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NORGES BANK

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Shrubbery in the form of “Olav's roses” (the motive in the Bank's logo) in the courtyard by Norges Bank Investment Management.

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Economic developments

The Norwegian economy

Slower growth

The Norwegian economy continued to expand at a brisk pace in 1998, but showed signs of slowing as the year progressed. In spite of this, mainland GDP grew by 2.9 per cent, whereas growth was 3.7 per cent in 1997. Total GDP rose by 2.0 per cent, compared with 3.4 per cent in 1997. Private consumption increased at about the same pace as in 1997, whereas growth in the other demand components was clearly weaker. In 1998, total growth in mainland demand dropped to 2.9 per cent from 4.5 per cent in 1997. Traditional exports also showed slower growth than in 1997. However, fixed investment in the petroleum sector continued to accelerate sharply. Employment swelled by a good 50 000, and unemployment dropped from 4.1 per cent in 1997 to 3.2 per cent. Strong pressures in the labour market resulted in the highest pay increases in several years, with annual wage growth of 6.1 per cent. However, low price inflation internationally led to a decrease in consumer price inflation from 2.6 per cent in 1997 to 2.3 per cent in 1998. For the first time since 1989, the current account showed a deficit, primarily as a result of sharply falling oil prices in 1998.

Fiscal slippage

Fiscal policy has contributed to dampening economic growth during the cyclical upturn of the 1990s, but the effect of the tightening has gradually lessened. In 1998, the central government budget resulted in a tightening corresponding to about ¼ per cent of GDP for mainland Norway, compared with about ¾ per cent in 1997. General government consumption rose by 2.8 per cent in 1998, while public investment decreased by 2.1 per cent following the high level of activity in 1997 in connection with the primary school reform. The general government budget surplus is estimated at 4.5 per cent of GDP in 1998, against 7.3 per cent in 1997.

Sharp growth in private consumption continues

Private consumption increased by 3.2 per cent in 1998, following growth of 3.4 per cent in 1997. Private consumption increased less than household real disposable income, pushing up the household saving rate by ½ percentage point. The continued sharp rise in employment and higher wage growth accounted for the largest share of the increase in household income. Higher transfers from the central government as a result of the increase in minimum pension benefits and cash grants for families with small children without publicly subsidised day-care places also contributed to this increase. Households' net asset position weakened slightly relative to 1997, as capital losses on securities in the second half of 1998 outweighed total saving in financial assets.

Housing investment tapered off

Housing investment declined during 1998 after peaking at the end of 1997. Measured as an annual average, housing investment fell by 0.7 per cent. In January, new building legislation came into effect, causing delays in construction starts. This, along with the rise in interest rates through the year, had a dampening effect on investment activity.

Sluggish growth in business fixed investment

Following several years of sharp growth, business fixed investment in mainland Norway increased by 4.1 per cent in 1998. In recent years, high capacity utilisation along

with positive market and profitability trends for Norwegian enterprises have had a positive effect on business fixed investment. Large investment projects such as the new international airport at Gardermoen have also contributed to the high investment level. The lower rate of investment growth in 1998 partly reflects the completion of the Gardermoen project and partly the prospect of weaker profitability due to slower international growth and higher interest rates in Norway.

High level of investment in the petroleum sector

Investment in the petroleum sector expanded by 22.3 per cent in 1998, to a record NOK 69bn, far surpassing expectations at the beginning of the year. This increase is primarily attributable to decisions concerning new field development and substantial cost overruns for several large projects.

An increase in oil and gas production in 1998 had been expected for some time, but the decision to limit production, delays in the production start at some fields and technical problems led to a 3.2 per cent decrease in oil and gas exports compared with 1997. At the same time, the average spot price of oil dropped by 29 per cent, from NOK 135 in 1997 to an average price of NOK 96 per barrel in 1998. The price of oil fell throughout the year, with the average price per barrel in December at NOK 75. The value of Norwegian oil and gas exports fell by NOK 43.5bn compared with the previous year.

Current account deficit

After eight years of substantial surpluses, the current account showed a deficit of NOK 8.7bn in 1998. In 1997, the surplus amounted to NOK 57bn. The goods and services balance showed a surplus of just under NOK 10bn, whereas the interest and transfers balance showed a deficit of about NOK 18bn.

Following brisk growth in the two previous years, traditional merchandise exports increased in value by 3.7 per cent in 1998. The slower growth is principally the result of a decline in demand from South-East Asia. Export prices moved up by 0.7 per cent, compared with 0.5 per cent in 1997. The sharp rise in petroleum investment and private consumption led to sustained high growth in imports. The volume of traditional import goods increased by 9.5 per cent, compared with 8.6 per cent in 1997. Prices for traditional import goods rebounded by 1.3 per cent after edging down 1.1 per cent in 1997. This is partly due to movements in the krone exchange rate. Commodity prices continued to fall internationally.

Net foreign assets increased by NOK 1.6bn and were estimated at NOK 79bn at year-end. In addition to the current account surplus, changes in net assets are influenced by valuation changes for assets and liabilities resulting from exchange rate movements, etc.

Robust, but slowing growth in employment

Employment rose by 2.3 per cent from 1997 to 1998, ie a good 50 000. The growth rate was lower than in 1997 and tapered off through the year. The overall rise in employment has been 235 000 during the current cyclical upturn, with a large portion of this growth attributable to an increase in the supply of labour. Approximately 2 of 3 new employees were new entrants to the labour force in 1998. The labour force participation rate in Norway has reached a record high and, at 73.2 per cent, is among the highest in the OECD area. Participation rates among women, in particular, have climbed, but youth participation has also increased considerably. In 1998, as in 1997, the continued strong increase in the labour force led to a more moderate fall in unemployment compared with the increase in employment. According to Statistics Norway's labour force survey, unemployment fell from 4.1 per cent in 1997 to 3.2 per cent in 1998, ie a decrease of 15 000. This decline levelled off through the year.

Moderate price inflation and rising wage growth

Consumer prices rose by an average of 2.3 per cent from 1997 to 1998. Price inflation was more moderate than anticipated at the beginning of the year. Underlying price inflation, excluding electricity prices and indirect tax changes, was 2.2 per cent. Price inflation remained steady through the year. The low rise in prices for imported consumer goods was the principal factor restraining price inflation in 1998. The rise in service prices pushed up overall price inflation.

Wage growth accelerated in 1998, with wages increasing 6.1 per cent compared with 4.6 per cent in 1997. Pay increases in some industries became effective later in the year than usual, resulting in December wage levels which were 8-10 per cent higher for these sectors than at the same time in 1997.

Norges Bank places considerable emphasis on analysing price and cost developments. The central bank publishes a quarterly inflation report, containing analyses and assessments of price movements and inflationary forces. The Inflation Report focuses on the inflation outlook and includes estimates for price inflation over the next couple of years. Projections and assessments for economic developments over the next four-year period are included in the December Inflation Report. The Inflation Report constitutes an important basis for Norges Bank’s economic policy recommendations and decisions on monetary policy.

Monetary policy

According to the Exchange Rate Regulation of 6 May 1994, Norges Bank's conduct of monetary and exchange rate policy 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. Pursuant to the guidelines, interest rates must be adjusted with a view to maintaining a stable exchange rate. Interventions, ie Norges Bank's sales and purchases of foreign currency in order to influence the krone exchange rate, are to be used only to a limited extent. The guidelines do not stipulate any fluctuation margins for the exchange rate range, and substantial changes in short-term interest rates are not to be undertaken to the same extent as under a fixed exchange rate regime.

Norges Bank has emphasised on a number of occasions that a precondition for a stable exchange rate against European currencies is price and wage inflation on a par with the level prevailing in Europe. In a submission to the Ministry of Finance in October, it was also emphasised that fiscal policy must be oriented towards creating room for a decline in interest rates towards European levels without giving rise to persistent imbalances and pressures in the economy. The submission underlined the risk of substantially higher inflation in Norway than in other countries, with high price and wage inflation becoming a dominant problem in the Norwegian economy in the event of fiscal slippage.

On 6 May, the Government decided not to make changes to the exchange rate regulation in connection with the introduction of the euro on 1 January 1999. This decision was consistent with Norges Bank's recommendation. In its letter of 24 April 1998 to the Ministry of Finance concerning EMU and Norwegian monetary policy, Norges Bank recommended that - in the interest of continuity and confidence in monetary policy - the monetary policy guidelines should be maintained.

In a press release of 16 December, the Bank announced that "from 1 January 1999, Norges Bank's operational objective for the implementation of monetary policy will remain unchanged, with the euro replacing the ECU as the indicator of the krone's value against European currencies. The euro will be set at 1:1 against the ECU on the changeover date. The current guidelines can thus be maintained without any change in the international value of the krone, and the krone's initial range against European currencies will continue to apply."

Use of instruments

Norges Bank's steers the exchange rate by setting interest rates in the Norwegian money market with a view to creating a balance between the demand and supply of Norwegian kroner, and the purchase and sale of kroner in the Norwegian foreign exchange market. Pursuant to monetary policy guidelines, foreign currency trading is only to be undertaken on a limited scale. Interest rates are set with a view to stabilising the krone exchange rate against European currencies.

Norges Bank influences short rates by using its key rates to set a corridor for interest rates, ie banks' interest rates on sight deposits in Norges Bank (deposit rate) and the interest rate on overnight loans to banks (overnight lending rate). Norges Bank can influence interest rates in the money market within this corridor through the supply of krone liquidity to the banking system. Norges Bank counters seasonal fluctuations in banks liquidity associated with goverment incoming and outgoing payments through the Banks liquidity policy instruments.

In response to depreciation pressure on the krone during most of 1998, Norges Bank raised its deposit and overnight lending rates on seven occasions by a total of 4.5 percentage points, moving the interest rate corridor up from 3.50-5.50 per cent to 8.00-10.00 per cent. The interest rate differential against the ECU, which was negative at the beginning of the year, became positive during the second quarter and widened substantially from early autumn. The Bank also intervened by selling currency, gross, for the equivalent of NOK 35.9bn. In spite of this, the krone depreciated by nearly 10 per cent in 1998. A more detailed description of instrument use and developments in the market is provided below.

Pronounced weakening of the krone

At the beginning of 1998, the krone exchange rate exceeded the initial range referred to in the Exchange Rate Regulation, and instruments were oriented with a view to returning the krone exchange rate to the range. On 31 December 1997, the krone exchange rate was 101.2 measured against the ECU index, and the three-month rate was 0.7 percentage point below corresponding ECU rates.

Chart 1.
Short-term interest rates. Norges Bank's overnight lending and sight deposit rates and the 1-week Euro-krone rate.
Nominal rate, per cent per annum. Weekly figures 1996–1998

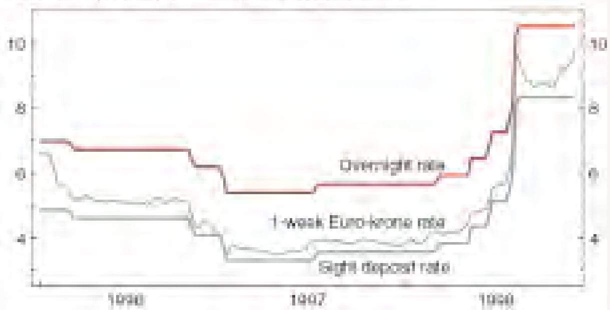
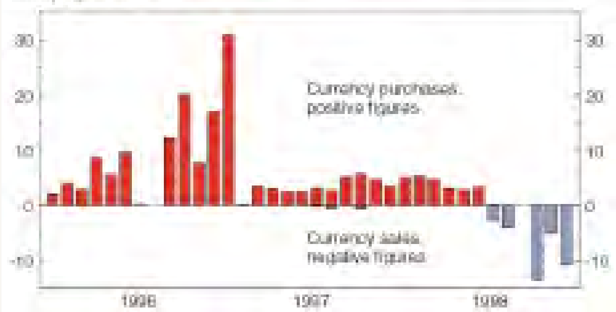


Chart 2a
The krone exchange rate against the theoretical ECU and effective krone exchange rate (rising curve denotes stronger krone).
Weekly figures 1996–1998

Chart 2b
Norges Bank's foreign exchange transactions, in billions of NOK. Figures for 1997 and 1998 include purchases for the Government Petroleum Fund.
Monthly figures 1996–1998



The krone depreciated during the first two months of the year, moving towards the weaker end of the initial range. In addition to the negative interest rate differential against the ECU, the weakening of the krone reflected the fall in oil prices. At the same time, general macroeconomic developments, including fiscal policy, and low interest rates fuelled inflation expectations in Norway.

Norwegian money market rates moved up relative to rates in the ECU area at the beginning of March, at a time when the krone exchange rate was relatively stable. The increase of Norges Bank's key rates by 0.25 percentage point on 19 March had little effect on the krone exchange rate and money market rates. This was also the case when Norges Bank raised its key rates by 0.5 percentage point on 25 May; Norwegian money market rates had already converged with ECU rates, and the immediate effect on the krone exchange rate was minimal.

The price for oil and other commodities fell sharply at the end of the first half of the year. It also became evident that pay increases would exceed previous expectations. The krone came under pressure and depreciated towards the weaker end of the initial range up to mid-August, despite three interest rate increases totalling 1.25 percentage points by Norges Bank. In July and August, Norges Bank made foreign currency sales equivalent to approximately NOK 7bn, and the Bank stopped making foreign currency purchases for the Government Petroleum Fund.

The krone came under stronger pressures in the second half of August in response to growing turbulence in international financial markets. On 21 and 24 August, Norges Bank raised its deposit and overnight lending rates by a total 2.50 percentage points to 8.0 and 10.0 per cent respectively. In his speech to FOREX Norway on 28 August, Central Bank Governor Kjell Storvik explained the background for raising key rates: “I would point to the well-known fact that a lower krone exchange rate may contribute to fuelling inflation expectations and that such expectations may in turn generate expectations of a weakening of the krone exchange rate, thereby reinforc-

Chart 3.
Banks' liquidity in 1998.
Daily figures

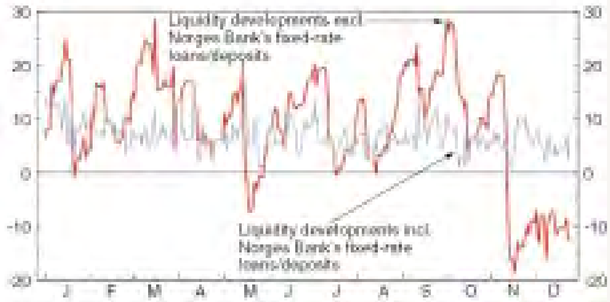
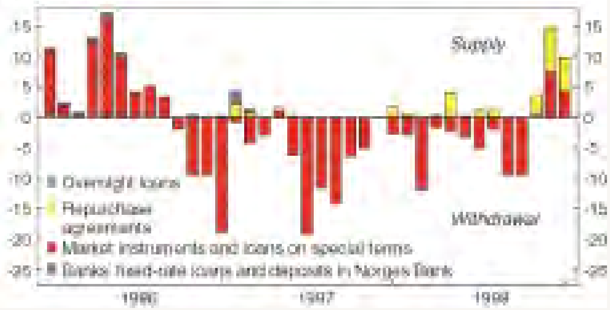


Chart 4.
Central bank financing of the money market, in billions of NOK.
Total per month



ing depreciation pressures. Price expectations may thus prove to be a self-fulfilling prophecy. The interest rate level which has now been established should, in addition to directly contributing to stabilising the krone exchange rate, dampen price expectations, which in turn implies that expectations of a further depreciation will gradually recede." The increase in key rates on 24 August was accompanied by the announcement that instruments had assumed an orientation with a view to returning exchange rates to their initial range and that there would be no further changes in the use of these instruments for the time being. At that time, the value of the krone against the ECU index was 106.1, and the interest rate differential in the money market against corresponding ECU rates was 5.6 percentage points.

The krone further depreciated to a good 114 shortly thereafter, but then stabilised between 109-111. However, the further weakening of the krone in mid-October, to just over 114, was only temporary. Movements in the exchange rate were again related to international conditions; the Norwegian economic situation did not justify such a weakening. Against this background, Norges Bank announced on 16 October that it would resume foreign exchange trading as part of its implementation of monetary policy, and the krone exchange rate returned to the level prevailing prior to its weakening.

The krone again came under strong pressures at the beginning of December, partly due to a further fall in oil prices. After extensive foreign currency sales in the market, Norges Bank stopped intervening. In mid-December, the krone exchange rate was 116 against the ECU index. However, as oil prices subsequently rose the krone appreciated. At year-end, the krone exchange rate was 111.0, and Norwegian three-month rates were 4.5 percentage points above corresponding ECU rates.

Exchange-market interventions

Norges Bank's gross foreign currency purchases came to the equivalent of NOK 25.0bn in 1998, while gross sales totalled NOK 35.9bn.

In the period July-August, Norges Bank sold foreign currency equivalent to NOK 6.6bn. However, interventions were discontinued following the press release of 24 August concerning Norges Bank's use of instruments. Norges Bank resumed interventions as a monetary policy instrument in October, making foreign currency sales equivalent to NOK 29.1bn in the fourth quarter.

In the first half of 1998, the Bank purchased foreign currency on a regular basis for foreign exchange reserves for subsequent transfer to the Government Petroleum Fund and the Government Petroleum Insurance Fund. Monthly foreign currency purchases were between NOK 3bn and NOK 5bn. Total foreign currency purchases in the first half of 1998 amounted to NOK 24.6bn. No foreign currency was purchased for accumulation of capital in these funds after 1 July. An agreement between Norges Bank and the Ministry of Finance provides for the direct transfer of government foreign exchange earnings to Norges Bank through the SDFI (the State's Direct Financial Interest in petroleum activities) with effect from 1 August 1998.

Foreign currency equivalent to NOK 32.8bn was transferred from Norges Bank's international reserves to the Government Petroleum Fund in 1998. Three transfers of approximately equal amounts were made (30 June, 30 September, 30 November).

Liquidity management

Bank liquidity refers to the overnight balance of banks' sight deposits in Norges Bank, less overnight loans taken up by banks. The volume of banks' liquidity in the central bank influences movements in money market rates.

In 1998, 65 fixed-rate deposits, 23 fixed-rate loans and 21 repurchase agreements were issued, which is an increase for all instruments compared with 1997. Norges Bank made use of the opportunity to repurchase fixed-rate deposits for the first time in 1998. Norges Bank also issued Treasury bills in the primary market as an instrument of liquidity management. Central bank financing in the money market in the period 1996 to 1998 is shown in Table 3 and Chart 4.

There was a substantial liquidity surplus in the banking system until mid-November. This excess liquidity was partly withdrawn by means of fixed-rate deposits. However, in periods when direct and indirect tax

Table 1. Exchange rate movements 1996-1998. 22 October 1990=100

		1996	1997	1998
Indexed theoretical ECU	Year-end	100.9	101.2	111.0
	Average	102.5	100.3	105.8
	Maximum	104.1	103.7	115.6
	Minimum	100.9	95.4	100.9
	Fluctuation range	3.1%	8.7%	14.6%
Trade-weighted index	Year-end 100.1	101.7	109.6	

Table 2. Norges Bank's exchange-market interventions. In billions of NOK.
Figures for 1997 and 1998 include purchases for the Government Petroleum Fund

	1995	1996	1997	1998	Q1	Q2	Q3	Q4
Purchases	14.9	90.7	67.8	25.0	15.2	9.6	0.2	0.0
Sales	17.9	0.0	1.3	35.9	0	0.3	6.6	29.1
Gross	32.8	90.7	69.1	61.0	15.2	9.9	6.8	29.1
Netto	-3	90.7	66.4	-10.9	15.2	9.9	-6.4	-29.1

payments fell due, it was necessary to supply the banks with liquidity, largely by means of repurchase agreements. In some instances these repurchase agreements were supplemented by fixed-rate loans. On two occasions in October, Norges Bank responded to a period of unexpected tight liquidity by repurchasing portions of fixed-rate deposits.

On 26 February, Norges Bank announced the auction of fixed-rate deposits at predetermined rates in order to push up money market rates. This was intended to curb the depreciation of the krone which had taken place since the beginning of the year. Norges Bank increased the rate on fixed-rate deposits on 4 March, and followed suit by increasing its key rates on 19 March. In the period up to August, as the krone progressively weakened, Norges Bank raised its key rates a further six times, with the last increase on 25 August. Norges Bank used the opportunity to set the rate on fixed-rate deposits one last time in August before increasing its key rates.

Norges Bank made foreign currency sales in order to stave off a weakening of the krone in July and August. After a period of no intervention from 25 August, the Bank resumed foreign currency sales from mid-October. The withdrawal of kroner resulting from the sale of foreign currency, combined with seasonal fluctuations in money market liquidity, left the banking system in a borrowing position in Norges Bank from 19 November until the end of the year. Norges Bank wishes to use repurchase agreements to cover borrowing needs. The need for liquidity proved to be so great that it could not be covered by repurchase agreements alone, but had to be supplemented by fixed-rate loans. Norges Bank's repurchase of government bond S462 contributed to reducing the need for supplying liquidity.

Norges Bank has primarily issued fixed-rate loans by means of standard auction. The Bank has chosen to set the rate on fixed-rate loans on several occasions when they are used to supplement repurchase agreements. The rate is set on the basis of the rate of the last repurchase agreement including an add-on for pricing the risk associated with issuing unsecured fixed-rate loans. The add-on was originally set at 35 basis points. On 4 December, the add-on was increased to 50 basis points in order to increase the banks' incentive for bidding on repurchase agreements.

Norges Bank assumed that the banking system would be in a borrowing position until mid-January 1999. Past experience shows that there are imperfections in the distribution of liquidity in the money market at the turn of the year. For this reason, Norges Bank decided to increase the overnight borrowing quota from 7 to 15 per cent of the basis of measurement, with effect from 16 December.

Government issues

In 1998 an auction calender was published for both the first and second half of the year. Departures from the calendar in the form of ad hoc issues are permitted.

In the primary market for Treasury bills the objective has been to establish few, but relatively large issues which are regularly replaced by new issues. The aim is to auction twelve-month bills each quarter and, very often to increase them by auction in the intervening months, thereby covering the entire time horizon for the money market's yield curve. The maturity dates are normally the third Wednesday in March, June, September and December. These maturity dates are commonly used in international markets. Assessments of money market liquidity prior to the auctions resulted in some departures from this programme.

Auctions were held every month except for December when the previously announced auction was cancelled due to tight liquidity in the banking system. Four new twelve-month Treasury bills were issued in 1998: in January, April, July and October, while a bill was issued in June to mop up excess liquidity in the period June-November. An overview of the Treasury bills auctioned, the amount and the interest rate is presented in Table 4.

The net volume of outstanding Treasury bills was reduced by NOK 8.5bn to NOK 26.5bn in 1998. Total gross issues of Treasury bills came to NOK 43bn, compared with NOK 91bn in 1997. The high volume in 1997 is primarily ascribable to the need to withdraw substantial excess liquidity as a result of large foreign currency purchases at the beginning of the year.

Norges Bank subscribed for NOK 2.5bn at the auctions in order to have paper for market-making purposes, ie purchases and sales of Treasury bills in the secondary market. The Bank's holdings in some Treasury bills were so small that they subsequently subscribed on two occasions for a total of NOK 2.5bn. At present, Norges Bank is the only institution that continuously quotes binding bid and offer prices for Treasury bills on the Oslo Stock Exchange.

Treasury bills are issued by standard auction, whereby bills are alloted on the basis of the price bid by the tenderer - in contrast to Dutch auctions where everyone pays the lowest accepted price (highest accepted interest rate).

In the bond market few, but relatively large government bonds have been issued. These issues cover maturities of up to 10 years. In January 1998, a new ten-year government bond was issued (with maturity in 2009), which was increased at each successive government bond auction in 1998, to a year-end total of NOK 13bn. Norges Bank subscribed for NOK 1bn at the first auction. Government bonds are issued by Dutch auction. An overview of government bond auctions is provided in Table 5.

On behalf of the central government, Norges Bank repurchased portions of government bond S462 with maturity on 31 January 1999. Norges Bank increased its repurchasing activity on 20 November by quoting screen-based binding two-way prices. At end-1998, the outstanding volume of S462 had been written down from NOK 30bn to NOK 16bn.

In order to ensure marketability in the secondary market for government bonds, Norges Bank established a primary dealer system for the large, benchmark government bonds in August 1995. The primary dealer agreements were discussed in more detail in the Annual Report for 1995. With effect from 2 January 1998, primary dealers replaced the system of binding bid and offer prices with indicative prices for large bonds on the Oslo Stock Exchange. At end-1998 there were 8 primary dealers (banks and stockbroking companies).

Management of foreign exchange reserves and the Government Petroleum Fund

Responsibility for the management of the foreign exchange reserves and the Government Petroleum Fund is primarily vested in two separate units in Norges Bank: Norges Bank Investment Management (KAP) and the Market Operations Department (MOA). Established as the Bank's unit for investment management on 1 January 1998, KAP manages the Petroleum Fund, three sub-portfolios of the foreign exchange reserves (the long-term portfolio, the immunisation portfolio and the buffer portfolio for the Petroleum Fund) and the Government Petroleum Insurance Fund. MOA, one of the departments in Wing I (monetary policy), manages a part of the foreign exchange reserves (the liquidity portfolio) and has been delegated responsibilities which, primarily owing to control considerations, are separate from KAP. These include formulating recommendations on strategy and the benchmark portfolio, in addition to some control functions. MOA also supplies KAP with accounting, settlement, and IT services.

Foreign exchange reserves

The market value of the foreign exchange reserves at year-end 1998 was NOK 123.2bn, of which NOK 101.2bn and NOK 22bn were managed by KAP and MOA respectively.

In 1998, the Executive Board adopted new guidelines for the management of foreign exchange reserves. The new guidelines entered into force in June, and stipulate that the reserves are to be divided into four portfolios: an immunisation portfolio, to "shadow" 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 in ongoing exchange-rate management through interventions in the foreign exchange markets; and a long-term portfolio, which is to be available for interventions, but which is to be invested in a more long-term perspective. With the exception of the buffer portfolio, foreign exchange reserves are exclusively invested in interest-bearing instruments.

Management of the immunisation portfolio is determined by the composition of the government's foreign currency debt. For this reason, it has been natural to maintain the old guidelines for this portfolio. The bulk of government foreign currency debt was redeemed in 1998, and the debt will be settled in its entirety in 2003.

The funds transferred to the buffer portfolio for the Petroleum Fund are obtained by Norges Bank through the State's Direct Financial Interest in Petroleum Activities (SDFI). Norges Bank may also purchase foreign currency directly in the market to bring the combined amount up to the amount that is to be allocated to the Government Petroleum Fund. Capital may also be transferred to the Petroleum Fund from the remaining foreign exchange reserves. In order to avoid unnecessary transaction expenses, the buffer portfolio for the Petroleum Fund follows approximately the same guidelines as the Petroleum Fund.

The standard foreign exchange reserves are divided into the liquidity portfolio and the long-term portfolio, which are managed according to separate guidelines. The liquidity portfolio represents the portion of foreign

Table 3. Banks' sight deposits and overnight loans in Norges Bank. In billions of NOK

	Average deposits per day	Average loan quota per day	Average loans per day	Average drawings %
1996	4.8	3.6	0.2	5
1997	8.5	4.2	0.1	2
1998	7.0	4.8	0.1	2
Q 1	8.5	4.6	0.0	1
Q 2	7.1	4.5	0.1	2
Q 3	6.6	4.6	0.0	1
Q 4	5.8	5.6	0.2	4

Table 4. Treasury bill auction results for 1998

Treasury bill	Maturity	Amount to market, nominal (NOK m)	Amount to Norges Bank, nominal (NOK m)	Weighted average interest rate
SS52*)	07.01.98–16.12.98	4000	500	4.32
SS47	04.02.98-18.03.98	4000	0	3.81
SS51	04.03.98-18.05.98	2000	0	3.91
SS53*)	01.04.98-17.03.99	3000	500	4.25
SS53	06.05.98-17.03.99	2000	0	4.48
SS53	05.06.98-17.03.99	5000	0	4.95
SS54*)**)	17.06.98-18.11.98	7000	500	4.99
SS55*)	08.07.98-16.06.99	4000	500	5.61
SS55	05.08.98-16.06.99	3000	0	5.46
SS54	09.09.98-18.11.98	2000	0	8.10
SS56*)	08.10.98-15.09.99	4000	500	7.18
SS56	04.11.98-15.09.99	3000	0	6.87

*) New issue
**) Ad hoc issue

Table 5. Auctions of government bonds in 1998

Issue date	Issue type	Loan	Maturity	Issue volume to market (NOK m)	To Norges Bank (NOK m)	Total outstanding after issue (NOK m)
January	New issue	S468	15.05.2009	5000	1000	6000
March	Increase	S468	15.05.2009	2000	0	8000
May	Increase	S468	15.05.2009	2000	0	10000
September	Increase	S468	15.05.2009	2000	0	12000
November	Increase	S468	15.05.2009	2000	0	14000

exchange reserves with the shortest time horizon. The portfolio is required to be sufficiently large to cover most exchange market intervention needs, but management is based on the premise that other portfolios also be sufficiently liquid for use in exchange rate management if necessary. The size of the liquidity portfolio was originally set at NOK 30bn, with upper and lower limits of NOK 50bn and NOK 10bn respectively.

The long-term portfolio has a higher duration and a wider country distribution than the liquidity portfolio. The management objective is to generate a high return based on a long time-horizon. The strategic choices made for the long-term and the liquidity portfolios are defined through the construction of benchmark portfolios. These portfolios consist of a predetermined country distribution and specific securities from the individual submarkets. A benchmark portfolio is used to facilitate the management and monitoring of risk exposure, and also serves as a point of reference for comparing the actual return on the management of the foreign exchange reserves.

A limit has been set for how much the manager may deviate from the benchmark portfolio. This limit is a measure of total risk (tracking error). In practice this means that the difference in the returns on the actual portfolio and the benchmark portfolio will normally be small. The upper limit for tracking error is 0.5 per cent for the liquidity portfolio and 1.0 per cent for the long-term portfolio. In simplified terms, a tracking error of 1 per cent means that the actual margin between the benchmark portfolio and the actual portfolio will amount to between -2 and +2 per cent in 19 out of 20 years.

Management of the liquidity portfolio is based on a virtual replication of the benchmark portfolio. This is due to movements in the krone exchange rate in the autumn of 1998 and the need to prepare for possible exchange-market interventions. For this reason, it has not been appropriate to implement tactical positions. The modified duration of the benchmark portfolio is about 1.5, which means, in practice, that the liquidity portfolio is mainly composed of interest-bearing instruments with residual maturity of 3 years or less, ie with a low interest-rate risk. The liquidity portfolio is primarily composed of government bonds, which have a low credit risk and high liquidity.

The actual composition of the long-term portfolio has also closely replicated the benchmark portfolio. The most significant deviation has been investment in securities other than the benchmark portfolio’s government bonds. The actual portfolio also contains securities issued by countries in foreign currency, non-government issued securities with either implicit or explicit government guarantees and securities issued by international organisations with a high credit rating. These types of securities generally achieve slightly higher returns than normal government securities. In 1998, however, the interest-rate differential between these and government securities became so wide that the capital loss exceeded gains resulting from higher interest rates. As a result, the return on the actual portfolio in 1998 was slightly lower than the benchmark portfolio for the long-term reserves (see the Report of the Executive Board on the Accounts for 1998 presented in this report). Only a small portion of the long-term portfolio was managed externally, by Goldman Sachs, in 1998.

The objectives for the immunisation portfolio and the buffer portfolio for the Government Petroleum Fund are derived from the composition of government foreign debt and the Government Petroleum Fund respectively. Management activities have been strictly oriented towards the objectives defined by these primary portfolios.

The Government Petroleum Fund

The market value of the Government Petroleum Fund at year-end 1998 was NOK 171.8bn. Norges Bank is responsible for the operational management of the Government Petroleum Fund on behalf of the Ministry

of Finance, pursuant to a Management Agreement between the Ministry of Finance and Norges Bank. The agreement stipulates that the Ministry of Finance is responsible for management costs, according to the principle of full coverage of expenses.

The guidelines pertaining to the Petroleum Fund in 1996 and 1997 outlined an investment strategy for the Fund which was rather similar to the strategy for foreign exchange reserves. Due to the longer time horizon and greater size of the Fund, it was deemed appropriate to alter the Fund's investment strategy by, for example, increasing investment in countries outside Europe and by expanding the investment universe to include equities. These changes were proposed by Norges Bank in a letter to the Ministry of Finance in 1997. An important factor in the decision to include equities in the Government Petroleum Fund is that the return on equities over time is expected to exceed the return on bonds. In the long term, even small differentials in the Fund's return will prove significant to the development of the Fund's market value.

In the new Regulation, which entered into force on 1 January 1998, the Ministry of Finance reduced the portion of the Fund which is to be invested in Europe, while the number of countries in which investment is permitted was expanded from 8 to 21. The new guidelines stipulate that 30-50 per cent of the Fund is to be invested in equities. The Ministry of Finance has defined a benchmark portfolio for the Government Petroleum Fund which reflects the new investment strategy.

The expanded geographical distribution and the inclusion of equities in the investment strategy represent significant changes in the management of the Fund. For this reason, the guidelines stipulated that these changes could be implemented gradually. The operation of adapting to the new benchmark portfolio from the old benchmark portfolio was carried out in five stages between 1 February and 1 June 1998. During this period, an equity portfolio was partly financed by the sale of bonds and partly by the redistribution of large amounts within the bond portfolio, including considerable exchanges of currency. These two processes were carefully planned and coordinated with a view to minimising the transaction volume, thereby incurring the lowest possible transaction costs.

The equity portfolio was compiled with the assistance of four external managers, Barclays Global Investors, State Street Global Advisors, Bankers Trust Company and Gartmore Investment. With the assistance of these managers, as much as 83 per cent of the portfolio could be purchased outside the ordinary brokers market. Following completion of the portfolio compilation phase, the four have managed their own sub-portfolios as an index mandate, which means that the composition of these portfolios, and thus the return on them, is nearly the same as that of the benchmark portfolio.

Norges Bank's own managers performed the redistribution within the bond portfolio. They have also managed virtually the entire portfolio since the completion of the adaptation to the new benchmark portfolio. The actual bond portfolio has consistently closely replicated the benchmark portfolio, with the same exception as for the long-term portion of the foreign exchange reserves: the portfolio includes some securities which have a slightly higher current yield than the government securities of the benchmark portfolio.

The Ministry of Finance has fixed a limit to the degree of deviation permissible between the actual portfolio and the benchmark portfolio. The degree of deviation has been limited by setting an upper limit of 1.5 per cent for expected tracking error, calculated for the entire Fund. In 1998, Norges Bank made particular use of this risk limit in connection with the transition from the old benchmark portfolio to the new benchmark portfolio. A considerable number of equity purchases were made a few days prior to the change in the benchmark portfolio. The primary objective was not to increase the gross return on Fund capital, but to reduce transaction costs.

Preparations were made in 1998 to make more systematic use of the possibilities of choosing an actual portfolio which deviates from the benchmark portfolio. Mandates for active equity management were announced with the deadline set in February. Around 260 proposals for this type of management have been evaluated. Five managers were chosen in November: Mercury Asset Management, Capital International, Gartmore Investment, Storebrand Kapitalforvaltning and Fidelity Pensions Management. Three of these managers received sub-portfolios on 30 November. ABN Amro's active bond mandate of around NOK 0.8bn was transferred from the foreign exchange reserves to the Petroleum Fund in May 1998, and new mandates were issued with the deadline set in October. According to plans, fewer new managers will receive portfolios in 1999.

Internal management is also being organised with a view to implementing more active management. This applies to both equity and bond management and to the general allocation of investment to asset classes and regions. The objective is the same as for the external managers: to achieve a higher return than by simply replicating the benchmark portfolio.

A more detailed presentation of the management of the foreign exchange reserves and the Government Petroleum Fund in 1998 is provided in the Report of the Executive Board on the Accounts for 1998 and in a separate report on the Management of the Government Petroleum Fund for 1998.

The Government Petroleum Insurance Fund

The market value of the Government Petroleum Insurance Fund at year-end 1998 was NOK 10.9bn. The Fund is owned by the Ministry of Petroleum and Energy with the purpose of underpinning the government in its role of self-insurer of petroleum assets. The Fund is managed by Norges Bank pursuant to guidelines stipulated by the Ministry.

International cooperation

Cooperation with other central banks

The oldest formal cooperation among central banks takes place in the Bank for International Settlements (BIS) in Basle, which Norges Bank joined in 1931. The objects of the BIS are to promote the cooperation of central banks, provide additional facilities for international financial transactions and act as trustee or agent in regard to international financial settlements. The globalisation of capital and financial markets over the past decades has given the BIS a more important role as a consultative and coordinating body for central bank interests, and for surveillance and information in regard to market developments. Norges Bank's management participates in meetings in Basle on a regular basis in order to discuss international issues in the area of central banking.

The European Central Bank (ECB) was established on 1 July 1998. As from 1 January 1999, the ECB is responsible for formulating and implementing EMU monetary policy. Economic developments and monetary policy in the EU represent an important framework for Norwegian monetary policy. Consequently, Norges Bank attempts to maintain regular contact with the ECB and EU central banks. Norges Bank also participates in various EFTA and EEA committees where issues relating to capital movements and financial services are discussed.

Within the framework of Nordic cooperation, the annual meeting of Nordic central bank governors was held in Iceland in 1998. The main topic was monetary policy.

Norges Bank cooperates closely with the Nordic and Baltic central banks on matters relating to Norway's relationship to the International Monetary Fund (IMF). The Nordic and Baltic countries comprise one constituency in the IMF.

Norges Bank participates daily in teleconferences with other central banks in Europe, North America and Japan, where information is exchanged concerning developments in monetary and exchange rate conditions and any exchange-market interventions or interest rate changes on the part of central banks.

Credit agreements with other central banks

Norges Bank has been party to swap agreements with the Nordic central banks, the Federal Reserve and the central banks of the EU countries for a number of years. The agreements give Norges Bank access to credits for use in interventions to support exchange rate management. Under the prevailing exchange rate regime, the agreements have not been activated. In the event of a new exchange rate regime, however, it may be appropriate to have access to various drawing rights, and it is therefore considered desirable to maintain the agreements. The establishment of the ECB and the introduction of the euro changed the institutional framework for several of the agreements. In autumn 1998, Norges Bank contacted the central banks concerned with a view to establishing a new set of agreements with effect from 1 January 1999.

The Bank of Finland terminated the Nordic Agreement in autumn 1998 as Finland was to participate in EMU from 1 January 1999. The central banks of Denmark, Iceland, Norway and Sweden agreed to enter into a new agreement based on the same principles and with the same quantitative limits as under the former Nordic Agreement. 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 party to the agreement undertakes to provide currency support up to an amount equivalent to EUR 1bn, and EUR 100m for the central bank of Iceland. Before the agreement is activated, the borrowing country must have used its foreign exchange reserves and monetary policy instruments to a reasonable extent. The maturity for credit under the agreement is three months, with an option for a three-month extension. The agreement came into force on 1 January 1999, and will apply until terminated by one of the parties.

Bilateral agreements between Norges Bank and EU central banks have been effective since 1991. The agreements have been renewed annually. In autumn 1998, Norges Bank approached the ECB about the possibility of entering into a new swap agreement with the ECB to replace the ten agreements Norges Bank had entered into with the central banks of the countries that formed the euro area from 1 January (Norges Bank did not have an agreement with the Banque Centrale de Luxembourg). The Governing Council of the ECB took a positive view and an agreement was concluded in December. The total amount stipulated in the agreement is EUR 1 535m, i.e. the same amount applying under the agreements between Norges Bank and the central banks of the countries participating in EMU. The agreement is based on the same principles as the former bilateral agreements. Norges Bank has undertaken to carry out interventions in a manner that is compatible with the ECB's monetary policy objectives, and will cooperate with the ECB on intervention policy vis-à-vis third country currencies. As in the case of the Nordic agreement, Norges Bank must 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 will not draw on the agreement as long as the krone is floating against the euro. The agreement came into force on 1 January 1999 and applies for a period of 12 months.

Norges Bank concluded new bilateral agreements with the Bank of England and the Bank of Greece, with effect from 1 January 1999. The amounts under the former agreements continue to apply. Norges Bank is permitted to draw up to EUR 290m in the Bank of England and EUR 25m in the Bank of Greece. Otherwise, the terms are the same as those provided for in the agreement with the ECB.

Since 1967, Norges Bank has been party to reciprocal credit agreements with the Federal Reserve. The agreement is one of a set of agreements the Federal Reserve has with 14 central banks and the BIS. The parties agreed not to renew the agreements when they expired on 31 December 1998 as the agreements had not been activated over the past 15 years, and in view of the establishment of the euro area and the current system for international monetary cooperation.

The International Monetary Fund (IMF)

The supreme body of the IMF is the Board of Governors, on which Norway has been represented by the Governor of Norges Bank, Kjell Storvik, and Svein Gjedrem, Secretary General of the Ministry of Finance as alternate. With effect from 8 January 1999, Svein Gjedrem, the new Central Bank Governor, became Norway's representative, with Tore Eriksen, Secretary General of the Ministry of Finance, as alternate.

Day-to-day activities in the IMF are managed by an executive board comprised of 24 members. The five Nordic and three Baltic countries comprise one constituency with a joint representative on the board and the two advisory bodies, the Interim Committee and the Development Committee, which meet biannually. In 1998, Kai Aaen Hansen, a director of the Danish central bank, has been the Executive Board representative for the constituency. The Danish Minister of Economic Affairs, Marianne Jelved, has been the constituency's representative on the Interim Committee. In 1998, Denmark was responsible for coordinating the views of the constituency.

The Nordic countries coordinate their positions on important IMF issues through the Nordic Financial Committee. The committee is currently chaired by Iceland, represented by the deputy governor of the central bank of Iceland, Ingimundur Fridriksson.

In connection with the Interim Committee meetings in Washington D.C., constituency meetings are held at central bank governor or ministerial level. In addition, constituency meetings are held annually in connection with a meeting of the Nordic Financial Committee. One Nordic-Baltic meeting at coordinator level was arranged in 1998.

Financial support to Brazil

At the end of 1998, Brazil experienced substantial outflows of capital as a result of waning market confidence. Under the auspices of the IMF and the BIS, a financial package of USD 41.5bn was agreed. The financial support was approved after the country had agreed to implement a comprehensive stabilisation and reform programme over three years under the auspices of the IMF. The purpose of the economic programme and financial package was to prevent the unrest in international financial markets from spreading, and to rapidly restore confidence in the Brazilian economy in international financial markets.

The IMF contributed USD 18bn and the World Bank and the Inter-American Development Bank each contributed USD 4.5bn. The BIS and the Japanese central bank contributed USD 14.5bn. Of the IMF resources, 70% were made available through the New Agreement to Borrow (NAB). Together with 21 countries, Norway provided support for the Brazil programme. Norway's direct share of IMF financing through the NAB came to SDR 111.9m, or a good NOK 1160m. The remaining 30% of IMF financing came from the IMF's general resources, to which Norway indirectly contributes. Norway also provided support through the BIS. In the light of the contributions made by the other countries, the Ministry of Finance in consultation with Norges Bank decided that Norway should also furnish a financial guarantee of USD 50m. In this connection, Norges Bank provided a guarantee to the BIS against a corresponding government guarantee. This was approved by the Norwegian parliament on 3 December 1998.

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. The Board manages Norges Bank's activities and resources. As stipulated in section 28, the Executive Board shall each year prepare an annual report and accounts for the year. The members of the Executive Board and the Supervisory Council are presented in Appendix B.

In 1998 the Executive Board held 29 meetings and reviewed 258 matters, 119 of which were related to the central bank's external activities. The remaining 139 items were related to the Bank's administration and management.

The Executive Board has dealt with a broad range of issues. A substantial proportion of the external matters are consultative submissions. The Executive Board also processed a number of applications for licences and for authorisation, including applications from financial institutions to effect mergers, make changes in corporate structures, increase and reduce capital and establish branches. The Board also issued statements and submitted recommendations on the Government's economic policy programme and monetary policy.

As a result of turbulence in international capital markets, a fall in oil prices and economic conditions in Norway, the Norwegian krone came under pressure throughout much of 1998. The Executive Board has continuously followed these developments, emphasising that the Bank is to orient its instruments in the best possible way within the stipulated guidelines. In response to economic developments, the Bank raised its key rates – the deposit and overnight lending rates – on several occasions in 1998. This is described in more detail in chapter 2.

With effect from 1 January 1998, Norges Bank was given broader responsibility for the operational management of the Government Petroleum Fund. Management of the Fund is based on an agreement between the Ministry of Finance and Norges Bank and the Ministry's Regulation of 3 October 1997. This regulation allowed the Fund to invest in foreign equities from the beginning of 1998. This expanded role as investor as well as the scale and complexity of the task presented the Bank with considerable challenges. The Executive Board has carefully supervised the building up of the management unit and has placed considerable emphasis on establishing a high level of professional expertise and integrity with adequate control and risk management systems. To make these foreign investments, the Bank has entered into agreements with external managers with particular expertise in international equity markets. Due to the nature of the task, Investment Management has been organised as a separate wing in the Bank, and reports directly to the Central Bank Governor. Special ethical guidelines have been laid down for the staff of Norges Bank Investment Management. The costs incurred by the Bank through its management of the Petroleum Fund are covered through an agreement with the Ministry of Finance. The Fund's market value amounted to NOK 171.8 billion at the end of 1998 (see also chapter 2).

In 1998, the focus of internal administrative work has continued to be on promoting an efficient and targeted use of resources in the central bank. As in 1997, a letter of 2 June 1998 to the Ministry of Finance (quoted in Storting Report no. 55 for 1997-98, the 1997 Credit Report), contained an account of further work involved in reviewing the bank's responsibilities and use of resources. The Credit Report also outlined the need for resources in Investment Management, stating that in keeping with the Supervisory Council's budget decision the organisation could be expanded to include approximately 50 positions in 1998. At end-1998, Investment Management had a total of 41 employees. This also explains the slight increase in the total number of employees between 1997 and 1998.

Investment Managment will continue to be an area of expansion in the period ahead. In addition to the Government Petroleum Fund, Norges Bank Investment Management is responsible for the Government Petroleum Insurance Fund and Norges Bank's foreign exchange reserves. The increase in the total management portfolio combined with the Bank's plans to start its own equity management will place additional demands on the building of resources and expertise in several other areas of the Bank. For this reason, the Market Operations Department and Investment Management have been allocated a further increase in the number of positions in the Supervisory Council's budget resolution for 1999.

For changes in the number of employees, see Table 9. When Investment Management is excluded, there has been an overall reduction in person-years, which is in accordance with the "Plan for resource use and dimensioning of Norges Bank 1997-1999."

Svein Gjedrem　　Jarle Bergo

Marianne Andreassen　　Sylvi Røssland Sørfonn　　Torgeir Høien

Esther Kostøl　　Lars Velsand

Espen Halvorsen
(employee representative)

Sonja Blichfeldt Myhre
(employee representative)

Norges Bank's Accounts for 1998
Report of the Executive Board on the Accounts for 1998

Norges Bank's accounts for 1998 showed a profit of NOK 23 510m in 1998, against NOK 14 061m in 1997.

The change in the annual result is primarily due to foreign exchange gains totalling NOK 15 352m in 1998, compared with gains of NOK 6 391m in 1997. Capital gains on foreign securities holdings generated additional income of NOK 2 081m in 1998. Interest income from foreign assets came to NOK 10 834m, ie NOK 2 326m less than in 1997.

Interest payments to the Treasury amounted to NOK 4 277m, of which NOK 1 383m represents the return on the immunisation portfolio[1]. Total interest payments to the Treasury came to NOK 4 793m in 1997.

In accordance with existing guidelines, Norges Bank transferred NOK 3 401m to the Treasury from the Transfer Fund.

Norges Bank's foreign assets

The figures referred to in this section on foreign assets are based on market values. Market values are used because they give a more accurate picture of changes in assets over time. In the accounts, the securities portfolio is valued at the lower of market value or weighted average cost. See accounts and notes 1, 2 and 20 regarding holdings and yield elements on the accounting principles applied.

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

Norges Bank's foreign assets comprise international reserves and 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 comprise 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 liquidity portfolio is used in ongoing exchange rate management and to influence liquidity or interest rates in the Norwegian money market. The long-term portfolio is also 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 built up quarterly for transfer to the Government Petroleum Fund. Capital is to be transferred at the lowest possible transaction costs. For this reason, this sub-portfolio is comprised of futures contracts on foreign equity indices in addition to

Table 1. Composition of international reserves at 31 December 1998. Market values

	Gold IMF	Liquidity portfolio	Long-term portfolio	Immuni-sation-portfolio	Buffer portfolio for the Petroleum Fund	Total 1998	Total 1997
Short-term investments		4 710	4 024	-537	67	8 264	7 507
Bonds		21 591	92 486	8 319	64	122 460	153 568
Total foreign exchange reserves		26 301	96 510	7 782	131	130 724	161 075
Gold and IMF	14 264	0	0	0	0	14 264	10 992
Total international reserves	14 264	26 301	96 510	7 782	131	144 988	172 067

Table 2. Percentage currency distribution of foreign exchange reserves at 31 December 1998 and 31 December 1997

Valuta	1998	1997
USD	20.3	12.6
CAD	1.9	3.3
JPY	13.7	5.8
DEM	27.8	32.4
GBP	11.6	15.8
FRF	5.0	9.7
ECU	7.3	8.0
ITL	8.1	Included in unspecified currencies
Unspecified	4.3	12.4
Totalt	100.0	100.0

Table 3. Changes in the composition of international reserves in 1998 and 1997. In billions of NOK

	Changes in 1998	**Holdings**
Net foreign currency reserves at 31 Dec. 1997 (market value)		161.1
Net foreign currency purchases/sales in 1998	- 8.5	
Transfers to the Government Petroleum Fund	- 32.9	
Sales to the Government Petroleum Insurance Fund[1]	- 0.1	
The International Monetary Fund (IMF)	- 2.6	
Payment of government foreign debt	- 16.9	
Return	+ 30.6	
Net foreign currency reserves at 31 Dec. 1998 (market value)		130.7

[1] As self-insurer for oil and gas activities on the Norwegian continental shelf, the central government has accumulated capital in the Government Petroleum Insurance Fund which is invested in foreign currency and managed by Norges Bank.

interest-bearing securities. All sub-portfolios are to be available for monetary policy purposes if necessary.

Size and composition of the international reserves

At 31 December 1998, international reserves amounted to NOK 144 988m, of which foreign exchange reserves accounted for NOK 130 724m. The immunisation portfolio accounted for NOK 7 782m of the foreign exchange reserves.

The market value of international reserves was NOK 2 955m higher than the book value, ie NOK 142 045m at end-1998. Table 1 shows the composition of international reserves in millions of NOK.

Changes in the value of foreign exhange reserves

Net foreign exchange reserves[2] amounted to NOK 161.1bn at end-1997. In the course of 1998, the net foreign exchange reserves fell by NOK 30.4bn to NOK 130.7bn. Table 3 shows that this is primarily attributable to transfers to the Government Petroleum Fund. The reduction is also due to repayments of central government foreign debt. Table 3 shows the changes in foreign exchange reserves broken down by main item.

[2] International reserves less gold, claims on the IMF and adjustments for foreign currency transactions which have been entered into, but not settled.

Return on international reserves

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

Norges Bank uses benchmark portfolios in the management of foreign exchange reserves. The main purpose of the benchmark portfolios is to facilitate the management and monitoring of risk exposure, and they are used as a basis for evaluating management performance. The benchmark portfolios reflect a long-term investment strategy and Norges Bank's guidelines for interest-rate, exchange rate and credit risk. Benchmark portfolios are constructed for each currency.

As a result of the weakening of the Norwegian krone against most investment currencies, the accounts show total exchange gains on international reserves of NOK 15 361m in 1998. Since 1998, Norges Bank has chosen to use exchange rates quoted at 4 pm by WM/Reuters London instead of Norges Bank's representative middle rates, resulting in an excess return of NOK 967m in 1998 (see note 1).

Generally, lower bond yields in most international markets have resulted in price gains of NOK 4 780m on Norges Bank's bond holdings in 1998, compared with a loss of NOK 93m in 1997.

Table 4. Return on international reserves in 1998 and 1997. Market values in millions of NOK

	Gold IMF	Liquidity portfolio	Long-term portfolio	Immuni-sation portfolio	Buffer port-folio for the Goverment Petroleum Fund	**Total 1998**	**Total 1997**
Exchange rate adjustments	649	2 722	10 753	836	401	**15 361**	**6 315**
Price adjustments on securities[1]		-117	4 291	15	591	**4 780**	**- 93**
Interest income	434	1 088	7 890	750	314	**10 476**	**12 532**
Total	**1 083**	**3 693**	**22 934**	**1 601**	**1 306**	**30 617**	**18 754**

[1] Price adjustments are based on the market value of bond holdings, which will deviate from the accounts, in which holdings are valued at the lower of market value or average cost. Average cost was lower at both 31 December 1998 and 31 December 1997.

Table 5. The composition of the Government Petroleum Fund. Market values in millions of NOK

	31.12.97	31.03.98	30.06.98	30.09.98	31.12.98
Equity portfolio	0	31 757	54 562	51 793	69 531
Bond portfolio	113 509	88 883	81 226	88 479	102 255
Total	**113 509**	**120 640**	**135 788**	**140 272**	**171 786**

Table 6. Currency distribution of the Government Petroleum Fund at 31 December 1998 and 31 December 1997. Per cent

Currency	**1998**	**1997**
USD	28.1	25.6
CAD	1.6	1.5
JPY	17.4	15.0
Other currencies (Asia/Oceania)	2.5	-
DEM	12.0	23.8
GBP	10.1	13.5
FRF	6.3	7.0
ITL	5.3	-
Other currencies (Europe)	16.7	13.6
Total	**100.0**	**100.0**

Interest income on the international reserves was NOK 10 476m in 1998, compared with NOK 12 532m in 1997. This is due to lower average reserves and declining interest rates in 1998.

The immunisation portfolio achieved a return in 1998 which matches the borrowing costs associated with government foreign debt.

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 1998, the Fund was managed in accordance with the regulation of 3 October 1997 for 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.

Capital equivalent to the government budget surplus is transferred to the Government Petroleum Fund. The market value of the Petroleum Fund was NOK 113 509m at end-1997. An additional NOK 32 837m was transferred to the Government Petroleum Fund in 1998, made up of transfers of NOK 11 837m, NOK 10 000m and NOK 11 000m on 30 June, 30 September and 30 November respectively. NOK 1 837m of the 30 June transfer was the residual transfer based on the final surplus in the government accounts for 1997.

The primary aim of management in the first half of 1998 was to adapt the actual portfolio to the new guidelines which entered into force on 1 January 1998. This required the gradual construction of an equity portfolio corresponding to 40 per cent of the market value of the Fund and a change in the composition of the bond portfolio. Of the equity portfolio investments, 83 per cent were purchased without incurring brokerage costs, with purchases spread over time to minimise their effect on market prices.

Table 5 shows changes in the composition of the Government Petroleum Fund in 1998 and comparable figures for 31 December 1997.

Table 6 shows the currency distribution of the Government Petroleum Fund.

The equity portfolio has primarily been placed under the management of four external managers who are required to follow an index management strategy, with the result that the equity portfolio's composition, and therefore its return, are very similar to those of the benchmark portfolio. On 30 November, the management of a minor portion of the equity portfolio was outsourced to three external managers as active management mandates. This portion of the portfolio allows considerable deviations from the benchmark portfolio.

The bond portfolio has almost exclusively been managed internally by Norges Bank. The actual portfolio is very close to the benchmark portfolio but is also invested in other types of bonds. The credit risk associated with these securities is small, and the difference between the return on the actual portfolio and the return on the benchmark portfolio is very small.

The market value of the return on the Government Petroleum Fund in 1998 was NOK 25 714m, of which NOK 13 149m is attributable to fluctuations in the krone exchange rate following a weakening of the krone against most investment currencies in 1998. Since 1998, Norges Bank has used WM/Reuters exchange rates when translating into NOK, resulting in a return which is NOK 1 189m higher than if Norges Bank's representative middle rates had been used. Exchange gains have no effect on the international purchasing power of the Fund. Note 20 describes the accounting principles used in calculating the total return, which amounted to NOK 21 571m.

Security gains for the Petroleum Fund in 1998 amounted to NOK 4 744m, including unrealised gains of NOK 4 143m at end-1998.

Norwegian Treasury bills and government bonds

All holdings and turnover figures in this section are based on nominal values. Accounting values are shown in note 6.

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.

Primary dealers are members of the Oslo Stock Exchange which, in accordance with an agreement with Norges Bank, quoted binding bid and offer prices for the six most traded benchmark government bonds in 1998. 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 (repurchase agreements). Norges Bank's holdings of government bonds are the basis for this borrowing facility.

Norges Bank's net purchases of Treasury bills in the secondary market amounted to NOK 0.9bn. Treasury bills totalling NOK 2.5bn were purchased in the primary market for market-making purposes. Since the Bank's holdings had been reduced, Norges Bank subscribed for NOK 2.5bn.

Commitments to Norwegian banks

Fixed-rate deposits (F-deposits)

Norges Bank issued a total of 65 F-deposits with maturities ranging from 1 to 11 days in 1998. The interest rate on most deposits was set by auction. However, Norges Bank chose to fix the interest rate on F-deposits in the period February-March and on another occasion in August in order to push up money market rates. Average daily F-deposits came to NOK 7bn in 1998, against NOK 8.5bn in 1997. Norges Bank issued no further F-deposits after 16 November 1998. In 1997, Norges Bank allowed trading of F-deposits between banks and branches, as well as repurchases of F-deposits by the Bank prior to maturity. Norges Bank repurchased portions of an F-deposit on two occasions in October 1998.

Intraday loans and overnight loans (D-loans)

In connection with the introduction of real time gross settlement for banks on 24 November 1997, the D-loan concept was redefined and split into loans during the day (intraday loans) and overnight loans. Overnight loans correspond to the old D-loans.

Banks are required to furnish security for D-loans from Norges Bank. The security for overnight loans must be equivalent to at least 100 per cent of the loan . For overnight loans, semi-monthly total drawing limits are stipulated as a percentage of each bank's basis of measurement, ie total assets less overnight debt.

Intraday loans are provided against collateral, but no interest or fees are charged. The security requirement for intraday loans was initially 50 per cent, but was raised on 8 June 1998, allowing banks to borrow up to 1.5 times the value of the collateral pledged. On 8 December 1998, Norges Bank raised the security requirement to 100% for intraday loans, and foreign government securities registered abroad were accepted as security for D-loans. In this regard, Norges Bank has established bilateral agreements and routines with the central banks in Sweden and Denmark for pledging Swedish or Danish government securities as collateral for loans from Norges Bank. A similar agreement with the International Securities Registry, Euroclear, in Brussels is now being established.

Banks made little use of the overnight borrowing facility in 1998; average overnight borrowing was negligible. Average overnight borrowing amounted to NOK 0.1bn in 1997.

Table 7. Production figures for circulation coins in 1998 and 1997

	1998	1997
Blanks	1 156 tonnes	769 tonnes
20-krone coin	5,0 m coins	1,0 m coins
10-krone coin	1,1 m coins.	1,2 m coins
5-krone coin – old series	2,0 m coins	1,7 m coins
5-krone coin - new series	45,7 m coins	-
1-krone coin - old series	-	4,3 m coins
1-krone coin - new series	135,3 m coins	141,1 m coins
50-øre coin - new series	29,6 m coins	24,1 m coins

Extraordinary loans (E-loans)
In connection with the introduction of real-time settlement, an extraordinary borrowing facility for intraday loans, E-loans, was also introduced on 24 November 1997 in order to provide for the execution of special payment settlements stipulated by Norges Bank. No security is required for E-loans, but a fee is charged to deter banks from drawing on this facility. 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.

During an initial phase of the implementation of the new settlement system, no fees were charged for E-loans. A fee corresponding to 0.02 per cent of the loan amount was introduced on 8 June 1998. This was one-half of the final rate, and the fee was adjusted upwards on 8 December 1998 to 0.05 per cent, ie the same amount charged when a bank exceeds its overnight loan borrowing limit.

Repurchase agreements and fixed-rate loans (F-loans)
Norges Bank increased its daily lending to banks in 1998, as its sales of foreign currency in the final two months of 1998 increased the need for the supply of liquidity to the banking system.

Norges Bank supplied liquidity by means of repurchase agreements, issuing 21 repurchase agreements with maturities ranging from 2 to 14 days. A total of 12 repurchase agreements were issued in the period 19 November to 31 December. In 1998, the interest rate on all repurchase agreements was determined by Dutch auction. The interest rate on repurchase agreements remained unchanged at 8.10 per cent during the last two months of the year. The daily average for repurchase agreements was NOK 1.7bn, compared with NOK 270m in 1997.

Repurchase agreements proved to be insufficient to cover the banks' borrowing needs during the last two months of the year. In order to supply liquidity to banks, Norges Bank supplemented this facility with F-loans. In 1998, Norges Bank issued 23 F-loans, of which 20 were issued in the final two months of the year. The daily average for F-loans was NOK 1.2bn in 1998, compared with NOK 0.9bn in 1997.

The market which distributes liquidity between banks often functions poorly on the last day of the year, as 31 December is the measurement date used as the basis for banks' capital adequacy requirements. This means that banks with surplus liquidity do not lend funds to banks with a liquidity shortfall. Banks which lack funds then push up money market rates. This is not always desirable in terms of monetary policy, and Norges Bank therefore supplied NOK 12.1bn in the form of short-term F-loans with maturity at the start of 1998 to banks with a liquidity deficit. As a result, the banking sector's total sight deposits amounted to NOK 7.7bn , and eliminated pressures on money market rates.

The Royal Norwegian Mint and Norges Bank's Printing Works

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.

The transition to a new coin and banknote series is still underway at Norges Bank. The final coin of the new coin series was issued in 1998. Two banknotes, the 500-krone note and the 1000-krone note, remain to be issued as part of the original banknote reform. The production of notes and coins for Norges Bank in 1998 was considerable, as public demand exceeded the original budget. In addition, both units made large deliveries of a variety of products to the external market.

Forecasts for the next few years show a rising need for banknotes. The demand for coins is expected to decline, albeit less than previously forecast.

In the latter half of 1998, an assessment of the organisational structure of both units was made, with adapted organisation plans for implementation at the beginning of 1999. The organisations are poised to meet future challenges.

See note 14 for further details regarding the production units' operating income, operating expenses and contribution margin.

The Royal Norwegian Mint
Activities in 1998 reflect the transition to a new coin series. The development and production of the new 5-krone coin, issued on 15 September, required considerable resources. Demand for the new 1-krone coin was high during 1998 and required more of the Mint's

Table 8. Production figures for Norwegian banknotes, stamps and passports in 1998 and 1997 (1 package = 500 notes)

	1998	1997
1000-krone note	6 000 packages	0 packages
500-krone note	17 000 packages	4 200 packages
200-krone note	52 000 packages	0 packages
100-krone note	44 000 packages	109 210 packages
50- krone note	45 000 packages	12 200 packages
Norwegian passports	537 000	463 500
Norwegian stamps	234 341 000	375 772 000
of which - intaglio	54 376 000	46 025 000
- offset	152 169 000	272 794 000
- stamps in booklets	27 796 000	56 953 000

Table 9. Number of employees at Norges Bank at 31 December 1998 and 31 December 1997

	Permanent employees				Short-term		Total	
	Full-time		Part-time					
	1998	1997	1998	1997	1998	1997	1998	1997
Head Office	550	518	79	76	10	10	639	604
Regional branches outside Oslo	298	317	77	80	1	1	376	398
Norges Bank's Printing Works and the Royal Norwegian Mint	138	138	11	13	1	1	150	152
Total	986	973	167	169	12	12	1165	1154

capacity than planned. A total of 139m 1-krone coins were delivered, ie approximately 600 000 1-krone coins per day.

The RNM has also engaged in a considerable number of commercial activities, in spite of a reduction in turnover in the export market. A good 140 000 medals were delivered in 1998, of which 91 000 in precious metal.

Capacity utilisation was high, and the number of staff was increased by temporary employees in periods.

Norges Bank's Printing Works

Activities at the Printing Works were marked by high demand for banknotes in 1998. The new 500-krone note is currently being developed and test-printing will start in the first quarter of 1999. The note is expected to enter into circulation in the second quarter of the year.

The Printing Works' passport production accounted for a large share of commercial activity at 537 000. In addition, the Printing Works entered into a contract with the Ministry of Justice concerning a pilot project for machine-readable passports, with delivery in early 1999. The volume of stamps is declining. The contract between the Printing Works and the Norway Post Philatelic Service has been terminated with effect from summer 2000.

Activities in the Chief Cashier's Department

Withdrawal of notes and coins

Pursuant to a regulation printed in Norwegian Legal Gazette, 13 July 1998, the following notes and coins ceased being legal tender in Norway from 13 July 1998: Series 1 banknotes produced in the period 1877-1889 in denominations of 5, 10, 50, 100, 500 and 1000 kroner and coins in denominations of 1-, 2-, 5- and 25-øre produced in the years from 1875 to 1982.

Coin replacement programme

The new 5-krone coin was put into circulation on 15 September 1998. By year-end, just over 12 per cent of the outstanding 5-krone coins of the previous series were withdrawn. Metal from withdrawn coins is melted for reuse in Norwegian circulation coins.

Commemorative coins

The UN coin was issued in accordance with the agreement of 10 February 1995 between Norges Bank, the UN and the British Royal Mint (BRM). The coins are part of an international programme being marketed by the BRM. The coins are produced at the RNM on order from the BRM. The project is to run for another year. Profits from the programme are 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 of full cost absorption. The services include business settlement, coin sorting, stocking ATM dispensers with settlement and packaging notes and coins for post offices and bank branches.

Revenues from commercial activities totalled NOK 41m in 1998 against NOK 34m in 1997, ie an increase of 21 per cent. The profit before depreciation and main cost items was NOK 11m, compared with NOK 8m in 1997.

Other revenues
Revenues from fees for rolls of coins and notes of ATM quality each amounted to NOK 20m in 1998. The corresponding figures for 1997 were NOK 16m for rolls of coins and NOK 17m for notes of ATM quality.

The Bank's administration

Staff
At the end of 1998 a total of 1 165 persons were employed by Norges Bank, ie an increase of 11 positions compared with 1997. Table 9 shows the distribution between full-time and part-time positions and short-term contracts.

At year-end, 1 165 employees corresponds to 1 102 man years.

Costs for temporary staff amounted to NOK 20.8m in 1998, against NOK 18.6m in 1997. This increase is primarily due to growth in the volume of commercial activities at regional branches.

Since 1997, management of the Government Petroleum Fund, Investment Management, has been organised as a separate unit of Norges Bank. At year-end, the staff of Investment Management numbered 37.

Norges Bank continued its restructuring programme in order to increase concentration on core activities and relevant support functions in 1998. The downsizing in connection with "Plan for resource use and dimensioning of Norges Bank 1997-1999", adopted by the Executive Board in October 1996, has been carried out in line with the plan's assumptions and objectives. The personnel arrangements and resources to be used when restructuring possibilities do not exist were used by 7 employees in 1998.

Preparations have been made for defining and organising regional offices as commercial profit centres.

Further education and training are encouraged through the provision of scholarships, job rotation and skills development programmes with a view to enhancing the overall skills level and improving internal mobility. An extensive management development programme was carried out in 1998.

At the request of the Ministry of Finance, Norges Bank regularly informs the Ministry of the Bank's resource use. The Ministry then informs the Storting in its annual credit report.

Health, environmnent and safety
The Bank continued its active cooperation with employees through representation on decision-making bodies and in central and local works councils. A comprehensive working environment survey was conducted, which covered all employees. This provides an indication of the employees' perception of their working environment. The analysis showed that, in general, the working environment and cooperation are satisfactory, also relative to comparable institutions. 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. A network has been established for young female academics.

Absenteeism was equivalent to 5.8 per cent of the total number of working days in 1998. The corresponding figure for 1997 was 6.0 per cent.

Norges Bank's activities do not have an impact on the environment through pollution which exceeds approved limits. Measures to prevent excess pollution have been implemented.

Year 2000 upgrade of IT systems in Norges Bank

Substantial resources were used in 1998 to prepare the Bank's IT systems for the year 2000. NOK 17m was charged directly to the project accounts. In addition, personnel costs and consultancy fees were charged elsewhere. The project was initiated in 1997 and will be concluded in 2000. At the end of the year, work was on schedule. New versions of most systems were in operation by 1 October 1998. Total costs for the Year 2000 Project, including internal costs, are estimated at about NOK 100m.

Bankplassen Parkeringsanlegg A/S

The parking facility's preliminary accounts for 1998 show a profit of NOK 4m. The company's total assets amounted to NOK 103m at 31 December 1998. The company has negative equity of NOK 67m.

In 1998, discussions were held between the Municipality of Oslo and Norges Bank concerning the future ownership structure of the company. An ownership settlement between the two was agreed upon, and the Municipality of Oslo will transfer its shares in the company to Norges Bank, which will own 100 per cent of the shares in the company. The agreement is being finalised. See also note 10.

Legal dispute

Sven Otto Kanstad and the company Kanor A/S filed a suit against Norges Bank in 1990, with claims for compensation for breach of contract. Compensation of NOK 60m was claimed at the main hearing in the city court. The court ruled in favour of Norges Bank in December 1995, and Norges Bank was awarded legal costs. The ruling has been appealed to the High Court and the dispute will be tried in February 1999. No provisions for possible compensation have been made in the accounts.

Distribution of profit

In accordance with the Norges Bank Act of 24 May 1985, the guidelines for the allocation and distribution of Norges Bank's profit were originally adopted by the Council of State on 7 February 1986. The guidelines have since been revised several times, most recently by Royal Decree of 17 January 1997, 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 10 per cent of the Bank's holdings of Norwegian securities and 20 per cent of the Bank's net foreign exchange reserves, excluding the immunisation portfolio and funds managed for the Goverment 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.

   Should the Adjustments Funds exceed the levels specified in the first paragraph of point 1, the amount in excess shall be transferred back 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 recommends the following transfers and allocations:

At end-1998, the Adjustment Fund is in excess of the upper limit specified in point 1, first paragraph of the guidelines. The excess amount of NOK 2 978m is to be transferred pursuant to point 1, fourth paragraph, of the guidelines. After the transfer, the Adjustment Fund will amount to NOK 27 215m.

Pursuant to point 2 of the guidelines, NOK 26 572m is to be allocated to the Transfer Fund.

In accordance with point 3 of the guidelines, NOK 3 401m will be transferred from the Transfer Fund to the Treasury.

Profit and loss account

In thousands of NOK	Note	1998	1997
Foreign interest income:			
Interest on bank deposits/loans	2	719 518	1 177 900
Interest on Treasury bills	2	11 983	162 860
Interest on bearer bonds	2,6	9 688 252	11 507 044
Other interest income		402 561	302 277
Share dividend BIS	7	12 112	11 179
Total foreign interest income		**10 834 426**	**13 161 260**
Return on investments for the Government Petroleum Fund	**20**	**21 571 499**	**4 873 926**
Foreign interest expenses			
Interest on deposits/borrowings	2	346 914	617 640
Interest foreign customers		44 612	40 959
Total foreign interest expenses		**391 526**	**658 599**
Net foreign interest income		**32 014 399**	**17 376 587**
Domestic interest income:			
Interest on bearer bonds		706 652	650 122
Interest on negotiable bills and certificates		139 669	108 911
Interest on loans to banks		206 644	39 272
Interest on other loans		20 065	21 053
Total domestic interest income		**1 073 030**	**819 358**
Interest expenses:			
Interest to Treasury	16	4 277 443	4 793 223
Interest (return) to Government Petroleum Fund	20	21 571 499	4 873 926
Interest to central government account holders	16	123 853	129 532
Interest to banks		659 551	590 153
Interest on tax-free allocations to funds		730	960
Other interest expenses		2 840	3 043
Total domestic interest expenses		**26 635 916**	**10 390 837**
Net domestic interest expenses		**25 562 886**	**9 571 479**
Net interest income, domestic and foreign		**6 451 513**	**7 805 108**
Valuation adjustments:			
Net gains/(losses) on foreign exchange	1,2	15 351 661	6 390 812
Net gains on foreign securities and financial instruments	1,2	2 534 578	453 194
Net gains/(losses) on Norwegian securities	1	(167 230)	129 995
Net valuation adjustments		**17 719 009**	**6 974 001**
Net interest income and valuation adjustments		**24 170 522**	**14 779 109**
Operating income:			
Fees and commission income		89 108	79 512
Sales income, production units	14	76 272	81 951
Other operating income	12	180 371	33 021
Total operating income		**345 751**	**194 484**

Operating expenses:			
Wages, salaries, other personnel expenses	18	484 049	455 431
Ordinary depreciation	11	114 585	118 197
Goods consumption, production units		97 772	76 188
Other operating expenses	14,15	309 585	262 855
Total operating expenses		**1 005 991**	**912 671**
Net operating expenses		**660 240**	**718 187**
Operating profit before losses on loans/claims		**23 510 282**	**14 060 922**
Losses on loans/claims	1	7	5
Profit for the year		**23 510 275**	**14 060 917**
Transfers:			
Profit for the year		23 510 275	14 060 917
Transferred from the Adjustment Fund		2 977 949	
Transferred from the Transfer Fund		3 400 644	3 810 984
Transferred from the Revaluation Fund		83 679	93 877
Amount available		**29 972 547**	**17 965 778**
Transferred to the Treasury from the Transfer Fund		3 400 644	3 810 984
Allocated to the Adjustment Fund		0	8 671 316
Allocated to the Transfer Fund	21	26 571 903	5 483 478
Amount distributed		**29 972 547**	**17 965 778**

Balance sheet at 31 december

In thousands of NOK

ASSETS	Note	1998	1997
International reserves	1,2	**142 045 189**	**171 368 133**
Gold	3	284 778	283 621
SDRs, the International Monetary Fund		3 147 003	2 545 380
Reserve position in the IMF	4	9 243 720	7 161 931
Loans to the IMF		1 522 662	938 408
Deposits with and loans to foreign banks	6	14 249 930	14 238 251
Foreign Treasury bills	5	946 148	1 286 495
Foreign bearer bonds	5	109 913 672	140 162 945
Accrued interest receivable		2 737 276	4 751 102
Investments for the Government Petroleum Fund	20	**167 643 768**	**113 312 963**
Other foreign assets		**12 192 961**	**11 824 110**
The International Monetary Fund	4	2 576 605	3 741 255
Shares in the BIS	7	24 700	24 700
Repurchase agreements	6	9 591 656	8 058 155
Norwegian securities	1,8	**9 426 245**	**10 645 722**
Treasury bills		1 716 727	1 963 175
Government bonds	6	7 709 518	8 682 547
Domestic lending		**19 774 246**	**7 982 060**
Commercial banks		7 435 229	6 251 475
Savings banks		4 712 726	1 270 757
Other domestic sectors	9	7 681 791	515 328
Provisions for loan losses	1	(55 500)	(55 500)
Deposits with Norwegian banks		**44 841**	**38 184**
Other domestic assets		**692 090**	**647 550**
Discounted bank drafts		1 123	4 243
Accrued interest receivable		345 444	357 318
Other claims	10,17	303 017	260 851
Stock, production units	1	42 506	25 138
Fixed assets	1,11,12,13	**2 064 269**	**2 148 278**
TOTAL ASSETS		**353 883 609**	**317 967 000**

Oslo, 31 December/10 February 1999

Svein Gjedrem   Jarle Bergo   Lars Velsand   Esther Kostøl

Espen Halvorsen
(Employees' representative)

LIABILITIES AND CAPITAL	Note	1998	1997
Foreign liabilities		**13 325 506**	**12 723 968**
Foreign banks		96 767	42 621
Borrowing from foreign banks	6	9 593 058	8 058 155
Foreign customers' sight deposits		794 122	770 049
The International Monetary Fund	4	2 576 907	3 741 588
Other foreign liabilities	7	264 652	111 555
Equivalent value of SDR allocations		**1 795 307**	**1 656 009**
The Government Petroleum Fund's krone account	20	**167 643 767**	**113 312 963**
Notes and coin in circulation	15	**46 070 239**	**46 014 345**
Notes in circulation		42 837 935	42 889 070
Coin in circulation		3 232 304	3 125 275
Domestic sight deposits		**64 908 942**	**104 621 053**
Treasury		51 193 212	84 387 389
Central government registrars		156 492	482 101
Central government funds		3 736 270	3 113 999
Commercial banks		5 357 241	10 515 397
Savings banks		2 293 687	3 449 985
State banks		2 064 472	2 557 544
Other enterprises	6	4 757	7 820
Other state enterprises		87	68
Other domestic sectors	9	102 724	106 750
Deposits referring to tax-free allocations to funds		**9 945**	**10 115**
Other domestic liabilities		**771 248**	**379 523**
Borrowing from domestic banks	6	466 203	112 644
Domestic cheques		70	75
Accrued interest payable		17 097	15 469
Other liabilities	18	287 878	251 335
Capital and reserves		**59 358 655**	**39 249 024**
Adjustment Fund		27 215 090	30 193 039
Transfer Fund	21	30 227 555	7 056 296
Revaluation Fund	11	1 916 010	1 999 689
TOTAL LIABILITIES AND CAPITAL		**353 883 609**	**317 967 000**
Foreign currency sold forward	1,19	3 273 621	260 417
Foreign currency purchased forward	1,19	3 273 621	261 358
Derivatives sold	1,19	5 394 190	67 131
Derivatives purchased	1,19	1 462 722	4 844 745
Government Petroleum Fund, derivatives and currency sold	20	6 666 831	
Government Petroleum Fund, derivatives and currency purchased	20	5 628 551	2 590 949
Allotted, unpaid shares in the BIS	7	283 736	273 322

Executive Board of Norges Bank

Marianne Andreassen Torgeir Høien Sylvi Røssland Sørfonn

Sonja Blichfeldt Myhre
(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. Income and expenses are recorded on an accruals basis.

Foreign currency

Assets and liabilities in foreign currency have been translated into NOK at 31 December 1998 on the basis of market rates from WM/Reuters, London, at 4 pm. In previous years, Norges Bank's published market rates at 31 December have been used. These rates are generally somewhat lower in relation to NOK, because they were set at a different time on 31 December 1998. The effect of the change in source was taken to income in 1998, resulting in an extra income of NOK 967.2 million for the foreign exchange reserves and NOK 1 188.7 million for the Government Petroleum Fund. Comparable figures for 1997 have not been restated. Income and expenses in foreign currency have been translated into NOK at the exchange rates prevailing at the time of the transaction.

Securities

The portfolio of foreign and Norwegian securities is stated at the lower of cost or market value at 31 December 1998. 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 and financial futures.

Forward contracts are recorded at forward rates. Forward premiums/discounts and futures contracts are marked-to-market at 31 December 1998, and fluctuations in the market value are recorded in the profit and loss account under valuation changes.

Valuation of stocks at production units

Stocks of raw materials at production units are valued at the lower of average purchase price or replacement cost. Obsolescence is taken into account.

Goods in progress and finished goods are valued at variable production cost, which includes direct materials, direct wages and an amount for indirect variable production costs.

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 commitment. On the balance sheet, estimated losses are carried as a reduction of loans outstanding.

Internal sales, claims and liabilities

Internal sales, claims and liabilities have been eliminated in the accounts.

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 142 045.2m. They include gold reserves and claims on the International Monetary Fund, which are not included in foreign exchange reserves. Net foreign exchange reserves amount to NOK 127 768.7m.

Net foreign exchange reserves at 31 December 1998 were as follows:

In thousands of NOK	1998	1997
Deposits and loans, foreign banks	14 249 930	14 238 251
+ Foreign Treasury bills	946 148	1 286 495
+ Foreign bearer bonds	109 913 672	140 162 945
+ Repurchase agreements	9 591 656	8 058 155
+ Accrued interest	2 737 276	4 751 102
- Interest earned on gold lending	-9 746	-14 921
- Interest earned IMF	-56 651	-48 095
- Borrowing, foreign banks	-9 591 656	-8 058 155
- Accrued interest on borrowing, banks	-11 905	-10 525
= 1. Gross foreign exchange reserves	**127 768 724**	**160 365 252**
+ Foreign exchange forward purchases	3 273 621	261 358
- Foreign exchange forward sales	-3 273 621	-260 417
= 2. Net foreign exchange forward transactions	**0**	**941**
= 3. Net foreign exchange reserves	**127 768 724**	**160 366 193**

Return on net foreign exchange reserves:

In thousands of NOK	1998	1997
Interest income from bank deposits/loans	719 518	1 177 900
- Interest from lending gold	-36 631	-36 502
Interest income from Treasury bills	11 984	162 860
Interest income from bearer bonds	9 688 252	11 507 044
Interest expenses on bank borrowing	-346 914	–617 640
= Net interest income	**10 036 209**	**12 193 662**
Net valuation adjustments for foreign securities and financial instruments	2 534 578	453 194
Income forward foreign exchange transactions	4 766	20 055
Net valuation adjustments for foreign exchange	15 351 662	6 390 812
Corrections for SDR adjustments	-647 462	-686 100
Corrections for adjustment of gold reserves	-1 144	-439
Correction for adjustment of domestic foreign exchange investment	9 364	-75 430
=Net valuation adjustments	**17 251 764**	**6 102 092**
=Return on net foreign exchange reserves	**27 287 973**	**18 295 754**

Note 3. Gold reserves

The book value of gold reserves is calculated on the basis of the official gold price in 1973 (SDR 35 per ounce) and translated into NOK using the current central rate for SDR, NOK 6.87145 per SDR. This corresponds to NOK 7 732.27 per kilogram.

Gold reserves consist of:	Kilo-gram:	Book value at end-98 (NOKm)	Market value at end-98 (NOKm)
Bars	33 659.6	260.3	2 370.1
Coin	3 171.4	24.5	*
	36 831.0	284.8	

* The market value of the coins is difficult to estimate.

At 31 December 1998, 33 570.7 kilograms of gold bars were placed in short-term loans to international banks. The market value of the gold on loan was NOK 2 363.8m.

The distribution of gold reserves on coin and bars has changed since end-1997, as 5 300 kilograms of foreign coins were melted down into bars in 1998.

Note 4. Reserve position in the International Monetary Fund

In millions of NOK	1998	1997
Norway's quota in the IMF	11 820.3	10 903.2
The IMF's holdings of NOK	-2 576.6	-3 741.3
Reserve position	9 243.7	7 161.9

The reserve position in the IMF is classified as "International reserves". The Fund's holdings of NOK are posted under "Other foreign assets" as the item "The International Monetary Fund". The corresponding liability, including the Fund's working account, amounting to NOK 2 576.9m, is entered under "Foreign liabilities" as the item "The International Monetary Fund".

Note 5. Foreign securities

In millions of NOK	1998	1997
Book value:		
Treasury bills	946.1	1 286.5
Bearer bonds	109 913.7	140 162.9
	110 859.8	141 449.4
Market value:		
Treasury bills	946.2	1 310.4
Bearer bonds	112 868.5	140 848.7
	113 814.7	142 159.1

Securities are recorded at the lower of market value or weighted average cost. Average cost was lower at both end-1998 and end-1997.

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 28.3m, 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". On the asset side the agreements are recorded under "Other foreign assets" as the item "Repurchase agreements". The book value, ie the transfer amount, of the repurchase agreements is NOK 9 591.7m, and the market value of securities is NOK 9 466.1m.

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 12 189.7m.

Repurchase agreements for securities in NOK are included under "Other domestic liabilities". The book value, ie the transfer amount, of repurchase agreements is NOK 466.2m, and the market value of securities amounts to NOK 452.4m.

Reverse repurchase agreements for securities are included as "Other domestic sectors" under the item "Domestic lending". The book value of the reverse repurchase agreements is NOK 7 147.5m.

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. Of this number, 4 000 shares were allotted in 1931, and 25% of them were paid up 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% of shares in either gold francs or gold. The liability is calculated at NOK 306.6m on the basis of the price of gold on the London Stock Exchange on 31 December 1998. 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 283.7m, is shown below the actual balance sheet. BIS share dividends received in 1998 amounted to NOK 12.1m.

Note 8. Norwegian securities

In millions of NOK	1998	1997
Book value:		
Treasury bills	1 716.7	1 963.2
Norwegian government bonds	7 077.7	7 547.4
Norwegian government bonds in foreign currency	631.8	1 135.2
	9 426.2	10 645.8
Market value:		
Treasury bills	1 717.1	1 964.3
Norwegian government bonds	7 405.5	7 972.3
Norwegian government bonds in foreign currency	638.9	1 125.3
	9 761.5	11 061.9

Securities are recorded at the lower of market value or average cost. The average cost of the total portfolio was lower at end-1997 and end-1998.

Note 9. Loans to other domestic sectors

Housing loans to the Bank's employees and pensioners amounted to NOK 477.2m. Other loans to the Bank's employees and pensioners came to NOK 41.0m. Deposits from staff and pensioners amounted to NOK 76.5m, and are recorded under "Domestic sight deposits" as the item "Other domestic sectors".

Note 10. Other domestic assets

Shares in Bankplassen Parkeringsanlegg A/S

Norges Bank owns 82 per cent of the shares in Bankplassen Parkeringsanlegg A/S. Oslo Municipality owns the remaining 18 per cent. The shares are recorded at cost, NOK 41 000. Norges Bank has paid NOK 34m for its own parking places, and has also provided a subordinated, interest-free loan of NOK 143.7m, of which NOK 10m was repaid to Norges Bank in 1997 and 1998. Bankplassen Parkeringsanlegg A/S had negative equity of NOK 67.3m at 31 December 1998.

Note 11. Fixed assets

In thousands of NOK

1998	Vehicles, machinery, computer equip.	Security system	Machinery, fixtures	Buildings with installations	Bank buildings	Plant under construction	Housing	Land	Total
Original cost at 1 January	188 804	44 512	58 901	507 624	1 730 709	8 097	3 468	92 467	2 634 582
+ Transfers from plant under construction	3 462	816	0	3 819	0	(8 097)	0	0	0
+ Additions	19 375	1 253	2 731	3 770	996	3 606	0	0	31 731
- Disposals at cost	(1 428)	0	(1 423)	0	0	0	0	0	(2 851)
- Accumulated depreciation and write-downs	(150 745)	(26 542)	(22 515)	(198 384)	(201 007)	0	0	0	(599 193)
Book value at 31 December	59 468	20 039	37 694	316 829	1 530 698	3 606	3 468	92 467	2 064 269
Non-depreciated remainder of revalued assets	0	1 232	4 395	297 724	1 516 934	0	3 468	92 257	1 916 010
Ordinary depreciation for the year	20 803	6 562	6 571	40 245	40 404	0	0	0	114 585
Of which depreciation of revalued assets	0	2 362	1 899	39 291	40 127	0	0	0	83 679
Depreciation rate	20	15	10	5	2	0	0	0	

With effect from the 1994 accounting year, Norges Bank capitalises and depreciates fixed assets. In 1994, capitalisation of previously expensed fixed assets was regarded as appreciation, and the amount was charged to the Revaluation Fund. Depreciation of appreciated assets is deducted from or covered by the Revaluation Fund.

Note 12. Investments and disposals of capital equipment and property, 1993-1998

In thousands of 1993 NOK	1998	1997	1996	1995	1994	1993
Gross investments:						
- machinery, fixtures	3 102	39 432	52 166	38 171	44 845	
- buildings and building installations	504	3 920	11 216	8 155	6 431	
Total investments	**3 606**	**43 352**	**63 382**	**46 326**	**51 276**	**129 900**
Disposals:						
- machinery, fixtures	449	0	526	814	527	
- buildings and building installations	0	0	0	5 984	772	4 600
Total disposals	**449**	**0**	**526**	**6 798**	**1 299**	**4 600**

In previous years, gross investments have been charged to income and recorded under operating expenses as “Major works and investments”. Disposals have been taken to income and presented under “Other operating income”.

Note 13. Real estate

Norges Bank’s properties at 31 December 1998 are specified below.

Branch	Address	Year built/purchased	Later building projects	Year completed	Gross area (sqm) incl. area let and staff flats
Bergen	Bradbenken 1				
50% ownership		1989			6 305
Bodø	Dronningens g. 36	1951	Restoration	1993	1 405
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	1 462
Haugesund	Strandgt. 162	1938	Restoration	1975	2 500
Kr.sand S	Dronningens g. 30	1877	Restoration and extension	1975	2 009
Larvik	Bredochsgt. 4	1902	Restoration and extension	1985, 1996	1 987
Lillehammer	Stortorget 1	1913	Restoration	1977/ 1990	1 700
Stavanger	Domkirkepl. 3	1964	Restoration	1991	3 254
Tromsø	Bankgt. 9 and 11	1973			4 000
Trondheim	Peter Egges plass 2	1993			7 300
Vardø	Kristian 4. g. 52	1972	Dwelling		114
Vardø	Brodtkorbsg.1	1961	Restoration	1986	1 450
Ålesund	Nedre Strandg. 2	1907	Restoration	1992	1 265
RNM, Kongsberg	Hyttegt. 1	1960	Restoration	1988	2 950
“		1688	Restoration	1997	93
“		1750	Restoration	1997	450
“		1841	Restoration	1997	800
“		1993		1994	175
Oslo	Bankpl. 2	1978-86	New building/restoration		72 000
Venastul	Venabygd	1963	Restoration	1993	1 500
		1971	Dwelling		
Vindåsen	Sundane,Tjøme	1956	Restoration	1993	
			Annex	1960	500
			Restoration and extension	1991	400
New York	275, West 96th Street	1984			140

There are staff flats at the regional branches in Stavanger, Hammerfest, Tromsø and Vardø associated with the bank premises.

Rented properties

In 1998 the Bank had leases for the following properties:

Address	Lease term	Area	Rent 1998
Bodø	One year	100 sqm	19 772
Kristiansund N	15 May 2003	486 sqm	401 000
Lillehammer	25 years from 1990	3 908 sqm	4 978 800
RNM	31 December 2002	600 sqm	220 000
New York:			
17 State Street	30 June 2002	330 sqm	708 978
25 Central Park West	1 June 1999	80 sqm	327 998
14 Winchester Rd	1 December 1998	250 sqm	343 358
115 Farley Rd	30 June 2000	280 sqm	39 619

Note 14. 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 1998 breaks down as follows:

In thousands of NOK	NBPW		RNM	
	Total	Of which commercial segment	Total	Of which commercial segment
Operating income	38 641	38 555	37 930	37 839
Operating expenses	61 109	31 793	107 154	33 787
Contribution margin		6 762		4 052
Which has to cover:				
Depreciation		1 409		920
Estimated joint expenses		4 041		1 016
Profit		1 312		2 116

The above figures are included in Norges Bank's accounts. Internal deliveries between NBPW and RNM amounting to NOK 0.3m have been eliminated in the accounts.

Note 15. Notes and coin

The liability item "Notes and coin" in circulation is a net item resulting from the deduction of the Bank's cash holdings from total deliveries of notes and coin from the Printing Works and the Mint.

Norges Bank is obligated to redeem notes and coin for a period of 10 years after they have ceased to be legal tender. Pursuant to the Executive Board's decision of 25 May 1988, announced in the Norwegian Legal Gazette on 13 July 1988, it was decided that notes of the third and fourth series as well as 10-, 50- and 100-krone notes of the fifth series would cease to be legal tender as from 13 July 1989. The notes can, however, be redeemed by the Bank for a period of 10 years following this date, ie up to 13 July 1999. The same applies to 1- and 2-krone notes from the period 1940 to 1950. Moreover, notes of the first series were redeemed by Norges Bank up to 13 July 1998.

When the Executive Board adopted its resolution, the value of such unredeemed notes in circulation was NOK 936.9m. The liability item relating to the central bank's liability for these unredeemed, invalidated notes was recorded as income in the Bank's accounts for 1989 and thereby eliminated from Norges Bank's balance sheet. As a result, future redemptions of such notes must be expensed. In 1998 redemption of these note series was charged to the Bank's accounts at NOK 14.4m. The total value of notes redeemed to date is NOK 308.6m. Norges Bank is still obligated to redeem the remainder for NOK 628.3m. In 1998 the item "Redeemed, invalidated notes" is recorded under "Operating expenses". In future, invalidated note and coin series will not be taken to income until the 10-year period has elapsed.

Pursuant to a regulation announced in the Norwegian Legal Gazette on 13 July 1988, the following notes and coins ceased to be legal tender in Norway as from 13 July 1998:

- Norwegian notes of the first series, with nominal values of 5, 10, 50, 100, 500 and 1000 kroner produced from 1877-1899.
- Norwegian coins with nominal values of 1, 2, 5 and 25 øre produced from 1875-1984.

The liability item representing the central bank's liability for unredeemed first series notes was entered as income in the Bank's accounts for 1989 and thus deleted from the Bank's balance sheet.

The liability item of NOK 65.6m representing unredeemed Norwegian 1-, 2-, 5- and 25-øre coins issued from 1875-1984 has been entered as income in the Bank's accounts for 1998.

Norges Bank has issued the following commemorative coins in the period 1964 -1998:

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 anniversary of the liberation of Norway in 1995 and a coin to mark the 50th anniversary of the United Nations in 1995. At 31 December 1998 there was a total of some 5 million commemorative coins in circulation with an aggregate nominal value of some NOK 405m. This amount is not included in "Notes and coin in circulation". Norges Bank is still obligated to redeem the coins at nominal value.

Note 16. 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 1998 amounted to NOK 1 383.1m.

Interest of 4.0% p.a. was paid on the remainder of Treasury deposits in the period 1 January 1998 to 31 March 1998, and 4.25% in the period 1 April 1998 to 31 December 1998, bringing total interest to NOK 2 894.3m. The same interest rates were paid on deposits from government account holders who receive interest on their deposits.

Note 17. Other liabilities

In connection with Norges Bank's presentation of accounts adjusted to incorporate value-dating corrections, there are discrepancies due to differences in the value dates of account debiting and crediting. These discrepancies are presented under the item "Other liabilities". At 31 December 1998 this item came to NOK 8.8m, compared with the NOK 47.4m included in "Other assets" in the preceding year.

Note 18. Pensions

Pension expenses

In 1998 the Bank's profit and loss account was debited NOK 5.8m net for amounts relating to special pensions, early retirement schemes and current pensions, including employer's contribution. The employer's contribution to the pension fund in 1998 was covered by capital from the pension premium fund.

Pension liabilities relating to special pensions, early retirement pensions and current pensions that are not covered by the pension fund are estimated at NOK 50.2m. The liability is included on Norges Bank's balance sheet under the item "Other liabilities". Pension liabilities are arrived at by means of actuarial assessment, using a discount rate of 4 per cent.

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 accounts show a premium fund of approximately NOK 869m at 31 December 1998. The premium fund may only be used to pay employer's contributions to the pension fund or to cover supplementary pensions that are to be paid out of the pension fund. The premium fund is not included on Norges Bank's balance sheet.

The pension fund has a total of 2 458 members distributed as follows: 939 drawing a pension, 1 192 active members contributing to the fund and 327 former employees with deferred rights. In the actuarial assessment, a discount rate of 4% and the group pension basic amount (K-63) were used to compute pension liabilities. Pension liabilities (cash value) amounted to NOK 1 079.9m at 31 December 1998 according to an actuarial assessment made at 31 December 1998.

Note 19. Forward exchange contracts and derivatives

Norges Bank uses forward exchange and listed financial futures contracts 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. There were no current equity index futures contracts in international reserves at 31 December 1998.

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 1998 currency had been bought and sold on forward contracts for a total of NOK 3 273.6m. Other forward currency contracts are unsettled spot contracts.

Derivatives

Financial futures

Financial futures contracts are agreements to purchase or sell a standard quantity of a financial instrument or foreign currency at a future date at a price set when the contract is concluded. At the end of 1998 financial futures with a market value of NOK 1 462.7m had been purchased, and financial futures with a market value of NOK 5 394.2m had been sold. Securities with a market value of NOK 87.1m have been pledged as collateral for the initial margin. All contracts have a maturity of less than one year.

Note 20. The Government Petroleum Fund

At 31 December 1998, the Government Petroleum Fund had a NOK deposit in Norges Bank of NOK 167 643.7m.

In millions of NOK	Change in 1998
Opening balance 1 January 1998	113 313.0
Incoming payment 30 June 1998	11 836.6
Incoming payment 30 September 1998	10 000.0
Incoming payment 30 November 1998	11 000.0
Transfer of return for 1998, 31 December 1998	21 571.5
Management fee	-77.4
Closing balance 31 December 1998	**167 643.7**

The equivalent in NOK is invested in foreign currency in an earmarked portfolio.

Total Government Petroleum Fund holdings are distributed as follows:

In whole thousands of NOK	1998	1997
Bank deposits and loans to foreign banks	5 891 261	5 254 262
Foreign Treasury bills	492 384	164 822
Foreign bearer bonds	97 836 191	104 990 657
Foreign equities	64 245 807	-
Foreign lending	8 000 533	747 431
Accrued interest receivable	2 361 879	2 903 495
Accrued dividends	98 578	-
Withholding tax	17 273	-
Adjustment of futures contracts	-7 610	-
Loans from foreign banks	-11 215 049	-747 431
Accrued interest payable	-117	-273
Management fees outstanding	-77 362	-
Total investment for Government Petroleum Fund	**167 643 768**	**113 312 963**

In accordance with the applicable regulation, the return for 1998, NOK 21 571.5m, was transferred to the Government Petroleum Fund's NOK account at end-

1998. The return is broken down as follows:

In thousands of NOK	1998	1997
Interest income	5 566 546	3 342 455
Dividends	705 588	-
Exchange gains	13 149 314	1 688 979
Unrealised losses on securities	-60 969	36 660
Realised gains on securities	857 559	-204 500
Brokers' commission	-12 245	-
Gains/losses on forward currency trading	-4 158	-
Gain on futures	1 369 864	10 332
Total return on investments	**21 571 499**	**4 873 926**
Accrued management fees	-77 362	-
Net accrued return	**21 494 137**	**4 873 926**

Derivatives in the Government Petroleum Fund

At end-1998, financial futures with a market value of NOK 2 493.2m had been purchased, and financial futures with a market value of NOK 3 531.5m sold. Securities with a market value of NOK 478.9m have been pledged as collateral for the initial margin. All contracts have a maturity of less than one year.

Note 21. The Transfer Fund

In accordance with the guidelines for allocation and distribution of Norges Bank's surplus, NOK 26 571.9m was allocated to the Transfer Fund for 1998. The Transfer Fund thereby amounts to NOK 30 277.6m and has an obligation to transfer NOK 10 685.1m to the Treasury in 2000, NOK 10 685.1m in 2001 and NOK 8 857.4m in 2002. A share of any allocations to the Transfer Fund made in 1999 and 2000 will also be transferred to the Treasury in 2001 and 2002.

Auditors' Report for 1998

To the Supervisory Council of Norges Bank

We have audited the annual report and accounts of Norges Bank for 1998, which show a profit for the year of NOK 23 510 275 thousand. The annual report and accounts, which comprise the annual report proper, profit and loss account, balance sheet and notes to the accounts, are presented by the central bank's Executive Board.

Our responsibility is to examine the central bank's annual report and accounts, its accounting records and other related matters.

We have conducted our audit in accordance with the Norges Bank Act, regulations, generally accepted auditing standards and instructions issued by the Supervisory Council. We have performed those audit procedures which we have considered necessary to confirm that the annual report and accounts are free of material misstatements. We have examined selected parts of the evidence supporting the accounts and assessed the accounting principles applied, the estimates made by management, and the content and presentation of the annual report and accounts. To the extent required by generally accepted auditing standards we have reviewed the central bank's internal control and the management of its financial affairs.

The Executive Board's proposal for the application of the profit for the year is in accordance with the requirements of the Norges Bank Act and the guidelines for the allocation and distribution as established by the Council of State.

In our opinion, the annual report and accounts have been prepared in accordance with the requirements of the Norges Bank Act and present fairly the financial position of the central bank as of 31 December 1998 and the result of its operations for the financial year, in accordance with generally accepted accounting principles.

Oslo, 10 February 1999

Svenn Erik Forsstrøm
State Authorized Public Accountant
(Norway)

Mats Leonhard Pedersen
State Authorized Public Accountant
(Norway)

The Resolution of the Supervisory Board concerning the Accounts for 1998

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 18 February 1999 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.

1. The Supervisory Council refers to the auditor's report of 10 February 1999 to which it has no comments.

2. The Supervisory Council approves Norges Bank's accounts for 1998 as presented by the Executive Board, with the following allocations and transfers:

2.1) At end-1998, the Adjustment Fund exceeded the size specified in the first paragraph of point 1 of the guidelines. The excess, NOK 2 978m, is to be transferred to the profit and loss account, pursuant to the fourth paragraph of point 1 of the guidelines. Following this transfer, the Adjustment Fund will amount to NOK 27 215m.

2.2) NOK 26 572m is to be allocated to the Transfer Fund, pursuant to point 2 of the guidelines.

2.3) NOK 3 401.0m is to be transferred to the Treasury from the Transfer Fund, pursuant to point 3 of the guidelines.

3. The Supervisory Council will forward the accounts, the Executive Board's report on the accounts, the auditor's report and the Supervisory Board's resolution to the Ministry of Finance for submission to the King and communication to the Storting.

Oslo, 18 February 1999

Mary Kvidal
Chairman of the Supervisory Council

Jens Marcussen
Deputy Chairman of the Supervisory Council

Resolution of the Supervisory Council concerning the minutes of the 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 19 February 1998 the following resolution which, with reference to Section 28, second paragraph, is to be forwarded 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 1998, 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 in accordance with Section 28, second paragraph, of the Norges Bank Act.

Oslo, 18 February 1999

Mary Kvidal
Chairman of the Supervisory Council

Jens Marcussen
Deputy Chairman of the Supervisory Council