

Norges Bank's sales of Norwegian kroner (NOK) in the FX market

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In May, Norges Bank is selling NOK 1.4 billion each day on behalf of the government. These NOK sales have recently been widely discussed.

Norges Bank is tasked with converting the government's revenues from petroleum activities on the continental shelf in order to supply the government with the correct volume of NOK for spending via the central government budget and the correct volume of foreign exchange for saving in the Government Pension Fund Global (GPF). In addition to being Norway's central bank, Norges Bank is also banker to the government. These conversions are banking services Norges Bank performs on behalf of the government, a task that is entirely separate from monetary policy.

The government is currently receiving substantial revenues from petroleum activities, in both NOK and foreign currency. Some of this amount is used to cover the central government budget deficit, while the rest is saved in the GPF. When NOK revenues exceed the volume spent via the central government budget, the remaining NOK must be converted into foreign exchange for saving in the GPF.

Petroleum revenues are derived from several sources. The main source is taxes on companies engaged in oil and gas production on the Norwegian shelf. The government also earns considerable NOK revenues from its holding in Equinor in the form of dividends and share buybacks.

Finally, there are both revenues and expenditures associated with the State's Direct Financial Interest (SDFI) in oil and gas fields. Revenues from the SDFI are primarily in foreign currency, while expenditures are in both NOK and foreign currency. The foreign exchange revenues are transferred to the GPF along with the foreign exchange purchased by Norges Bank.

Norges Bank's sales of NOK for transfers to the GPF must be viewed in the context of oil companies' NOK purchases. As their revenues are primarily in foreign currency, oil companies need to purchase NOK to pay taxes. A substantial portion of the NOK revenues is used to cover the central government budget deficit. Norges Bank therefore sells only a portion of the NOK the oil companies pay to the government.

Norges Bank's daily conversions are based on the conversions required for the year as a whole. We do not know in advance what the overall annual amount of government petroleum revenues will be, nor what the breakdown between foreign currency and NOK will be. For example, in years where petroleum prices fluctuate widely, there will be considerable uncertainty as to the amount of petroleum tax. The non-oil deficit may also change. Through the year, the

Bank receives updated information about these amounts. The conversion amount published by Norges Bank each month may therefore vary.

The recent decline in petroleum prices has likely prompted oil companies to reduce their NOK purchases, while Norges Bank's NOK sales have fallen less. Norges Bank's foreign currency conversions in 2023 reflect the very high petroleum prices in 2022, because oil companies are paying petroleum tax on last year's income in the first half of this year.

The volume of Norges Bank's foreign exchange transactions is set so that together with the government's net oil revenues in NOK, they cover the central government budget deficit. In the current situation, the relationship between the Bank's NOK sales and oil companies' NOK purchases is important, because these transactions offset one another. In the short run, we cannot exclude the possibility that our transactions may have some influence on the NOK exchange rate. Over time, what matters to the FX market is petroleum revenue spending via the central government budget.

More about [*Norges Bank's foreign exchange transactions on behalf of the government*](#)