of capitalised fixed assets expensed before 1994, the effect of 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".
"Other capital" showed the following changes in 2000:

In thousands of NOK)		
Other capital at 31.12.1999		3 756 936
Write-down of previously revalued assets in 2000	- 80 197	
Increase in the fair value of gold in 2000	+68 117	-12 080
Other capital at 31.12.2000		**3 744 856**

To the Supervisory Council of Norges Bank

Auditors' Report for 2000

We have audited the annual report and accounts of Norges Bank for 2000, which show a profit for the year of NOK 13 721 615 thousand. We have also audited the information in the Executive Board's report on the financial statements and the proposal for allocation of the profit. The financial statements comprise the income statement, balance sheet and accompanying notes. These financial statements and the report on the financial statements are the responsibility of the Central Bank's Executive Board. Our responsibility is to express an opinion on these financial statements and on the other information, according to 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 perform the audit so as to obtain reasonable assurance that the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by good auditing practice and our auditing instructions, our audit also includes a review of the management of Norges Bank's financial affairs and of 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, taking account of the special considerations applying to a central bank. A more detailed presentation of these principles is to be found in the notes to the financial statements.

In our opinion

- the financial statements have been presented in accordance with laws and regulations, and present the financial position of the Bank as of 31 December 2000 and the results of its operations for the financial year in accordan with the accounting principles outlined i 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 financial statements and proposal for allocation of the profit are consistent with the financial statements, and comply with the Act relating to Norges Bank and guidelines adopted in the Council of State.

Oslo, 7 February 2001

Svenn Erik Forsstrøm
State Authorised Public Accountant (Norway)

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

The Resolution of the Supervisory Council concerning the Accounts for 2000

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 15 February 2001 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 accounts for 2000 for Norges Bank, and has taken cognisance 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 accounts for 2000 show a profit of NOK 13 722m, compared with a loss of NOK 3 115m in 1999. This is attributable to changes in prices for Norwegian and foreign securities, resulting in a capital gain of NOK 2 107m in 2000 compared with a loss of NOK 8 155m in 1999. In addition, exchange gains came to NOK 5 988m in 2000, compared with losses of NOK 887m in 1999. The Supervisory Council has no comments to the proposed accounts submitted by the Executive Board.

In accordance with the guidelines for the allocation and application of Norges Bank’s profit or loss, 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 7 February 2001.

2) The Supervisory Council approves Norges Bank’s accounts for 2000 as presented by the Executive Board, with the following allocations and transfers:
   2.1 NOK 13 734m shall be transferred to the Adjustment Fund for 2000.
   2.2 Pursuant to point 3 of the guidelines, NOK 10 685m shall be transferred to the Treasury from the Transfer Fund.
   2.3 In accordance with a statement from the Ministry of Finance, the net sum of NOK 12m is to be transfer red from other capital.

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

Oslo, 15 February 2001

Mary Kvidal	Jens Marcussen
Chairman of the Supervisory Council	Deputy Chairman of the Supervisory Council

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

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 15 February 2001 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 meetings of the Executive Board for 2000, 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, 15 February 2001

Mary Kvidal Chairman of the Supervisory Council	Jens Marcussen Deputy Chairman of the Supervisory Council

Appendices

Appendices

A. Tables
B. Bank’s Management, Administration and Personnel at 1 January 1999
C. Overview of submissions issued by Norges Bank in 2000

Appendix A

Tables

Appendix A. Tables

Table 1. Norges Bank's balance sheet at 31.12.1999 and each month of 2000 by sector. In millions of NOK

	31.12. 1999	31.1. 2000	29.2. 2000	31.3. 2000	30.4. 2000
ASSETS					
Foreign assets	**427 452**	**428 527**	**449 827**	**478 355**	**505 463**
International reserves	193 589	196 064	212 711	202 106	222 848
Investments for Government Petroleum Fund	222 277	220 422	225 104	264 125	270 038
Other foreign assets	11 586	12 041	12 012	12 124	12 577
Claims on Norwegian institutions	**25 658**	**11 047**	**59**	**48**	**7 450**
Loans to private banks	25 574	11 000	7	15	7 398
Other assets in the form of deposits, securities, loans and overdrafts	84	47	52	33	52
Provisions for losses on loans to banks					
Claims on central government	**11 099**	**12 318**	**13 414**	**11 850**	**12 809**
Bearer bonds	9 180	9 115	9 133	9 127	9 147
Other securities	1 592	2 927	3 905	2 341	3 202
Other assets	327	276	376	382	460
Claims on other Norwegian sectors	**961**	**965**	**955**	**1 008**	**829**
Securities and loans	567	565	569	568	568
Other assets	394	400	386	440	261
Inventories, production units	**43**	**42**	**41**	**39**	**41**
Fixed assets	**2 010**	**2 004**	**1 997**	**2 008**	**1 999**
Valuation adjustments	**0**	**2 030**	**0**	**0**	**0**
Expenses	**0**	**508**	**3 970**	**13 874**	**20 627**
TOTAL ASSETS	**467 223**	**457 441**	**470 263**	**507 182**	**549 218**
LIABILITIES AND CAPITAL					
Foreign debt	**38 925**	**40 773**	**44 511**	**45 386**	**49 639**
IMF debt in NOK	11 561	12 017	11 987	12 100	12 553
Foreign debt	27 364	28 756	32 524	33 286	37 086
Notes and coins in circulation	**48 020**	**43 682**	**42 492**	**42 178**	**42 645**
Domestic deposits	**326 109**	**315 885**	**322 872**	**343 858**	**369 531**
Treasury	67 686	83 840	85 419	63 684	89 005
Government Petroleum Fund	222 278	220 422	225 104	264 125	270 038
Central government	216	148	169	117	122
Private banks	33 344	8 884	9 557	13 563	8 040
Other financial institutions	2 483	2 492	2 490	2 261	2 212
Other domestic sectors	102	99	133	108	114
Accrued interest to the Treasury	**0**	**179**	**423**	**684**	**985**
Other domestic liabilities	**21 227**	**20 566**	**20 495**	**21 056**	**21 321**
NOK value of SDRs in IMF	**1 846**	**1 873**	**1 870**	**1 916**	**2 004**
Adjustment fund	**27 339**	**27 339**	**27 339**	**27 339**	**27 339**
Other capital	**3 757**	**3 757**	**3 757**	**3 757**	**3 757**
Valuation adjustments	**0**	**0**	**3 026**	**15 538**	**24 566**
Income	**0**	**3 387**	**3 478**	**5 470**	**7 431**
TOTAL LIABILITIES AND CAPITAL	**467 223**	**457 441**	**470 263**	**507 182**	**549 218**
Off-balance sheet items, incl. Government Petroleum Fund					
Foreign exchange sold forward	7 777	531	247	4 063	9 711
Foreign exchange purchased forward	40	1 595	1 030	5 292	11 249
Derivatives sold	0	13 846	48 551	23 984	34 780
Derivatives purchased	13 285	21 381	35 536	31 823	44 041
Allotted, unpaid shares in the BIS	304	304	304	304	304

31.5. 2000	30.6. 2000	31.7. 2000	31.8. 2000	30.9. 2000	31.10. 2000	30.11. 2000	31.12.2000
517 835	**509 513**	**532 708**	**556 154**	**601 301**	**604 032**	**638 604**	**646 120**
235 520	191 086	210 020	224 257	230 258	227 759	233 895	245 863
268 796	304 501	309 118	317 776	356 736	361 765	390 294	386 126
13 519	13 926	13 570	14 121	14 307	14 508	14 415	14 131
11 677	**95**	**38**	**52**	**72**	**76**	**14 064**	**22 194**
11 641	39	2	1	12	1	14 006	21 158
36	56	36	51	60	75	58	1 036
11 578	**12 727**	**13 500**	**13 658**	**13 705**	**12 976**	**13 477**	**13 909**
9 138	10 623	10 672	10 642	10 623	10 617	10 719	10 743
2 151	1 778	2 424	2 528	2 527	1 960	2 395	2 776
289	326	404	488	555	399	363	390
850	**940**	**924**	**906**	**1 313**	**1 028**	**1 080**	**1 306**
573	583	589	588	585	580	576	576
277	357	335	318	728	448	504	730
50	**47**	**44**	**47**	**40**	**38**	**34**	**26**
1 991	**1 985**	**1 977**	**1 967**	**1 959**	**1 953**	**1 945**	**1 939**
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**
20 218	**16 612**	**22 045**	**31 594**	**26 633**	**32 801**	**27 698**	**0**
564 199	**541 919**	**571 236**	**604 378**	**645 023**	**652 904**	**696 902**	**685 494**
51 594	**40 977**	**43 724**	**45 064**	**65 602**	**64 886**	**67 094**	**74 998**
13 495	13 902	13 546	14 096	14 283	14 483	14 391	14 107
38 099	27 075	30 178	30 968	51 319	50 403	52 703	60 891
42 601	**43 936**	**43 269**	**42 648**	**42 390**	**41 872**	**42 678**	**46 952**
382 781	**377 863**	**397 120**	**417 949**	**423 017**	**445 217**	**469 312**	**505 837**
100 313	50 075	66 465	74 560	28 055	67 924	70 668	96 083
268 796	304 501	309 118	317 776	356 736	361 765	390 294	386 126
340	322	347	138	172	173	155	293
11 157	20 804	19 141	23 127	35 759	13 052	6 937	21 647
2 063	2 020	1 938	2 243	2 181	2 205	1 146	1 591
112	141	111	105	114	98	112	97
1 320	**165**	**391**	**658**	**934**	**1 221**	**1 549**	**0**
20 993	**22 494**	**21 557**	**22 036**	**42 760**	**22 525**	**42 424**	**10 955**
1 994	**1 922**	**1 955**	**1 968**	**1 994**	**2 008**	**1 995**	**1 934**
27 339	**27 339**	**27 339**	**27 339**	**27 339**	**27 339**	**27 339**	**41 073**
3 757	**3 757**	**3 757**	**3 757**	**3 757**	**3 757**	**3 757**	**3 745**
21 860	**11 231**	**17 815**	**26 196**	**18 081**	**22 275**	**16 056**	**0**
9 960	**12 235**	**14 309**	**16 763**	**19 149**	**21 804**	**24 698**	**0**
564 199	**541 919**	**571 236**	**604 378**	**645 023**	**652 904**	**696 902**	**685 494**
9 474	15 138	18 680	28 119	30 133	33 485	51 059	32 595
12 478	19 125	19 508	30 978	31 536	34 660	52 482	25 699
39 613	31 381	57 529	53 890	62 936	58 679	83 181	77 743
52 670	42 202	55 443	59 073	71 700	57 574	90 582	83 094
304	304	304	304	304	304	304	314

Table 2. Norges Bank's profit and loss account at 31 December, 1996-2000. In millions of NOK.

	1996	1997	1998	1999	2000
Foreign interest income					
Interest on bank deposits/loans	862.3	1 177.9	719.5	1 023.0	2 584.6
Interest on Treasury bills	458.3	162.8	12.0	0.4	8.4
Interest on bearer bonds	8 955.4	11 507.0	9 688.2	7 315.8	8 717.4
Other interest income	264.1	302.3	402.6	477.2	338.3
Share dividend, BIS	10.8	11.2	12.1	13.0	14.4
Total foreign interest income	**10 550.9**	**13 161.2**	**10 834.4**	**8 829.4**	**11 663.1**
Return on investments for Government Petroleum Fund	**62.4**	**4 873.9**	**21 571.5**	**30 295.5**	**14 178.4**
Foreign interest expenses:					
Interest on deposits/borrowings	219.0	617.6	346.9	716.5	1 752.5
Interest to foreign customers	35.6	41.0	44.6	42.7	44.1
Total foreign interest income	**254.6**	**658.6**	**391.5**	**759.2**	**1 796.6**
Net foreign interest income	**10 358.7**	**17 376.5**	**32 014.4**	**38 365.7**	**24 044.9**
Domestic interest income					
Interest on bearer bonds	837.5	650.1	706.6	508.3	682.8
Interest on negotiable notes and bills	139.2	108.9	139.7	181.8	158.9
Interest on loans to banks	326.1	39.3	206.6	432.2	323.8
Interest on other loans	32.3	21.1	20.1	30.0	36.7
Total domestic interest income	**1 335.1**	**819.4**	**1 073.0**	**1 152.3**	**1 202.2**
Domestic interest expenses:					
Interest to the Treasury	3 356.6	4 793.2	4 277.4	1 775.8	3 561.4
Interest to Government Petroleum Fund	62.4	4 873.9	21 571.5	30 295.5	14 178.4
Interest to public account holders	162.3	129.5	123.9	116.7	7.7
Interest to banks	347.3	590.2	659.6	661.2	1 012.4
Interest on tax-free allocations to funds	1.4	1.0	0.7	0.6	0.4
Other interest expenses	4.3	3.0	2.8	6.9	9.4
Total domestic interest expenses	**3 934.3**	**10 390.8**	**26 635.9**	**32 856.7**	**18 769.7**
Net domestic interest expenses	**2 599.2**	**9 571.4**	**25 562.9**	**31 704.4**	**17 567.5**
Net interest income, domestic and foreign	**7 759.5**	**7 805.1**	**6 451.5**	**6 661.3**	**6 477.4**
Valuation adjustments					
Net gains/loss (-) on foreign exchange	(4 423.8)	6 390.8	15 351.6	(887.3)	5 988.1
Net gains/loss (-) on foreign securities and financial instruments	1 827.2	453.2	2 534.6	(7 345.0)	1 603.9
Net gains/loss (-) on Norwegian securities	(22.7)	130.0	(167.2)	(809.8)	503.0
Net valuation adjustments	**(2 619.3)**	**6 974.0**	**17 719.0**	**(9 042.1)**	**8 095.0**
Net interest income and valuation adjustments	**5 140.2**	**14 779.1**	**24 170.5**	**(2 380.8)**	**14 572.4**
Operating income					
Fees and commission income	77.8	79.5	89.1	99.0	126.7
Sales income, production units	58.3	82.0	76.3	76.8	94.0
Other operating income	32.9	33.0	180.4	232.5	364.4
Total operating income	**169.0**	**194.5**	**345.8**	**408.3**	**585.1**
Operating expenses					
Wages, salaries and other personnel costs	444.7	455.4	484.0	506.0	555.7
Restructuring costs	0.0	0.0	0.0	8.0	129.9
Ordinary depreciation	119.8	118.2	114.6	116.2	120.2
Goods consumption, production units	62.3	76.2	97.8	85.1	90.3
Other operating expenses	224.4	250.0	309.6	426.9	539.8
Redeemed, invalidated notes	12.4	12.9	0.0	0.0	0.0
Total operating expenses	**863.6**	**912.7**	**1 006.0**	**1 142.2**	**1 435.9**
Net operating expenses	**694.6**	**718.2**	**660.2**	**733.9**	**850.8**
Operating profit before loan losses	**4 445.6**	**14 060.9**	**23 510.3**	**(3 114.7)**	**13 721.6**
Loan losses	(0.7)	0.0	0.0	(0.3)	0.0
Profit/loss for the year before transfers	**4 444.9**	**14 060.9**	**23 510.3**	**(3 115.0)**	**13 721.6**
Transfers					
Transferred from the Adjustment Fund	0.0	0.0	2 977.9	0.0	0.0
Transferred from the Transfer Fund	4 236.5	3 811.0	3 400.6	0.0	0.0
Transfers from 'Other capital'	102.3	93.9	83.7	3 371.8	80.2
Amount available	**8 783.7**	**17 965.8**	**29 972.5**	**256.8**	**13 801.8**
Transferred to 'Other capital'.	0.0	0.0	0.0	132.6	68.1
Transferred to the Treasury from the Transfer Fund [1)]	4 236.5	3 811.0	3 400.6	0.0	0.0
Allocated to Transfer Fund	0.0	5 483.5	26 571.9	0.0	0.0
Allocated to Adjustment Fund	4 547.2	8 671.3	0.0	124.2	13 733.7
Amount distributed	**8 783.7**	**17 965.8**	**29 972.5**	**256.8**	**13 801.8**

1) The transfer fund was reclassified from capital to liability on 1 January 1999

Table 3. Banks' loans and deposits with Norges Bank in 2000

Month		Overnight loan quota % of basis of measurement	Overnight loans: Loan potential	Overnight loans: Actual drawings in NOKbn	Fixed-rate loans: Daily average in NOKbn	Fixed-rate loans: Nominal rate [1]	Fixed-rate deposits: Daily average in NOKbn	Fixed-rate deposits: Nominal rate	Sight deposits Daily average. In NOKbn
January	01–15	100.0	76.0	0.0	17.1	5.62	10.8	5.61	21.0
	16–31	15.0	10.7	0.0	9.6	5.56	0.3	5.61	6.9
February	01–15	15.0	11.4	0.0	2.6	5.57	1.1	5.61	8.4
	16–29	15.0	12.2	0.0	2.9	5.60	–	–	7.0
March	01–15	15.0	11.4	0.0	–	–	12.5	5.61	6.7
	16–31	15.0	10.7	0.0	–	–	2.2	5.61	8.6
April	1–15	15.0	11.8	0.0	3.6	5.72	–	–	9.8
	16–30	15.0	11.8	0.0	5.6	5.88	-	-	7.1
May	1–15	15.0	11.8	0.0	3.7	5.83	-	-	7.3
	16–31	15.0	11.0	0.0	14.5	5.80	-	-	7.5
June	1–15	15.0	11.8	0.0	7.6	5.80	-	-	9.6
	16–30	15.0	11.8	0.0	2.9	6.38	2.1	6.32	8.8
July	1–15	15.0	12.2	0.0	–	–	16.9	6.38	11.6
	16–31	15.0	11.4	0.0	–	–	6.4	6.38	10.3
August	1–15	15.0	12.2	0.0	–	–	9.1	6.55	10.8
	16–31	15.0	11.4	0.0	–	–	9.3	6.87	8.4
September	1–15	15.0	12.2	0.0	–	–	20.3	6.88	9.8
	16–30	15.0	12.2	0.0	–	–	15.7	7.12	11.4
October	1–15	15.0	12.7	0.0	5.0	7.05	2.6	7.06	10.5
	16–31	15.0	11.9	0.0	3.2	7.05	0.3	7.12	8.0
November	1–15	15.0	12.7	0.0	–	–	15.7	7.12	7.4
	16–30	15.0	12.7	0.0	17.3	7.05	–	–	6.8
December	01–15	15.0	12.7	0.0	12.3	7.04	–	–	6.5
	16–31	15.0	11.9	0.0	14.1	7.03	–	–	11.5

1) Average interest rate at time of allocation. Where there are several allocations in the period, the unweighted average of the individual allocations. Interest rates are not entered for periods without allocations.

Table 4. Norges Bank's overnight lending and sight deposit rates, 1998-2000

Period	Overnight lending rate: Nominal	Overnight lending rate: Effective	Sight deposit rate: Nominal	Sight deposit rate: Effective
25.05.98–28.06.98:	6.25%	6.5%	4.25%	4.3%
29.06.98–05.07.98:	6.50%	6.7%	4.50%	4.6%
06.07.98–11.08.98:	7.00%	7.2%	5.00%	5.1%
12.08.98–20.08.98:	7.50%	7.8%	5.50%	5.7%
21.08.98–24.08.98:	9.00%	9.4%	7.00%	7.2%
25.08.98–27.01.99:	10.00%	10.5%	8.00%	8.3%
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–	9.00%	9.4%	7.00%	7.2%

Table 5. Denominations of coins in circulation 1996-2000, annual average and at the end of each month of 2000. In millions of NOK. Figures are based on physical holdings at month- and year-end

	20-krone 4)	10-krone 5)	5-krone 8)	1-krone 7)	50-øre 6)	25-øre 2)	10-øre 3)	Copper 2)	Total 1)
1996	531.8	1 019.5	400.8	492.0	133.8	40.3	132.4	25.6	2 776.2
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
2000									
January	920.9	1 059.4	481.2	611.3	161.1		129.8		3 363.7
February	924.6	1 061.4	480.8	611.4	161.6		129.7		3 369.5
March	923.0	1 058.8	480.5	613.2	162.0		129.7		3 367.2
April	937.8	1 074.0	485.4	609.1	162.9		129.7		3 398.9
May	956.7	1 085.1	490.6	614.5	163.9		129.7		3 440.5
June	961.4	1 086.6	492.9	616.9	166.0		129.7		3 453.4
July	978.4	1 095.7	495.4	619.9	165.1		129.7		3 484.3
August	982.0	1 140.7	496.0	620.8	166.1		129.6		3 535.3
September	984.4	1 091.6	483.6	618.7	166.6		129.6		3 474.4
October	984.5	1 088.3	483.5	619.7	167.5		129.6		3 473.2
November	997.5	1 075.4	478.9	620.8	169.9		129.6		3 472.1
December	1 044.6	1 124.3	493.3	629.9	169.5		129.6		3 591.1

1) Excluding silver coins totalling NOK 6 743 000, and commemorative coins issued by Norges Bank from 1964-2000 (see note concerning banknotes and coins).
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 20-krone coin was put into circulation on 1 November 1994.
5) 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.
6) A new 50-øre coin was put into circulation on 16 September 1996. At the same time it was announced that the old 50-krone coin would cease to be legal tender from 16 September 1997, but would be redeemed by Norges Bank until 16 September 2007.
7) 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 would be redeemed by Norges Bank until 05 September 2008.
8) 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 would be redeemed by Norges Bank until 9 July 2010.

Table 6. Denominations of banknotes in circulation 1996-2000, annual average and at the end of each month of 2000. In millions of NOK. Figures are based on physical holdings at month- and year-end

	1000-krone 1)	500-krone 2), 6)	200-krone 3)	100-krone 5)	50-krone 4)	Total
1996	25 985.4	3 465.2	1 771.2	4 961.6	629	36 812.2
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
2000						
January	27 885.2	5 745.1	3 968.9	2 720.1	697.7	41 017.0
February	26 969.6	5 540.2	3 918.9	2 688.8	689.4	39 806.9
March	26 397.8	5 569.8	3 949.7	2 657.2	691.3	39 265.8
April	26 248.8	5 892.0	4 240.6	2 741.8	704.7	39 827.9
May	25 972.2	5 938.1	4 268.5	2 783.2	731.4	39 693.4
June	26 420.2	6 336.1	4 546.5	2 913.4	775.2	40 991.5
July	25 962.2	6 410.0	4 506.5	2 883.0	750.4	40 512.1
August	25 520.5	6 158.1	4 315.7	2 681.1	718.2	39 393.6
September	25 508.7	6 182.5	4 312.4	2 386.2	708.9	39 098.6
October	25 371.8	6 074.3	4 227.4	2 542.8	699.3	38 915.5
November	25 701.8	6 259.5	4 335.5	2 551.3	707.7	39 555.8
December	28 077.7	7 172.9	4 705.4	2 664.4	733.4	43 353.8

1) The 1000-krone note in Series V ceased to be legal tender on 1 August 1990.
The note will be redeemed by Norges Bank until 1 August 2001.
2) 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.
3) A new 200-krone note, Series VII, was put into circulation on 1 November 1994.
4) A new 50-krone note, Series VII, was put into circulation on 20 January 1997. At the same time it was announced that the old 50-krone note would cease to be legal tender from 20 January 1998, but would be redeemed by Norges Bank until 20 January 2008.
5) 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 would be redeemed by Norges Bank until 5 September 2008.
6) 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 would be redeemed by Norges Bank until 17 April 2011.

Table 7. Notes destroyed 1996-2000. In millions of notes1)

	1000-krone	500-krone	200-krone	100-krone	50-krone	Total
1996 2)	2.4	3.2	2.9	32.4	27.0	67.9
1997 2)	2.5	4.4	5.8	67.7	25.1	105.5
1998 3)	1.0	3.8	7.2	26.8	12.5	51.3
1999 3)	0.7	2.0	4.1	6.7	11.2	24.7
2000 4)	3.4	15.6	20.5	17.6	13.6	70.6

1) Excluding older series:
Series III, IV and V (100-krone and 50-krone notes);
Series III and IV (1000-krone and 500-krone notes).
2) The volume of 100- and 50-krone notes is attributable to the new Series VII.
3) The reduction is due to the decision not to destroy notes.
4) The increase is due to the decision to destroy notes that were not destroyed in 1998/99. The volume of 500-krone notes is also due to the new Series VII.

Table 8. Average life of notes 1996-2000. In years

	1000-krone	500-krone	200-krone	100-krone	50-krone
1996	10.6	2.1	3.1	1.5	0.5
1997	10.7	1.8	2.3	0.6	0.5
1998 1)	28.2	2.6	2.5	1.3	1.1
1999 1)	39.4	5.6	4.8	4.5	1.3
2000 2)	7.8	0.8	1.0	1.5	1.1

Figures show the volume of notes in circulation in relation to the number destroyed in the year in question.

A new 50-krone note, Series VII, was put into circulation on 20 January 1997.
A new 100-krone note, Series VII, was put into circulation on 15 September 1997.
A new 500-krone note, Series VII, was put into circulation on 7 June 1999.

1) The increased life is due to the decision not to destroy notes.
2) The decrease is due to the decision to destroy notes that were not destroyed in 1998/99.

Table 9. Inflow of notes to Norges Bank 1996-2000. In millions of notes

	1000-krone	500-krone	200-krone	100-krone	50-krone	Total
1996	34.7	60.0	94.8	294.1	25.6	509.2
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

The table shows numbers of notes delivered to Norges Bank for sorting and genuineness verification.

Table 10. Velocity of banknote circulation 1996-2000

	1000-krone	500-krone	200-krone	100-krone	50-krone	Total
1996	1.33	8.66	10.71	5.93	2.04	4.90
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

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

Table 11. Inflow of coins to Norges Bank 1996-2000. In millions of coins

	20-krone	10-krone	5-krone	1-krone	50-øre	Total
1996	52.1	156.7	84.1	391.2	75.8	759.9
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

The table shows the number of coins delivered to Norges Bank for sorting and genuineness verification.

Table 12. Velocity of coin circulation 1996-2000

	20-krone	10-krone	5-krone	1-krone	50-øre	Total
1996	1.96	1.54	1.05	0.80	0.28	0.78
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

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

Table 13. Circulation coins delivered by the Royal Norwegian Mint 1996-2000 (1000 coins) 1)

	20-krone	10-krone	5-krone	1-krone	50-øre	Total
1996	5 862	40 287	1 382	16 518	4 526 2) 81 930 3)	150 505
1997	1 049	1 229	1 742	145 125 4) 4 300 5)	24 089	173 534
1998	5 007	1 058	47 701	139 493 6)	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

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) Old 50-øre coins.
3) New 50-øre coins.
4) New 1-krone coins.
5) Old 1-krone coins.
6) 4.8 million of these coins were produced in Canada.

Table 14. Banknote production at Norges Bank's Printing Works 1991-2000.
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

1) New series (Series VII)
2) Series VII - introduced in 1997
3) 13 600 Series VI and 60 000 Series VII (introduced in 1997)

Table 15. Norges Bank's banknote series 1877-2000. 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	
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 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-krones note 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 Personnel

The Bank's governing bodies

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

The Executive Board is the executive and advisory body pursuant to the Act on Norges Bank and the Monetary System of 24 May 1985. 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. There are two staff representatives elected by employees on the 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 proposal of the Executive Board. The Supervisory Council is composed of fifteen members elected 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.

The composition of the Executive Board and Supervisory Council as at January 2001 is as follows (term of office in parentheses):

Executive Board

Central Bank Governor Svein Gjedrem, Chairman(January 1999 – December 2004)
Deputy Central Bank Governor Jarle Bergo, Deputy Chairman (April 1996 – April 2002)
Esther Kostøl (1998-2001)
Alternate: Eystein Gjelsvik
Torgeir Høien (1998-2001)
Alternate: Ingfrid O. Tveit
Sigbjørn Johnsen (1998-2001)
Alternate: Ottar Brage Guttelvik
Sylvi Røssland Sørfonn (2000-2003)
Alternate: Tore Johansen
Trond R. Reinertsen (2000-2003)
Alternate: Kari Olrud Moen

From the employees:
Sonja Blichfeldt Myhre, chairman, Norges Bank’s Employees’ Union
Jan Erik Martinsen, deputy chairman Norges Bank’s Employees’ Union
Alternate: Einar Alnæs
Alternate: Liv Randi Johnsen

Supervisory Council

Mary Kvidal (1998-2001), Chairman 2000-2001
Alternate: Bjørnar Olsen
Jens Marcussen (1998-2001), Deputy Chairman (2000-2001)
Alternate: Nils Olav Skilbred
Aslaug Mildred Sofie Eriksen (1998-2001)
Alternate: Odd Erik Hansgaard
Berit Hultmann (1998-2001)
Alternate: Frode R. Svendsen
Terje Ohnstad (2000-2003)
Alternate: Ragnhild Weiseth
Reidun Romfo (2000-2003)
Alternate: Rigmor Aasrud Jahren
Johan Solheim (2000-2003)
Alternate: Armand Bjørnholt (passed away 31.01.01)
Veslemøy Rabe (2000-2003)
Alternate: Camilla Bakken Øvald
Morten Steenstrup (2000-2003)
Alternate: Søren Fredrik Voie
Solveig Nordkvist Haugerud (2000-2003)
Alternate: Monica Mæland
Hakon Lunde (1998-2001)
Alternate: Dag Sandstå
Hans Hammond Rossbach (1998-2001)
Alternate: Olav Pedersen
Hanne Varhaug Søberg (2000-2003)
Alternate: Bjørn Arild Gram
Per Aas (1998-2001)
Alternate: Trude Brosvik
Kåre Harila (2000-2003)
Alternate: Unni Hennum Lie

Audit

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

The Bank's administration and organisation

Administration

According to the law, the Central Bank Governor is in charge of the Bank's administration and the implementation of decisions adopted by the Executive Board. 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, Governor
Jarle Bergo, Deputy Governor
Inger-Johanne Sletner, Executive Director

From the employees:
Sonja Blichfeldt Myhre, chairperson, Norges Bank's Employees' Union
Jan Erik Martinsen, deputy chairman

Organisation

The Bank's organisational structure is shown in the organisation chart on the last page. The section on the accounts contains a table showing the number of employees employed full-time, part-time and on a short-term basis at the head office, regional branches and production units at the end of 2000.

Management

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

Wing I - Monetary Policy

Jan F. Qvigstad, Executive Director

Market Operations Department
Morten Baltzersen, Director
Morten Jonassen, Assistant Director
Jannecke Smith-Sørensen, Assistant Director

Economics Department
Jon Nicolaisen, Director
Kristin Gulbrandsen, Assistant Director
Amund Holmsen, Assistant Director

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

Research Department
Eilev S. Jansen, Director
Bent Vale, Head of Research
Øyvind Eitrheim, Head of Research

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

Wing II - Payment Systems and Financial Markets

Jon A. Solheim, Executive Director

Financial Analysis and Market Structure Department
Trond Eklund, Director

Financial Infrastructure and Payment Systems Department
Henning Strand, Director
Dag-Inge Flatraaker, Assistant Director

Banking Department
Helge Strømme, Director
Eline Vedel, Assistant Director

Chief Cashier's Department
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

Wing III - Notes and Coins

Bente Akselsen, Executive Director
Siri Caspersen, Assistant Director
Paal Espeli, Assistant Director

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

The Royal Norwegian Mint (Den Kongelige Mynt AS, Kongsberg)
Bente Akselsen, Chairman of the Board
Jan Erik Johansen, Director

Bergen
John-Harald Kristiansen, Head of Department

Bodø
Leif Schjølberg, Acting Head of Department

Fredrikstad
Bjørn Eliassen, Head of Department

Hammerfest
Per Åge Hansen, Head of Department

Kristiansand S.
Odd Skuggen, Head of Department

Larvik
Gunnar Andersen, Head of Department

Lillehammer
Erik Frydenlund, Head of Department

Oslo
Else Marit Laskerud, Head of Department

Stavanger
Kirsti Emilie Mauritzen, Head of Department

Tromsø
Norvald Kristoffersen, Head of Department

Trondheim
Eivind Johnsen, Head of Department

Vardø
Terje Lorentzen, Head of Department

Ålesund
Hans Henrik Lerstad, Head of Department

Wing IV - Central Bank Administration
Inger-Johanne Sletner, Executive Director

Administration Department
Kjell Dankertsen, Director

Health Services
Jean R. Campbell, M.D.

Central IT
Kjetil Heltne, Director

Budget and Accounting Department
Harald Haare, Director
Unni Lærum , Assistant Director

Information Department
Brynjulv Vollan, Director

Security Department
Arne Haugen, Head of Security

Wing V - Norges Bank Investment Management
Knut N. Kjær, Executive Director

Equity management
Yngve Slyngstad, Assistant Director

Tactical Asset Allocation
Yngve Slyngstad, Assistant Director

Fixed income management
Dag Løtveit, Assistant Director
Jens Petter Olsen, Director (New York)

Middle Office
Steinar Selnes, Assistant Director

Business Administration and Personnel
Sigbjørn Atle Berg, Director

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

Settlement
Robert W. Cook, Assistant Director

IT
Ilse Bache, Assistant Director

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

The Governor’s Staff
Harald Bøhn, Executive Director
Kari Gjesteby, Director

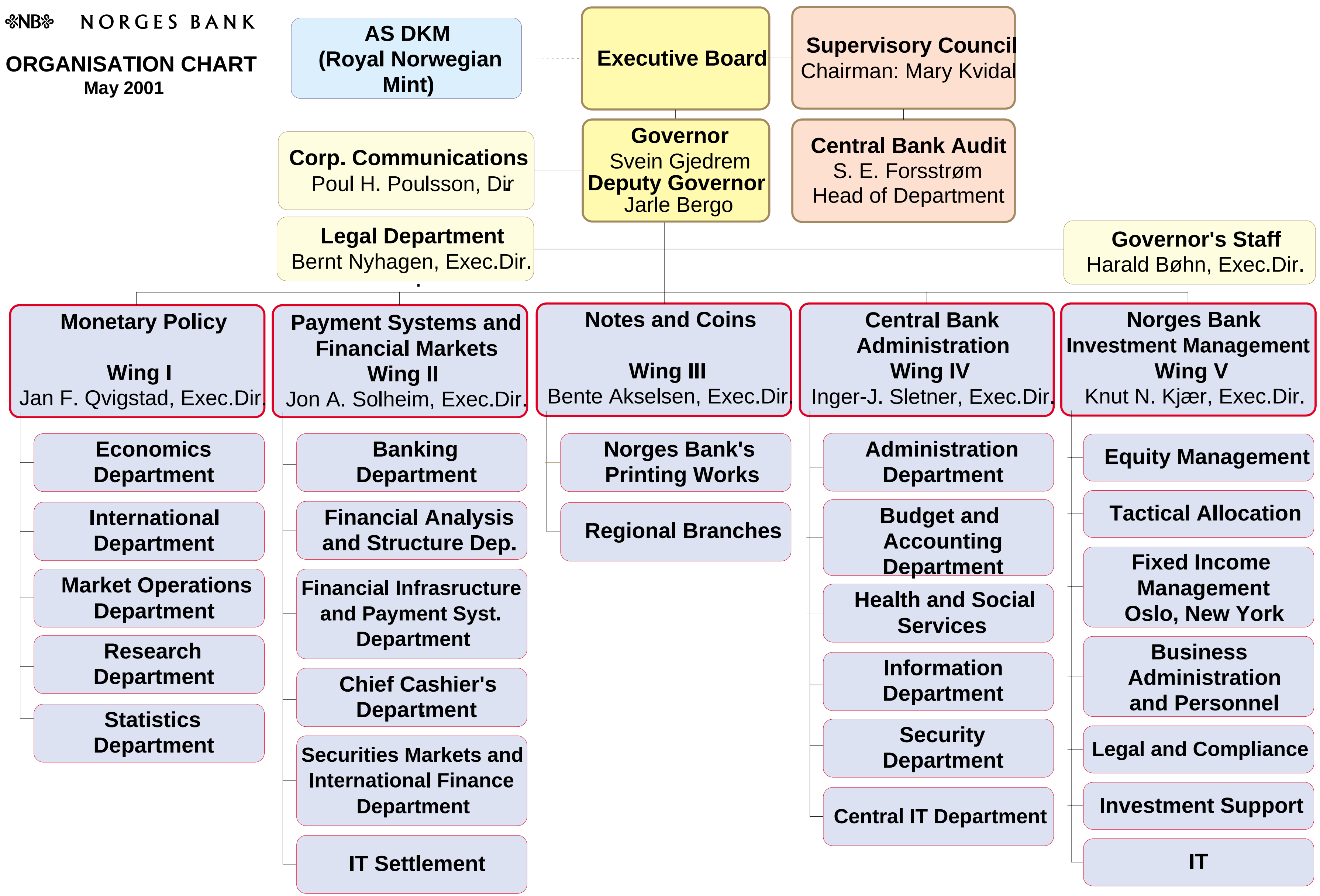
Security, Data Security and Contingency Unit
Britt Amundsen Hoel, Director

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

Follow-up Section
Hans Petter Wilse, Staff Director

Personnel Section
Anne-Britt Nilsen, Director

Secretariat
Ole Jonny Oldertrøen, Assistant Director


NORGES BANK
ORGANISATION CHART
May 2001
AS DKM (Royal Norwegian Mint)
Executive Board
Supervisory Council
Chairman: Mary Kvidal
Corp. Communications
Poul H. Poulsson, Dir
Governor
Svein Gjedrem
Deputy Governor
Jarle Bergo
Central Bank Audit
S. E. Forsstrøm
Head of Department
Legal Department
Bernt Nyhagen, Exec.Dir.
Governor's Staff
Harald Bøhn, Exec.Dir.
Monetary Policy
Wing I
Jan F. Qvigstad, Exec.Dir.
Economics Department
International Department
Market Operations Department
Research Department
Statistics Department
Payment Systems and Financial Markets
Wing II
Jon A. Solheim, Exec.Dir.
Banking Department
Financial Analysis and Structure Dep.
Financial Infrasructure and Payment Syst. Department
Chief Cashier's Department
Securities Markets and International Finance Department
IT Settlement
Notes and Coins
Wing III
Bente Akselsen, Exec.Dir.
Norges Bank's Printing Works
Regional Branches
Central Bank Administration
Wing IV
Inger-J. Sletner, Exec.Dir.
Administration Department
Budget and Accounting Department
Health and Social Services
Information Department
Security Department
Central IT Department
Norges Bank Investment Management
Wing V
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

Appendix C

Overview of submissions issued by Norges Bank in 2000

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

Proposed guidelines for the environmental fund
Norges Bank’s submission of 29 March 2000 to the Ministry of Finance

Assessment of the Petroleum Fund’s ownership limits
Norges Bank’s submission of 25 April 2000 to the Ministry of Finance

The limit on tracking error for the Petroleum Fund
Norges Bank’s submission of 5 May 2000 to the Ministry of Finance

Emerging equity markets and the Petroleum Fund’s benchmark portfolio
Norges Bank’s submission of 30 August 2000 to the Ministry of Finance

Choosing between internal and external management for the Government Petroleum Fund
Norges Bank’s submission of 5 September 2000 to the Ministry of Finance

Norges Bank’s submission on economic policy for 2001
Norges Bank’s submission of 19 October 2000 to the Ministry of Finance

Consultative statement regarding NOU 2000:21 A strategy for employment and value added
Norges Bank’s consultative statement of 19 October 2000 to the Ministry of Finance