# The effect of the Petroleum Fund on the Norwegian economy

Speech by Deputy Governor Jarle Bergo to the Norwegian-Swedish Chamber of Commerce, Stockholm, 22 October 2003

*The text below may differ slightly from the actual presentation.*

In this talk I would like to discuss two challenges to sound management of the capital in the Petroleum Fund. The first challenge is to society in general: How can today's high revenues from oil and gas extraction be utilised to foster prosperity in the long term? The second challenge is to the Ministry of Finance as the owner of the Petroleum Fund and Norges Bank as the Fund's manager: How should the Fund's assets be managed so as to yield the highest possible return at an acceptable risk?

Oil is a major component of the Norwegian economy - with all the advantages and disadvantages this entails. Oil gives us an economic base that is not available to many other countries. But it also presents us with considerable challenges. How should we use our petroleum wealth wisely? This question poses a number of economic policy challenges. In my discussion today, I will focus on three points:

First, we must manage our petroleum resources recognising that they are part of our national wealth. When oil is extracted and sold, natural assets are transformed into financial wealth. This is not income in the ordinary sense. Norway's national wealth belongs not only to our generation, but also to future generations. This means that our petroleum wealth must be equitably distributed between generations. The authorities must therefore be disciplined and apply long-term considerations in their spending.

Moreover, the size of the cash flow from petroleum activities varies considerably. If it were to be used as it accrues, this would have an enormous impact on demand impulses in the Norwegian economy, and dramatically amplify cyclical fluctuations.

Third, the use of petroleum revenues will have an impact on competitiveness in Norwegian business and industry. A high level of earnings and substantial fluctuations in the use of petroleum revenues may have a considerable impact on the operating parameters for internationally exposed industries. It is therefore important that we succeed in maintaining an industry structure that promotes learning, innovation and development.

We are now in a phase where petroleum wealth is being converted from natural resources under the seabed to financial assets abroad.

Both types of wealth involve large amounts of capital and are part of our national wealth, which provides the basis for Norway's potential consumption over the long term. Consequently, it is crucial that our national wealth is managed in a sound and prudent manner, so that the return will be high and the risks acceptable.

Petroleum production generates a profit in excess of a normal return, i.e. economic rent. As economic rent accrues to the state, this gives the central government a cash flow from petroleum activities. Thus, the central government is now accumulating substantial capital.

In addition to the challenges related to the management of the Petroleum Fund, there is a demographic challenge to be faced: the working population will decline sharply, and the proportion receiving income from the public sector will rise.

The chart shows developments in the labour force and the number of pensioners in the period up to 2050. The blue line shows that the labour force is projected to increase by about 150 000 from 2000 to 2030. Old-age and disability pensioners will increase by some 500 000, shown by the grey line. This means that the number of persons in the labour force relative to the number of pensioners will fall from 2.6 to 1.8. These rough estimates are among other things based on the assumption that labour immigration remains at the present level.

The increase in the number of pensioners will result in a sharp increase in the obligations of old-age and disability pension funds. Expenditure on old-age and disability pensions is expected to more than double as a share of total GDP in the course of the next 30 years. The increase in the number of elderly, especially those over the age of 80, will in time require an increase in resources for nursing and care services. Welfare reforms that have been adopted will also contribute to increasing the need for resources in the public service sector in the years ahead.

With an ageing population and strong growth in expenditure on pensions and nursing and care services, our petroleum wealth will be a welcome source of revenues. This is why it is particularly important that it is managed in a sound manner.

Petroleum activities are a substantial component of the Norwegian economy. In the chart, petroleum investment is shown by the blue line, while the red line shows the central government's net cash flow from petroleum activities. Petroleum investment rose sharply in the 1970s and has subsequently varied between 4 and 8 per cent of GDP. Petroleum investment fluctuates considerably and has a substantial impact on cyclical developments in the Norwegian economy. The authorities can only regulate petroleum investment to a limited extent. It is therefore difficult to prevent the impulses to the Norwegian economy that are generated by these fluctuations. Consequently, it is all the more important to prevent fluctuations in the cash flow to the central government from these activities from having a direct impact on the economy.

Allow me to illustrate the consequences this might have: Let us suppose that the oil price temporarily increased by NOK 20 per barrel, or a little less than USD 3 per barrel. This is a small change, well within normal variations from one year to the next. The central government's net cash flow from petroleum activities would then increase by around NOK 16 billion the first year and NOK 20-22 billion the next. This corresponds to almost 2 per cent of Norway's annual GDP.

If the increase in the cash flow is taken into the economy through higher expenditure or reduced taxes in the central government budget, aggregate domestic demand will be

affected. Higher expenditure requires an increase in the public sector's use of real resources, primarily labour. Two per cent of GDP is then a substantial figure. If the increase in petroleum revenues is used domestically, this would correspond to almost all the annual growth in the mainland economy in a normal year. If the private sector of the economy is also expanding, and the economy is already close to its capacity limit, this policy would swiftly lead to strong pressures on economic resources. This would result in a rise in wages and prices. This policy would also lead to unstable conditions in the foreign exchange market. When oil prices then fell again and central government expenditure dropped, the economy would experience a very strong contraction.

The Government Petroleum Fund was established in 1990 with a view to safeguarding long-term considerations in the use of petroleum revenues. The idea behind the Petroleum Fund is that the cash flow from an increase in the oil price should accrue to the Fund and be invested abroad and that the increase in the oil price should not affect the wider budget. Thus, rather than affecting the domestic economy, the increase in the cash flow would be invested abroad through the Petroleum Fund. Similarly, a fall in the oil price would not affect the domestic economy, but would result in lower accumulation of foreign assets. By building up the Fund, the aim of ensuring that several generations will enjoy the benefits of our petroleum wealth is also taken into account.

In March 2001, the fiscal guideline and new guidelines for monetary policy were introduced. The guideline for fiscal policy implies that the central government budget deficit shall be equivalent over time to the expected real return on the Government Petroleum Fund. The new guidelines for economic policy received broad support in the Storting. The guidelines intended to provide a long-term anchor for fiscal policy. As such, a long term fiscal policy anchor provides a stable framework that contributes to curbing fluctuations in the Norwegian economy that are caused by converting petroleum assets into investment at home and abroad.

If the fiscal guideline is respected in the long term, and the Petroleum Fund's average real return reaches 4 %, the capital in the Petroleum Fund will increase as long as there is a positive cash flow (to the central government) from petroleum activities. When the conversion from petroleum assets to financial wealth has been completed, the objective will still be to restrict withdrawals so that the real value of the Fund's capital is maintained - in principle, indefinitely.

As mentioned, the largest conversion of our national wealth in the next thirty years will be from oil as recoverable reserves to oil as financial wealth. The question might, of course, be raised as to whether an alternative option would be to keep our wealth in the form of oil and extract what we needed. Whether this would be profitable or not depends on oil price developments compared with the return on financial assets.

If we look at the period from 1986 and compare developments in nominal oil prices with the return on a fund managed according to the Petroleum Fund's investment strategy - a global portfolio containing bonds and equities in a 60-40 distribution - we see that the fund would have yielded a far higher annual return.

What about the risk? How is it affected by a conversion from oil to financial wealth? History provides us with a clear, if somewhat surprising answer. A conversion from oil to financial wealth increases the return and at the same time reduces the risk. This is because wealth under the seabed (somewhat simplified) only consists of one asset, petroleum, while broadly invested financial wealth is highly diversified in many instruments whose return fluctuates at different rates.

Today the distribution between financial wealth (the Petroleum Fund) and petroleum is about 20-80. If we venture to base our assessment on historical relationships, it is fairly clear that we have, relatively speaking, too much oil in our portfolio and that the current conversion to financial wealth is to our advantage. We have no guarantee, of course, that history will repeat itself, but relying on the opposite requires considerable courage.

Both our petroleum wealth and financial wealth are sizeable. However, it is the discounted value of our own labour that is our predominant asset. Our livelihood essentially depends, and will continue to depend in the future, on our ability to produce goods and services efficiently through our labour, and to use our creativity and innovation to become ever more efficient.

This can be illustrated by the following example: If a perception that oil has made us so wealthy that we can to some extent relax leads to a reduction in annual productivity growth of a quarter percentage point, i.e. a reduction in trend GDP growth from the current level of about 2 per cent to 1¾ per cent, the income base would be reduced by more than the entire return on petroleum wealth.

Nor can we simply retire and, like people of independent means, live off the returns from the Petroleum Fund. Beginning in 2020, when the lion's share of the oil has been extracted and converted to financial wealth, the return on the Petroleum Fund will be 4-6 per cent of GDP. It is unlikely that we will be content to have to make do with 1/20 of our usual income. We must therefore continue to work.

A number of studies of the relationship between long-term economic growth and natural resources show that countries with an abundant supply of natural resources have a tendency to experience lower economic growth. Why? In principle, an abundance of natural resources is an advantage for a country's economy.

One of the main findings of the studies on the relationship between long-term economic growth and the supply of natural resources is illustrated in the chart. The chart was made by Jeffrey Sachs and Andrew Warner, two of the most prominent researchers who have studied the phenomenon that has come to be known as the "resource curse". They use the ratio of natural resource exports to GDP in 1970 as a measure of a country's wealth in terms of natural resources. There is a negative correlation between the supply of natural resources and economic growth in the period 1970-1989. The group of countries with the highest growth rates includes the Asian tigers, which have had a very limited supply of natural resources. Several of the oil-rich countries around the Persian Gulf fall into the group of countries with the lowest growth. This could suggest that it is not necessarily an advantage to have an abundance of natural resources. Many factors influence economic growth.

Sachs and Warner only look at one of these factors in their chart. The relationship has proved to be relatively robust, however. It is true that some economists have argued that the negative relationship does not apply when institutional factors in the countries included in the study are taken into account.

Why have many countries failed to make good use of windfalls? Sachs and Warner's explanation for the negative correlation between the supply of natural resources and economic growth is that countries with a relative abundance of natural resources tend to become high-cost countries. This, in turn, leads to an absence of export-led growth. Others point out that an increase in the ability to pay in the natural resource sector tends to drain talent and expertise from other sectors that are more important for the country's ability to grow. An additional explanation is that an abundance of natural resources leads to an extreme focus by various factions on acquiring as much as possible of the rents earned by the natural resource endowments. The contest for these rents is often referred to as "rent-seeking behaviour". Resource-rich countries may be subject to more extreme "rent-seeking behaviour" than economies with a limited supply of natural resources.

Since our ambassador to Sweden played a key role in arranging this talk, I am tempted to go back in time a few centuries and look at the Spain of that time through the eyes of the Moroccan ambassador, whose observations have been reproduced in David Lande's book, The Wealth and Poverty of Nations. The Moroccan ambassador contemplated a society that had easy access to riches like gold from their conquests in the New World and observed how this newly won wealth had clearly marked that society:

"...the Spanish nation today possesses the greatest wealth and the largest income of all the Christians. But the love of luxury and the comforts of civilization have overcome them, and you will rarely find one of this nation who engages in trade or travels abroad for commerce as do the other Christian nations (...). Similarly, the handicrafts practiced by the lower classes and common people are despised by this nation, which regards itself as superior to the other Christian nations. Most of those who practice these crafts in Spain are Frenchmen [who] flock to Spain to look for work ... [and] in a short time make great fortunes."

I am not aware of similar reports being made today by ambassadors to Norway to their domestic foreign ministries...

It is quite possible that Norway will succeed in managing its natural resource wealth better than other countries that have been blessed with abundant natural resources. However, three principles for prudent long-term management must then be respected: Decision-making forms and processes in the political and economic arena must provide effective protection against the expropriation by interest groups of large shares of the petroleum wealth. Second: It is important for the growth potential in the economy that we maintain a broad sector in the mainland economy that works under intense competition so that we maintain and strengthen the incentive to acquire knowledge and to be innovative. Third: It is important that we bear in mind the issue of distribution across generations and that we manage the wealth as an asset.

This brings us to the second main challenge I would like to address: How should the Fund's assets be managed so as to yield the highest possible return at an acceptable risk? The chart here illustrates the Fund's asset growth and accumulated transfers as from 1996.

It is clear that with a responsibility for so much money, the question of investment strategy is crucial.

The Petroleum Fund is owned by the central government as the people's representative. The Fund is authorised by a separate Act on the Government Petroleum Fund, which was adopted by the Storting in 1990. The Ministry of Finance performs the Fund's ownership role and is responsible for managing its assets. As the owner, the Ministry of Finance sets the investment strategy through regulations and guidelines. The most important decisions are defining the investment universe and choosing a benchmark index and risk limits for active management. Ever since the Fund was created, Norges Bank has advised the Ministry on its investment strategy, and it is safe to say that this advice has served as an important basis for the Ministry's decisions. The operational management of the Fund is the responsibility of Norges Bank, and is regulated by a management agreement that is public. Operational management includes choosing the degree of active management, choosing between external and internal management, being responsible for the ongoing monitoring of risk and reporting on the Fund's total return as well as return relative to the benchmark index.

There is a simple rule of thumb for managing large portfolios: Diversify ...... Diversify ...... Diversify. Diversify the portfolio among various asset classes with different risk characteristics. Then diversify among different regions and sectors that may be expected to have different economic characteristics. And finally, diversify among individual companies and issuers.

This rule of thumb is reflected in the Petroleum Fund's investment universe. The Fund is entitled to invest in equities and fixed income instruments on 28 national equity markets and 22 bond markets in Europe, the Americas and Asia. Beginning in the New Year, a further 12 equity markets and 8 bond markets will be available, of which the South African stock market is the most important addition. The equity portfolio, in turn, is spread over a large number of companies operating in many different sectors. The fixed-income portfolio is also broadly diversified over various issuers; here, however, national governments comprise the predominant group.

The Ministry of Finance has set a benchmark index for the Petroleum Fund. It has two functions: First, it expresses in a precise manner the strategy chosen by the Ministry. Second, it is a basis for comparison for the active management of the Fund. The benchmark index is actually a global securities portfolio, specified down to percentages held of individual securities. That is, it shows what percentage of the Fund should "normally" be invested in Ford, for example, or in Skanska. If the asset manager does not have an active view of the market, one should expect that the return on the portfolio would be equal to the benchmark index. As I shall come back to later, Norges Bank is tasked with obtaining a higher return than the benchmark index through assuming a well-calculated risk within limits established by Ministry of Finance. Nevertheless, there will be a clear tendency for the portfolio weightings in the aggregate not to deviate substantially from the benchmark index.

The result is that the composition set by the Ministry of Finance for the benchmark index also guides the actual composition of the Petroleum Fund.

The rule of thumb for broad diversification is reflected in the composition of the benchmark index. The benchmark index includes equities from about 2,200 companies in 27 countries and about 7,400 bonds issued by national governments, international organisations and other issuers related to the public sector and by companies with high creditworthiness. The Ministry of Finance has determined the percentage of equities in the benchmark index and the regional weightings to apply in the equity and fixed-income portfolios. The Ministry has also determined the specific equity and fixed income indices that are to be used as benchmark indices in each market. These are indices supplied by outside providers.

From time to time, the Ministry of Finance has been criticised for its strategy of allowing broad equity and fixed income indices to determine the composition of the Petroleum Fund. Some believe that index-like strategies are unwise and would prefer the Fund to acquire large stakes in a limited number of companies instead. The apparent motivation for such an alternative strategy is that taking control of the companies and engaging in active business development would yield a higher return than that provided by a broad share index.

I am not aware of any other large international fund that has chosen such a strategy for its entire portfolio. If over time the portfolio were steered towards a smaller number of large strategic ownership stakes, the portfolio's overall risk would rise considerably. Any rational investor would demand a higher expected return if the risk rises. A key finding of financial theory is that investors are not automatically compensated for a higher company-specific risk by higher expected returns. If such strategies are to succeed nonetheless, an investor must possess special industry expertise that other alternative dominant groupings of owners do not have. Only then could he hope to increase his return by investing as a major owner. At the same time, even large ownership positions need to be diversified over different sectors in order to limit the specific sector risk. This means that an investor needs global industrial top expertise in many different sectors. Building up and maintaining such expertise would be an arduous task. There are also clear limitations on the amount of capital that can be invested in such strategies. Thus, for a fund the size of the Petroleum Fund, there is hardly any alternative to a strategy based on broad diversification of the equity portfolio over a large number of companies in many countries and various sectors.

Choosing the percentage of the equity allocation is probably the most important decision in the composition of the benchmark index. The Petroleum Fund bases its choice on the fact that equities yield a higher expected rate of return than fixed-income investments. Historically, it is indisputable that equities have yielded such excess returns.

This chart illustrates the average return on equities and bonds in 16 countries from 1900 to 2002. In five of these countries, fixed-income investments yielded a negative return for the period as a whole. These are Belgium, France, Germany, Italy and Japan. The returns were "eaten up" by hyperinflation in the years from the First to the Second World War. Regardless of the country one looks at, equity investments have yielded a relatively high excess return compared with fixed-income investments. The annual excess return was lowest in Denmark and Belgium, with 2.2%, and highest in Australia, with a 6.9% higher return than in the bond market.

Equity prices fluctuate more than bond prices. Bondholders have a right to fixed interest rate and a repayment of principal at a specified date, before any surplus can be distributed among the owners as a dividend payment or retained earnings in the company. The issuers of the fixed-income instruments in the Petroleum Fund's portfolio are usually governments or private issuers, such as companies with high creditworthiness. Therefore it is primarily changes in interest rates that lead to changes in bond prices. A share is actually the sum of the market's expectations of all future dividend payments, discounted to present value. As everyone knows, this is a highly uncertain and variable quantity, resulting in major fluctuations in market prices. For most investors, uncertainty is an evil. A financially rational individual will not invest his savings in shares rather than in interest-bearing instruments without expecting compensation for the added risk he assumes.

By its determination of the equity allocation, the Ministry of Finance has taken a position on how high a return risk the Fund's owner is willing to assume to ensure the highest possible long-term return on the Fund's investments.

The Ministry of Finance has assumed that the Petroleum Fund will yield a long-term real return of 4%. As the markets' long-term pricing of shares and bonds stands now, this is a demanding target. In the years 2001-2002, equity prices fell dramatically all over the world. In years marked by such market performance, a real return of 4% is, of course, unobtainable. This is a long-term average target, not a target for every single year.

In the National Budget for 2004 presented in early October, the Ministry of Finance has again reviewed the investment strategy of the Petroleum Fund. Against the background of input from Norges Bank and the consulting firm Mercer, fundamental strategic choices such as equity allocation were re-evaluated, in light of, among other things, the market performance of recent years. The possibility increasing risk-adjusted returns by diversifying into asset classes that are not included in today's investment universe or benchmark index was also examined. The input from Norges Bank and Mercer and the Ministry's evaluations is available on the Ministry's website, in both Norwegian and English. In the main, the conclusion can be summed up as follows:

- Even though on the basis of information available in 1997, the fluctuations in returns have been pronounced, the returns have not been outside of the potential range outlined as the background for the decision of a 30-50 per cent equity allocation. There are, therefore, no especially compelling reasons to change the Fund's equity allocation now.
- Small listed companies are included in the investment universe, but not in the benchmark index. The Ministry finds no good reason to change this.
- Investment in non-listed companies or direct investment in real property is still not permitted. In the Ministry's opinion, the potential gains from these investment alternatives are not so clear as to outweigh the operational disadvantages and a less transparent governing structure for the Fund.
- Including inflation-indexed fixed-income instruments in the benchmark portfolio will help to improve the total portfolio's risk-adjusted return. The Ministry will therefore examine this alternative more closely, while at the same time pointing out that this market is limited compared with nominal bonds and shares.

It is possible to increase expected returns somewhat through successful active management. This is Norges Bank's principal task in its asset management.

The Ministry has also set boundaries for how far the actual portfolio can deviate from the benchmark index. The most important boundary is the upper limit for the expected variation in the return differentials between the actual portfolio and the benchmark index, called tracking error. This upper limit is set at 1.5 percentage points or 150 basis points. It can be said, somewhat simplified, that if Norges Bank fully utilises its risk quota at all times, the difference in the rate of return between the portfolio and benchmark index will be less than 1.5 percentage points in two out of three years. In addition, limits are set for the permitted equity share, regional allocation and interest rate, which are shown on this chart. Although it may freely decide the composition of the portfolio within these bounds, Norges Bank is expected to add excess returns by assuming risk relative to the benchmark index. So far, our results from active management have been good.

This is reflected in the next chart, which shows the return performance of the Fund and the benchmark index since 1998. As shown in the chart, the actual portfolio outperformed the benchmark index during this period. This is a very satisfactory result, especially since the Fund has grown so strongly during this time. Substantial capital flowing in means high transaction costs and an automatic loss against the benchmark index. Through active management, these costs have been more than recouped. In all, in the period 1998 - 2002 there have been overall excess returns in the Fund of NOK 5.7 billion, when the benchmark index is corrected for the transaction costs incurred by the phasing in of new capital. Otherwise, management costs in 2002 were 90 øre per NOK 1000 invested in the market.

However, from the chart we also see that the composition of the benchmark index is much more important for the total return on the Fund than the actual result of the active management. We cannot expect active management, no matter how successful it might be, to increase total returns significantly. When we are as broadly invested as we are in the world's largest capital markets, we must expect the portfolio to be an approximate reflection of the world's aggregate value creation.

To obtain a higher return than the benchmark index requires taking risks. For Norges Bank as manager, this means consciously choosing a portfolio composition that is different from the benchmark index. Norges Bank has done little such risk taking by, for instance, having an equity share or currency allocation in the portfolio that is different from the benchmark index. It is especially difficult to predict movements in the equity market or exchange rate changes in the short term. The number of positions one may take is limited, and each position carries a high risk. That is why also in the area of active management, the diversification rule guides our strategy. We seek to spread the active positions in such a manner that each individual position is of little importance to our total risk.

We also spread active risk among various types of specialist mandates in our asset management, internal as well as external. As the chart illustrates, a high percentage of the overall risk is taken by the external managers we have selected, especially in the equity portfolio. The active risk is allocated among external asset management organisations with differing expertise and among internal, specialised teams. The objective is to make the most of the diversification rule. However, it is not enough simply to allocate the risk among many

managers. It must be done in such a way that each individual manager does not counteract what other managers in the portfolio are doing. If that were the case, the result would still be close to the benchmark index's rate of return, but with a high management cost. That is why we prefer to have many specialised managers in different areas. This necessarily involves a very complicated mandate structure.

This chart illustrates the management and mandate structure at the end of 2002. A large share of the Fund is managed internally with very low costs using index or index-like strategies. The active management mandates have been issued both to internal asset managers in various profit centres and to external asset management organisations. Especially on the equity side, most of the active risk in the Fund is taken by external asset management organisations. However, everything takes place within a system of overall monitoring and control of active risk. It is obvious that such a structure places heavy demands on internal control and on computer systems.

At the end of last year, there was one Nordic region-based asset manager represented among the organisations that managed capital for the Petroleum Fund. Why don't more Nordic region-based external management organisations have mandates for the Petroleum Fund? This is related to the specialisation strategy in the area of the active management of equities. We have a structure composed of many specialist mandates in various areas, but few specialist mandates in the same area. The Nordic region comprises a limited share of the Petroleum Fund's benchmark index, specifically 3% in equities and 2% in fixed-income instruments. This means that Norges Bank cannot be expected to have issued many specialist mandates in the area of Nordic equities, which is probably the area where Nordic region-based managers can be expected to be most competitive going head-to-head with the world's best asset management organisations outside the Nordic region.

The interaction - or conflict - between profit-seeking asset management and ethical responsibility has been a much discussed topic both Sweden and Norway for many years. In Norway this summer, a committee appointed by the government issued its recommendations with the title "Asset Management for the Future". This was a committee appointed by the Ministry of Finance to discuss and recommend ethical guidelines for the Petroleum Fund. The committee proceeded from the assumption that the Petroleum Fund is an investor with a broad portfolio and a long-term investment horizon. It can be argued that the Fund should be even more concerned than others in how the companies we invest in affect society and the natural environment. If we nevertheless have an equal stake in virtually all the companies in the world, we should, as someone responsible for the entire portfolio, be concerned that an individual company does not pass on unfair environmental cleanup costs, for instance, onto other companies in our portfolio. The committee has therefore recommended a three-part strategy for social and ethical responsibility in portfolio management:

1. Active exercise of ownership to foster financial returns based on internationally recognised ownership principles such as the UN Global Compact and the OECD guidelines for multinational corporations.
2. An automatic exclusion from the investment universe of companies that either themselves or through units they control produce weapons whose normal use

violates fundamental humanitarian principles. Pursuant to Norway's endorsement of international agreements and conventions, it is already illegal to assist in the production of some of these types of weapon.

3. A "case-by-case" exclusion of companies when the Fund will run a significant risk of complicity in gross violations of human rights, gross corruption or serious environmental damage by remaining invested in these companies.

For Norges Bank as manager it is important to emphasize that ethical standards must not complicate the financial evaluation of management results or lead to confusion about the manager's responsibilities. The committee's recommendation does not appear to raise problems in this regard. The committee's recommendation is now being circulated for public comment, and proposed ethical guidelines will be submitted by the Government in the Revised National Budget in the spring.

Managing a fund that will soon be Europe's largest institutional investor is a substantial responsibility for Norges Bank. We are in fact managing the nation's savings. We place emphasis on a clearly defined management mandate and on results that are measurable. We also emphasise transparency in our management of the Fund. We issue quarterly and annual reports with very detailed information on strategy choices, investment activities including the portfolio composition and management results. For those who are interested, I can recommend a brief study tour of the Petroleum Fund's website at www.norges-bank.no, which contains various other information about the different aspects of asset management in addition to the reports mentioned. I will also be happy to try to answer any questions you may have now.

Thank you for your attention.