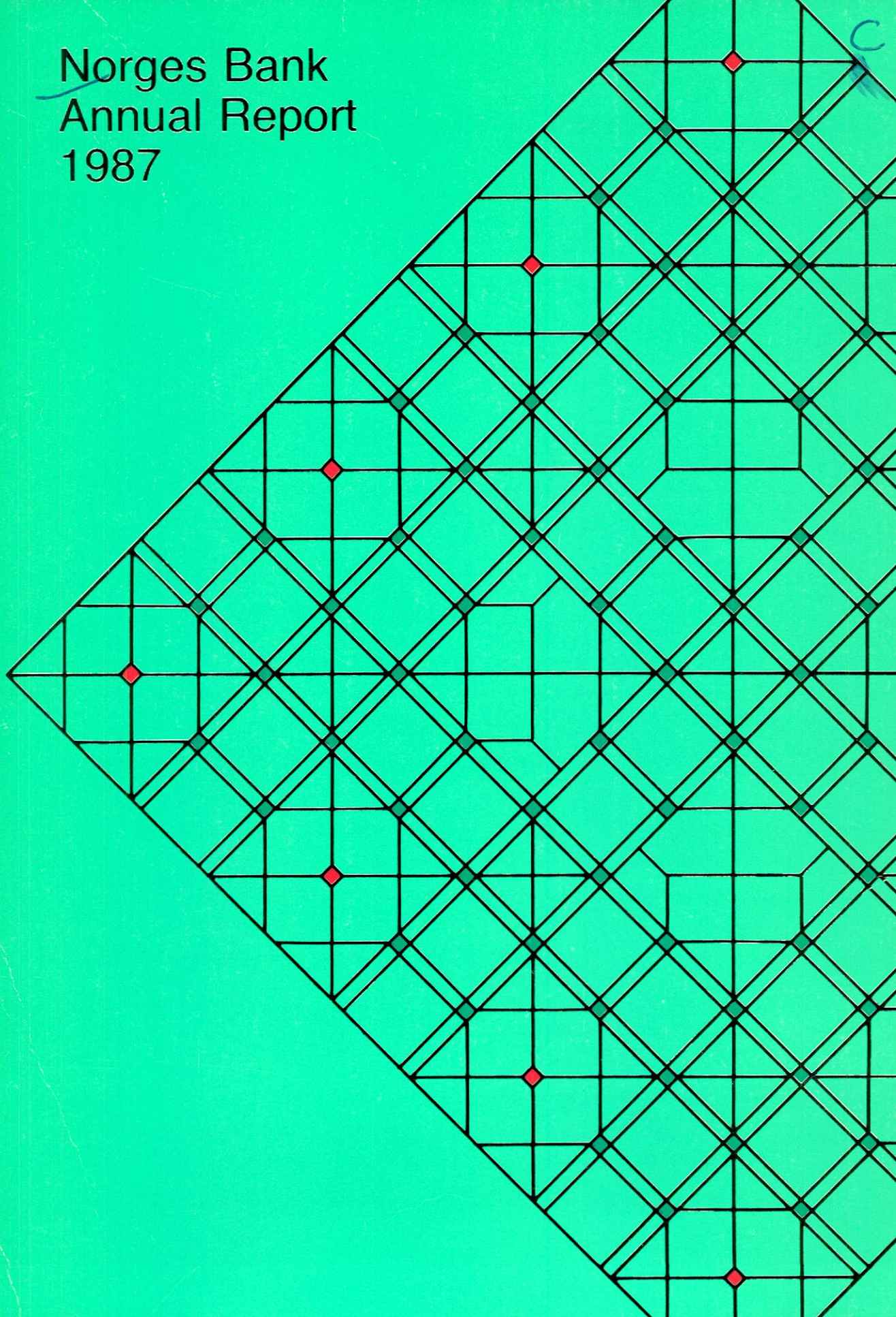


Norges Bank
Annual Report
1987

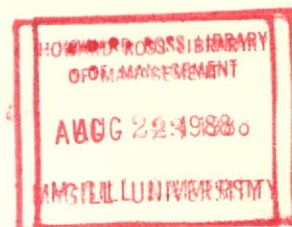


Norges Bank

(Bank of Norway)

Report and Accounts 1987

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Norges Bank's Operations in the Foreign Exchange Market, Money Market and Capital Market in 1987

General Information

Foreign exchange market developments as well as domestic money and capital market trends in 1987 were marked by the fact that interest rates were determined primarily with reference to exchange rates and currency reserve levels. This was clearly apparent in the interest rate increase in December 1986 which paved the way initially for more stable foreign exchange rates, and subsequently for a gradual strengthening of the krone through substantial capital inflows from abroad. Moreover, a relatively high nominal interest rate level was needed in Norway in order to curb domestic credit demand.

This policy management approach did not lead to frequent and major variations in the authorities' main signal rate – the rate on the banks' overnight borrowing facility with the Central Bank, viz. the D-loan rate. With the exception of the adjustments made early in the year, the D-loan rate remained stable throughout 1987. However, the greater flexibility in interest rate policy made money market rates highly sensitive to foreign exchange market developments. Thus, during 1987 relatively wide fluctuations in money market rates were accepted by the monetary policy authorities as supporting the exchange rate régime.

However, this did not prevent wide fluctuations of the krone exchange rate. Norges Bank has essentially allowed the krone rate to reflect the prevailing supply and demand conditions in the foreign exchange market, so long as the exchange rate index remained within the permitted range¹⁾. In the case of exceptionally large exchange rate changes over a short period, intervention was deemed necessary.

The relatively wide fluctuations in the value of the exchange rate index were primarily due to the fact that a large portion of capital inflows from abroad to meet the current account deficit was via the forward market. Foreign operators, keen to profit from a high-yielding krone, were particularly active. The substantial krone positions via the forward market were largely short term, and readily reversible. From time to time, uncertainty surrounding the Norwegian economy and the Norwegian political situation gave rise to sudden changes in the value of the krone. Thus, the relatively wide fluctuations in the exchange rate index were related to the growing external deficit and market operators' ability to move in and out of positions in international capital markets. Seen from this angle, the main factor behind unstable exchange rates is the imbalanced Norwegian economy.

The new developments in the foreign exchange market over the past two years or so are also the main reason for major liquidity deficits in

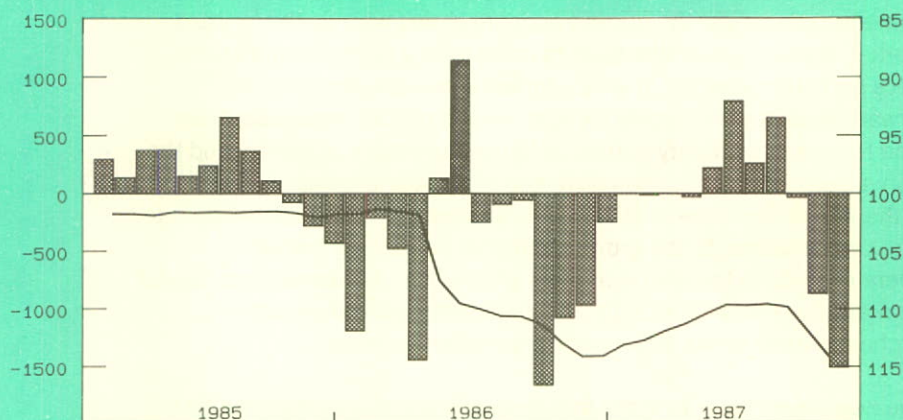
1) The margin of fluctuation is currently $\pm 2.25\%$ around a central value of 112.

the Norwegian money market. This deficit must be met by banks' borrowing from Norges Bank. In 1987, Norges bank had to supply the banking system with liquidity amounting to an average of NOK 67 billion (55 billions in 1986). Short-term liquidity management centred on meeting this need in the most expedient manner possible.

Expanding the market for treasury certificates has been difficult in these conditions, since selling such certificates to banks and other private entities would further squeeze liquidity. In the long run, a smoothly functioning money market will be based on a certificate market in which all types of operators participate. Norges Bank's trading in bank certificates must be seen against this background. Although the volume of trading edged upwards, it is still relatively small in relation to other liquidity supply from the central bank to the banking system, because the certificate market remains relatively undeveloped.

A large portion of Norges Bank's operations in the capital market were geared towards creating balance in a market characterized by changing expectations and wide fluctuations in prices and interest rates. Although the fact that longterm rates reflect to a larger extent than earlier underlying market conditions is seen as a positive development, it was still important to prevent destabilizing movements and possible overreactions. One precondition for increasing the usefulness of the government bond market in monetary policy management is the availability of a sufficient range of financial instruments with varying maturities and a sufficiently large market. But the scope for expanding the bond market is narrowed by the fact that the government is running a surplus. In 1987 no new long-term government loans were issued, and government bond holdings outside Norges Bank and the central administration were reduced by NOK 2-3 bn.

Chart 1.
Norges Bank's Exchange Rate Interventions and the Exchange Rate Index
The columns show interventions in USD mn¹⁾ (left-hand axis).
The curve shows the index's monthly average value²⁾ (right-hand axis).



1) Net spot and forward interventions. Positive figures denote net currency purchases.
2) Falling curve denotes weakening krone.

Norges Bank's operations in the money and foreign exchange markets in 1987

1 January – 22 January 1987

Following several periods of strong pressure on the krone, the short-term interest rate was on 2 December 1986 raised with a view to stabilizing the foreign exchange market. On that date the interest rate charged by the central bank's on its overnight loans to the banking system (the D-loan rate) was increased by 2 percentage points to 16.0 per cent. The need for central bank intervention to maintain the exchange rate index within the permitted range of fluctuation immediately receded.

Greater stability in the foreign exchange market soon prompted Norges Bank to lower its lending rate to 15.5 per cent (16 December) and to 14.8 per cent (17 December). In retrospect the downward adjustment may seem precipitate. In the days prior to Christmas and during the Christmas holiday the krone again weakened, and the central bank once again had to supply liquidity to the market.

The Norwegian krone remained at the weak end of its permitted range of fluctuation in the first weeks of January. The rapid lowering of interest rates had caused market operators to fear that interest rate policy was not as flexible as first thought. Furthermore, rumours were spreading of an imminent realignment of parities within the European Monetary System. Many market operators feared that an EMS realignment would put downward pressure on the Norwegian krone. In the period 1–22 January, Norges Bank intervened by selling USD 246mn (NOK 1 809mn) of which USD 226mn within the first eight working days of the month.

A weak Norwegian krone

Money market rates remained relatively high at the beginning of January, partially as a result of Norges Bank's more active use of the lending rate in foreign exchange management and liquidity withdrawal due to interventions in the foreign exchange market. Eurokrone market rates with a maturity of up to three months averaged a little under 16 per cent (measured by the banks' interbank lending rates).

Table 1.
Norges Bank's Interventions for Exchange Rate Purposes (USD million)

	Spot		Forward		Gross intervention amount	Net intervention amount
	Purchase	Sale	Purchase	Sale		
1983	1 810	662	775	23	3 270	+1 900
1984	2 180	590	2 217	55	5 042	+3 752
1985	2 104	1 253	1 085	50	4 492	+1 886
1986	3 384	6 995	0	2 535	12 914	–6 146
1987	2 689	3 563 ¹⁾	112	0	6 364	–762

1) Distributed as follows: USD 2 852 and DEM 1 189.

Table 2.
Exchange Rates of the Currencies Composing the Exchange Rate Index, and of the SDR and the ECU,
Against the Norwegian Krone

	Weight in currency basket, per cent	Middle rate, Oslo Stock Exchange		Change in per cent ¹⁾
		31. Dec. 86	31. Dec. 87	31. Dec. 86 – 31. Dec. 87
Deutschemark (DEM)	17.7	381.64	393.79	-3.2
Swedish krona (SEK)	15.0	109.13	107.64	+1.4
Pound (GBP)	14.7	10.927	11.670	-6.8
US dollar (USD)	11.0	7.400	6.2325	+15.8
French franc (FRF)	9.2	115.18	116.04	-0.7
Danish krone (DKK)	6.8	100.75	102.11	-1.3
Japanese yen (JPY)	6.0	4.633	5.123	-10.6
Netherlands guilder (NLG)	4.6	337.80	350.14	-3.7
Canadian dollar (CAD)	3.6	5.3661	4.7897	+10.7
Italian lira (ITL)	3.3	0.547	0.533	+2.6
Finnish markka (FIM)	3.0	154.28	157.87	-2.3
Belgian franc (BEC)	2.4	18.312	18.818	-2.8
Austrian schilling (ATS)	1.5	54.21	55.85	-3.0
Swiss franc (CHF)	1.2	455.76	486.34	-6.7
Basket index	100.0	114.38	114.51	-0.1
SDR	—	9.05161	8.84180	+2.3
ECU	—	7.9180	8.1160	-2.5

1) Positive change denotes strengthening krone.

2) Calculation of the exchange rate index based on middle rates quoted at Oslo Stock Exchange can give a somewhat misleading index value, since the index is based on rates quoted at differing points in time.

Unchanged flow of liquidity, rising money market rates

Despite Norges Bank's intention to maintain liquidity supply at a constant level (Norges Bank's liquidity supply averaged NOK 70 bn in January), money market rates increased in the first half of January. Banks were supplied with liquidity at 14.8 per cent through their borrowing facility with the central bank, which in January was set at 650 per cent of the basis of calculation¹⁾, (corresponding to a daily borrowing potential of NOK 53bn). Liquidity was also supplied through repurchase agreements in government and state bank bonds with 14 days' maturity at 14.7 per cent, and through currency swaps. Eurokrone market rates for maturities up to three months were largely in the range 16.5-17.0 per cent.

1) In 1987 the *basis of calculation* for banks' daily borrowing access included, with a few exceptions, banks' total credit to the private sector, municipalities and credit enterprises in the form of loans, certificates and bonds.

Table 3.
Norges Bank's Swap Interventions in the Foreign
Exchange Market (USD million)

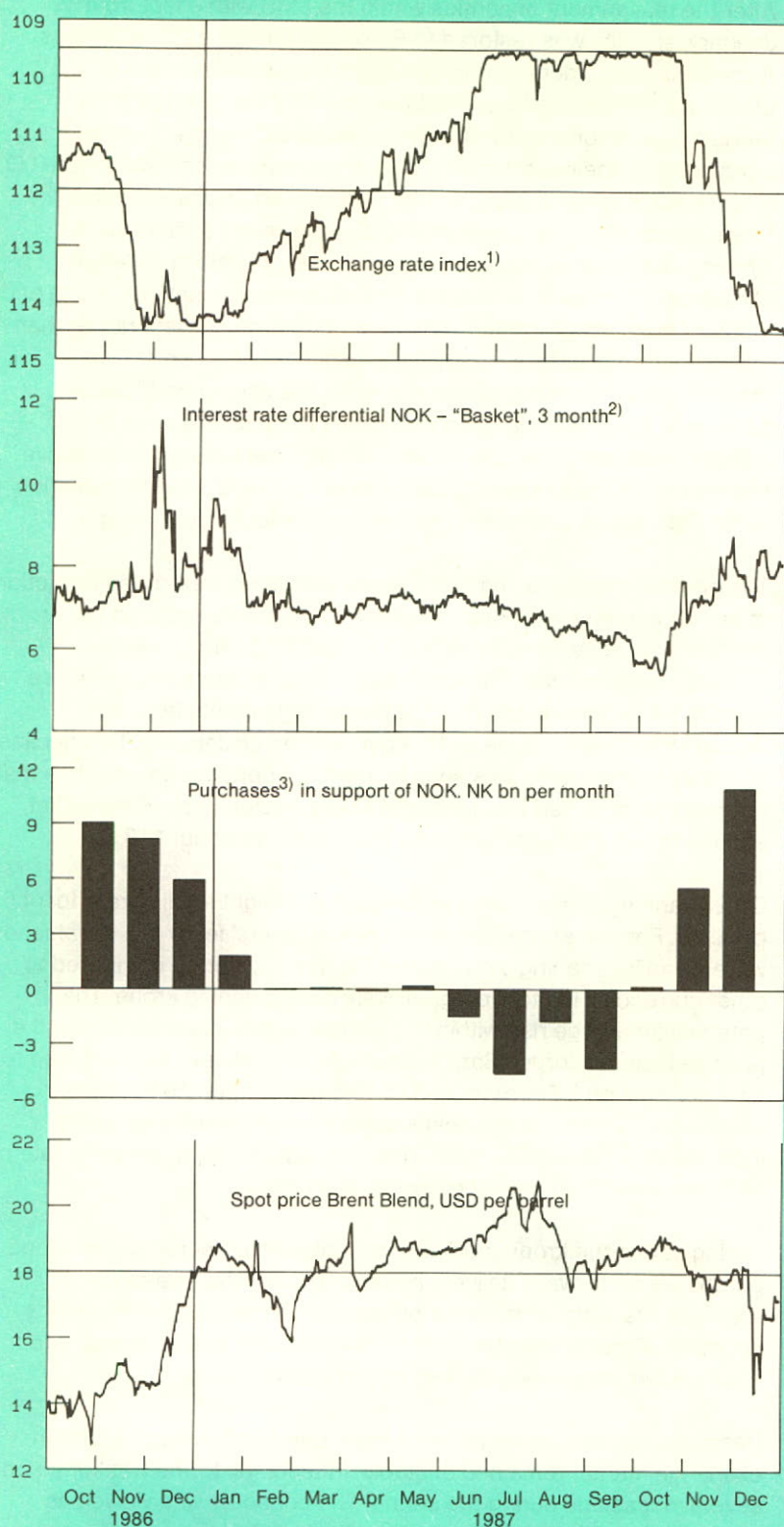
	Spot curr. sales Forward curr. purchases	Spot curr. purchases Forward curr. sales	Gross intervention amounts
1984	1 967	3 425	5 392
1985	355	395	750
1986	235	4 759	4 994
1987	0	2 880	2 880

Currency swaps are designed primarily to influence bank liquidity

Table 4.
Norges Bank's Trade in Treasury Certificates
(NOK million)

	Purchase	Sale	Net	Gross
1985	31 576	30 252	1 324	61 828
1986	6 073	5 473	600	11 546
1987	4 810	4 744	36	9 584

Chart 2.
Exchange Rate Index: Important Explanatory Factors



1) Rising curve denotes stronger krone.

2) The basket interest rate is calculated based on a weighted average of 3-month euro-rates of the currencies composing the exchange rate index, and using the same weights.

3) Net spot and forward interventions to influence the exchange rate index.

A balanced Norwegian foreign exchange market

After the realignment of parities within the EMS with effect from 12 January, stability was restored to European foreign exchange rates. A continuing high domestic interest rate level boosted market operators' confidence in the authorities' intention to support the krone's international value. The "zero-increase" wage agreement concluded by the main workers' and employers' organizations (the LO and the N.A.F., respectively) further contributed to strengthening the krone. Gradually, clear signs emerged of improved balance in the Norwegian foreign exchange market. In view of a falling dollar and stability in the other international foreign exchange markets, trade and industry increasingly preferred to hold on to krone assets rather than foreign currency assets – especially within the next two to three months – to achieve higher returns. With one exception (Tuesday, 17 March), there was no need for Norges Bank to intervene in the foreign exchange market to cover a deficit. True enough, it did prove necessary on one or two occasions to sell currency during quotation at the Oslo Stock Exchange, but this was for technical reasons.

The gradual strengthening of the krone permitted a stepwise reduction of money market rates. First, short-term rates were reduced by supplying liquidity, roughly NOK 8.1bn (USD 1 125mn), via the currency swap market. Eurokrone rates for maturities of up to three months fell by an average of 1 1/2 percentage points from mid-January to a level of close to 15.3 per cent by 28 January. This decline in money market rates was seen by market operators as evidence that renewed stability had been brought to the foreign exchange market, and the krone strengthened to an index value of about 113.5.

Downward adjustment of Norges Bank's overnight lending rate

On 28 January Norges Bank lowered its overnight lending rate to 14.5 per cent. Foreign exchange market practitioners' fears of a devaluation were steadily receding. A continued high rate of return compared to other currencies led to a progressively strengthening krone. The potential for a large rise within the exchange rate band was in itself a positive feature. Norges Bank's overnight lending rate was reduced to 14.2 per cent on 3 February and to 13.8 per cent on 16 February, which was 0.2 percentage points lower than the level prior to the increase on 2 December 1986. This corresponds to an effective rate of 14.7 per cent on an annual retrospective basis.

During spring the krone gradually strengthened. Nonresidents' krone purchases for forward delivery became an important basis for financing the fairly large deficit on current transactions with other countries. Foreign investment in Norwegian shares also appears to have gained importance as a source of capital inflow.

Strong Norwegian krone, but still unstable

Despite a gradual appreciation of the krone, the Norwegian foreign exchange market remained unstable. Indeed, the krone weakened on several occasions during the spring. The economy was viewed as being so sluggish that a downward adjustment of the krone was still considered possible, or at least that it would fall to the lowest point within its permitted range of fluctuation. Increasing importance was attached by market operators to the publication of economic data –

such as the consumer price index, wage developments and the external balance – which would enable them to pre-empt an exchange rate slide by selling kroner. The importance attached to these key figures resulted in speculation and rumour. When figures pointed to less favourable developments than expected, the krone rapidly weakened as market operators started moving out of the krone. Often this was mere overreaction to the economic situation and the krone therefore appreciated relatively quickly.

Chart 3.
Liquidity Supply from the Central Bank (USD bn)

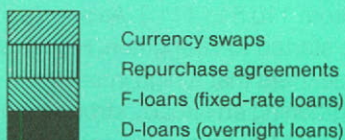
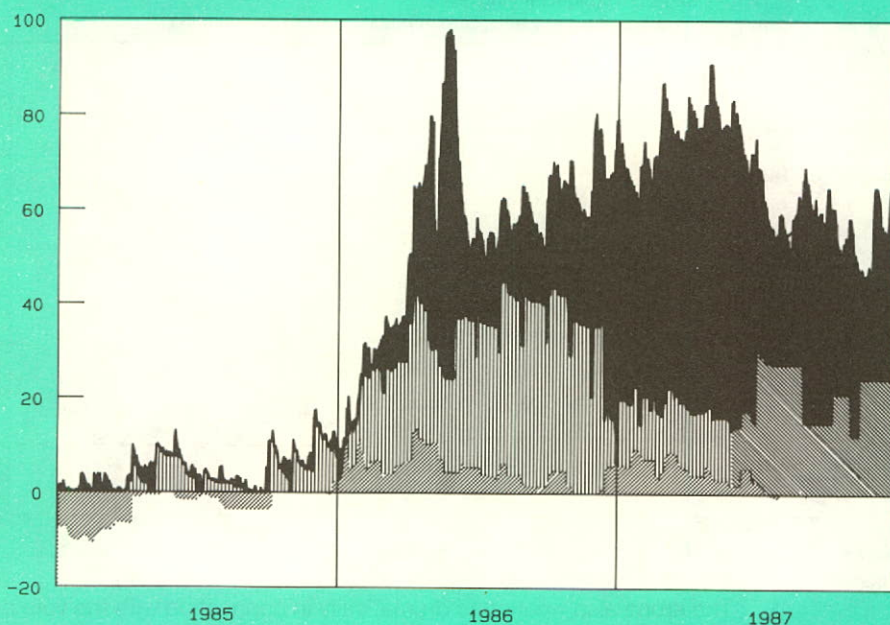
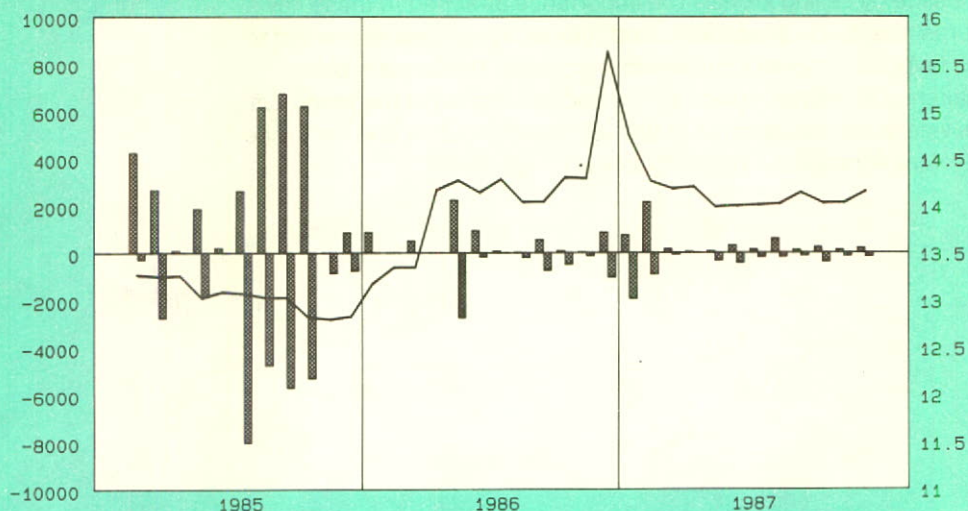
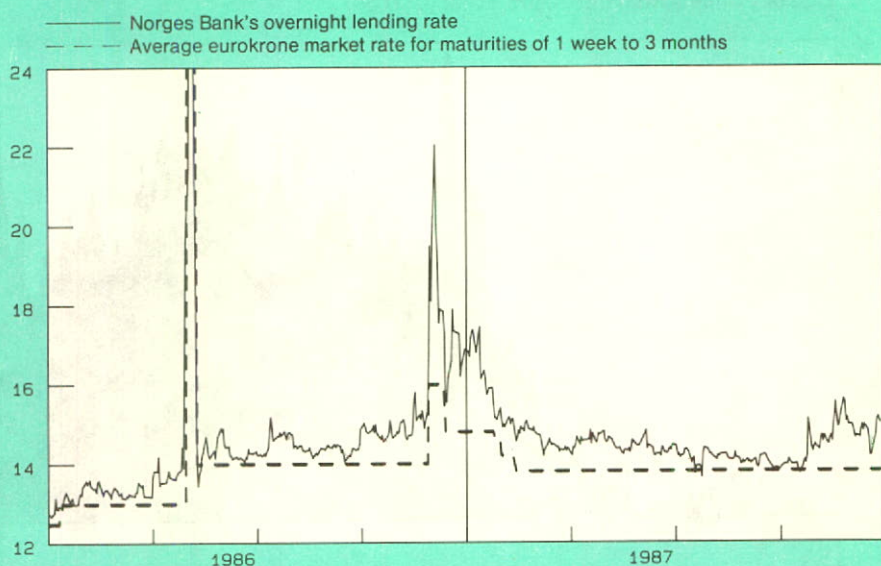


Chart 4.
Norges Bank's Transactions in Treasury Certificates



The columns show purchases (+) and sales (-) in NOK bn (left-hand axis).
The curve shows the effective interest rate (weighted average for Norges Bank's trade in the secondary market) (right-hand axis).

Chart 5.
Money Market Rates in 1986 and 1987: Norges Bank's Overnight Lending Rate and the Eurokrone Rate. Nominal Rates



The krone also weakened dramatically in connection with the vote of no confidence in the Government which was tabled in the Storting on 9 June. The index swung quickly from 110.5 to 111.3. As soon as the political situation steadied, the krone started to strengthen. Higher oil prices and statements in government quarters that a high interest rate level was imperative, contributed to strengthening an already strong krone. At the end of June the index moved below 110 and quickly neared the intervention level on the strong side of the exchange rate band (109.5).

Norges Bank adjusted rates in the secondary market for treasury certificates in connection with its downward adjustment of D-loan (overnight) rates in January and February. This was accompanied by an immediate fall in other money market rates. Interest rates in the eurokrone market for maturities of up to three months declined initially from 15.2 to 14.9 per cent, and in March to a level of roughly 14.2–14.3 per cent.

Lower money market rates

Norges Bank still had to supply a relatively large amount of liquidity to meet money market deficits. Once the primary reserve requirement for banks had been reduced from 10 to 5 per cent with effect from 15 December 1986, the volume of repurchase agreements with banks was limited in order to enable the banking system to meet the liquidity requirements set by banking legislation. Banks were entitled to meet primary reserve requirements using, inter alia, treasury certificates, which banking legislation defines as a liquid asset. When the primary reserve requirement was lowered, the banks reduced their treasury certificate holdings. As a result, a large portion of the holding of government bonds was used to meet statutory liquidity requirements. The volume of government bonds which the banking system could release for repurchase agreements with Norges Bank was therefore limited. Thus, after a reduction in the primary reserve requirement, repurchase agreements in government and state bank bonds amounted to an average of close to NOK 14bn, against approximately NOK 37bn in the latter half of 1986. After the last downward adjustment of the D-loan rate the repurchase agreement rate was set at 13.7 per cent. Repurchase agreements had a maturity of 14 days. The growing need for further liquidity supply due to the reduction in repurchase agreements was met through widening the banks' borrowing facility with Norges Bank. This facility, which amounted to 650 per cent of the banks' basis of calculation in January and February (corresponding to a daily borrowing potential of NOK 53bn in January and NOK 65bn in February), was expanded to 800 per cent in March, April and May (corresponding to a daily borrowing potential of NOK 72–75bn). In addition to this, liquidity supply through currency swaps was employed to smooth out short-term fluctuations in the banking system's liquidity reserves.

Use of policy instruments and liquidity supply

Banks' borrowing costs became increasingly vulnerable to short-term variations in money market rates. The persistently high level of liquidity supply by Norges Bank to the banking system made it natural to find a new arrangement under which parts of the liquidity were allocated at fixed interest. At the time, the borrowing facility in principle allowed daily changes in the interest rate. By adopting a new arrangement it was hoped that interest rates on existing long-term bank loans would be less sensitive to short-term fluctuations induced by conditions on the foreign exchange market. As from 1 June, the banks' borrowing facility with Norges Bank was modified, and under the new arrangement banks were offered irredeemable fixed-rate loans (F-loans) for a stipulated period, in addition to D-loans. The first F-loan was issued on 1 June. Banks were offered a loan with three months' maturity at 14.2 per cent (15.0 per cent effective) interest. A total of NOK 12.3bn was allocated. The F-loans warranted a reduction in the banks' D-loan facility to 700 per cent of the basis of calculation in June (corresponding to a daily borrowing potential of NOK 66bn).

New borrowing arrangement with Norges Bank

On 1 June the changes in the reserve requirements, as announced in the Revised National Budget, took effect. This entailed removal of the primary reserve requirement for banks. As a result, NOK 10bn which had been tied up under the reserve requirement arrangement, was released. However, the elimination of the primary reserve requirement for banks precluded new repurchase agreements since the banking system would then be unable to meet statutory liquidity requirements.

Issuance of treasury certificates

No new treasury certificates were issued in December 1986 or January 1987, because the authorities wished to exercise restraint in providing interest signals in a period of uncertainty over future interest rate developments. In February, money market rates were far more stable. The Ministry of Finance therefore issued new three- and twelve-month certificates for subscription. Interest rates were set at 13.4 per cent (14.1 per cent effective rate) and 13.8 per cent, respectively, ie 0.2 percentage points below the level at the last issuance of treasury certificates at the end of October and November of 1986.

The Ministry of Finance also issued new twelve-month certificates at the end of April and June at the same interest rate (13.8 per cent). In 1987 the Ministry of Finance therefore departed from the previous programme by issuing new three-month certificates every month and twelve-month certificates every other month. The tight liquidity situation and the central government's surplus reduced the need for large issues. However, it proved necessary to continue issuing treasury certificates as an investment opportunity for public institutions, and an instrument by which banks could meet statutory liquidity requirements.

25 June to 25 October

The krone at the strong end of the swing margin

After the krone, as measured by the exchange rate index, reached the intervention level at the strong end of the swing margin, Norges Bank bought foreign exchange to prevent a further strengthening of the krone. Confidence in the krone as an investment currency was boosted by higher oil prices which would improve the external account, and by a widespread belief that high nominal interest rates would be maintained. This impression was particularly strong after the issue of a new treasury certificate at unchanged interest at the end of June. Furthermore, the economy seemed to be picking up and the political situation had become stable. A devaluation seemed unlikely in the coming months, and continued high interest rates made the krone an attractive currency for short-term investment by both domestic and foreign market practitioners.

On Thursday, 25 June, the central bank bought USD 4mn (NOK 27mn). This was the first time the central bank bought foreign exchange since July 1986. Up to 25 October the krone was kept within the swing margin by means of Norges Bank's exchange market operations. During the period in question, the central bank bought close to NOK 2.5bn (NOK 16.7bn).

The krone was still an unstable currency. Market participants continued to focus on the publication of economic variables and oil price developments. If developments were viewed as adverse, operators quickly shifted out of krone positions. Also, actors in the foreign exchange market reacted strongly to the debate in the mass media on the government's interest rate policy. Statements made by various unions affiliated to the Federation of Trade Unions (the LO) demanding compensation in the forthcoming wage settlement for high interest rates led to doubt as to the government's moderate position on this issue. During this period rapid and considerable declines in the krone were noted before it stabilized at an index value of 109.5. On a few occasions Norges Bank intervened by selling foreign exchange to prevent major fluctuations of the krone.

Situation still unstable

Euromarket rates, which from February had hovered on average around 14.2–14.3 per cent for maturities up to three months, showed a clear downward trend in the period July–October. The major contributory factor was the exchange market situation which created expectations of a further downward adjustment of the monetary policy signal rates, above all of Norges Bank's overnight lending rate.

Expectations of an interest rate decline

Expectations of a potential downward adjustment of interest rates arose for the first time in the latter part of June, after the political situation had become stable and the krone had reached its upper limit in the strong area of the swing margin. The drop in money market rates in itself prompted speculation of an interest rate adjustment. Government statements and the treasury certificate issue at unchanged interest quickly dissolved these expectations. At end-June, short-term eurokrone rates had fallen to an average level of 14.1 per cent. In the following months money market rates fell further, and by the end of September the interest rate average had declined to 13.6 per cent. In the meantime operators had renewed speculation that the authorities would signal an interest rate decrease. Such speculation was particularly strong prior to the municipal and county elections on 14 December and before presentation of the National Budget on 6 October. Expectations of an interest rate decrease led to increased purchases of long-term fixed-rate securities, and in August and September Norges Bank sold government bonds at a value of NOK 8bn.

In connection with the presentation of the budget the government decided to remove the supplementary reserve requirement for banks so that the last checkpoint would be at end-September. It was also decided to remove the primary reserve requirement for finance companies with effect from mid-October. However, the National Budget gave no indication of an early decrease in interest rates. Consequently, money market rates started to pick up again and Norges Bank began to buy bonds instead of sell. By end-October, eurokrone rates for maturities of up to three months had regained an average of 14.2 per cent.

On 1 July, banks were allocated two new F-loans: a four-month loan of NOK 8.8bn at 14.3 (effective 15.0) per cent, and a nine-month loan of NOK 6.4bn at 14.5 (effective 14.8) per cent. Consequently, the daily

Liquidity supplied

loan quota was reduced from 700 per cent of the basis of calculation in June to 450 per cent in July (corresponding to a daily borrowing potential of NOK 41bn).

Although no new F-loans were issued in August, the daily borrowing quota was further reduced to 325 per cent of the basis of calculation (corresponding to a daily borrowing potential of NOK 31bn). The main reason for this was an improvement in the liquidity situation owing to was essentially due to the seasonal supply from the Treasury.

The D-loan quota was raised to 500 per cent of the basis of calculation in September (corresponding to a daily borrowing potential of NOK 51bn), *inter alia* because an F-loan of NOK 12.3bn had reached maturity. In October a new three-month F-loan of NOK 6bn was issued at 13.8 (effective 14.5) per cent, and the D-loan quota was fixed at 450 per cent of the basis of calculation (corresponding to a daily borrowing potential of NOK 45bn).

The changes in D-loan access in the period June–October were related essentially to the issue of loans under the new F-loan arrangement, with appurtenant reduction of the D-loan access. Overall central bank financing of the money market decreased somewhat in the same period, from an average of NOK 75bn per day in June to NOK 60bn in August, September and October. This decline was mainly influenced by seasonal swings in supply over government accounts but also by Norges Bank's transactions in the foreign exchange and bond markets.

26 October – 31 December

Norwegian krone weaker

After the index value of the krone had been stable around the intervention level at the strong end of the swing margin for several months, a weaker tendency was clearly evident on 26 October. In only a few days the index value of the krone rose to about 112 in a market showing little activity. Only small amounts were bought and therefore even small-scale transactions had an impact on the exchange rate. Norges Bank intervened to check the fall of the krone.

The krone depreciated as a result of international foreign exchange and stock market unrest. The Norwegian stock market declined fairly sharply, and the krone weakened probably as a result of foreigners pulling out of krone positions after selling Norwegian shares. New wage claims and fear that the government's projections for inflation in 1988 were off-target may also have contributed to weakening the krone.

The krone appeared to stabilize at the beginning of November, but on 20 November the index passed 112. The intervention level at the weak end of the swing margin was reached in mid-December. Market practitioners still focused on signals in regard to the wage settlement and on the Norwegian Trade Union Federation's dissatisfaction with the Norwegian interest rate level. A decline in the price of North Sea

oil, which fell to USD 15.30 per barrel in the wake of OPEC's summit meeting in Vienna in the beginning of December, further weakened the krone. The fall in the dollar had the same effect on the krone since it further reduced oil export revenues.

Pressure on the krone was exceptionally strong on 17 and 18 December, partially as a result of devaluation rumours. Norges Bank sold USD 715mn (NOK 4.7bn) in the course of these two days to maintain the krone's index value within the swing margin. The pressure on the krone persisted until the end of the year, although pressure eased considerably between Christmas Day and New Year's.

At the beginning of the period, mainly foreign operators pulled out of their krone positions. In December this trend was less clear-cut. Foreigners were still net sellers of kroner, while domestic operators sought to reduce their foreign exchange positions before the end of the year, despite net krone sales on their part on some days.

Between 26 October 1987 and year-end Norges Bank sold net foreign exchange corresponding to roughly USD 3bn (a good NOK 19bn). The major portion of the sales consisted of dollars, but on occasion other currencies were sold. Reducing the proportion of dollars sold was a measure taken to avoid pressure on the dollar in a period when other central banks intervened in concert in support of the dollar.

In 1987 as a whole Norges Bank sold foreign exchange amounting to roughly USD 800mn (NOK 5bn), net.

As from 26 October, money market rates were less stable but showed an upward tendency. Euromarket rates for maturities of up to three months varied mainly between 14.5 and 15.5 per cent. The rise in money market rates was partially due to a weaker Norwegian krone and waning confidence in an imminent across-the-board interest rate decrease.

Higher and less stable money market rates

Norges Bank supplied liquidity to the money market by bond purchases amounting to several billion kroner in the period October–December (further described below). However, as mentioned, large amounts were withdrawn by exchange market interventions. This, together with withdrawal over government accounts owing to large tax payments in October and December, resulted in increased need for liquidity supply from the central bank.

Supply of liquidity

Towards mid-November a new three-months F-loan of NOK 12bn was issued. The D-loan quota for November and December was set at 300 per cent and 350 per cent, respectively, of the basis of calculation (corresponding to a daily borrowing potential of NOK 32 and 38bn, respectively).

In November new regulations were laid down for banks' borrowing arrangements with Norges Bank under which F-loans were to be auctioned to banks. Under this system, banks submit bids for the interest rate at which they are willing to contract F-loans. The interest rate is thus fixed to a greater degree on the basis of the banks'

F-loan auction

assessment of the current market situation and their expected liquidity position in the near future. The banks' various expectations of interest rate developments are reflected in the distribution of the loan amount. The banks are thereby given greater responsibility for their liquidity situation.

The regulations governing F-loan auctions state that such loans can be allocated by Dutch or ordinary (American) auction. In both cases the total loan quota is announced beforehand by Norges Bank, and the banks submit one or several bids at the interest they are willing to pay for various amounts (competing bids). Banks also have the opportunity to submit a non-competing bid for a limited amount. Submitted bids are ranked by interest rate in descending order. The auction is brought to a close once the entire loan has found a market. In the case of Dutch auctions, all successful applicant banks pay the same rate of interest, corresponding to the lowest competing interest rate bid accepted. Non-competing bids receive loans at the same interest rate. The American auction of F-loans differs in that the banks whose bids are accepted must pay the interest rate they have offered. Non-competing bids receive loans at an interest rate corresponding to a weighted average of the interest rates accepted.

The Dutch auction was employed for the F-loan issued in November. Interest was set at 14.70 per cent (nominal) corresponding to 15.6 per cent (effective).

Norges Bank's operations in the capital market

1 January – 21 March

Uncertainty as to interest rate level ahead

At the beginning of 1987 uncertainty over future interest rate developments reigned in the capital market. The increase in Norges Bank's D-loan rate (overnight rate) in December 1986 was immediately reflected in money and capital market rates. Even after the downward adjustment of Norges Bank's lending rate from 16 to 14.8 per cent, money market rates were still fairly high at the beginning of 1987. In the first half of January money market rates rose again as a result of the situation on the foreign exchange market. This prompted holders of government bonds to sell, particularly bonds with the longest remaining maturity, which would fall most in price in the event of an interest rate increase. To bring the market into balance, Norges Bank lowered prices on these loans.

Interest rate decrease at the end of January

The reduction of Norges Bank's lending rate to 14.5 per cent on 28 January and to 14.2 per cent on 3 January boosted government bond purchases. The increase in government bond purchases resulted from expectations of a further decline in interest rates which would spill over into the bond market, thereby providing bond holders with capital gains. However, the effect of these expectations diminished substantially with the lending rate reductions. At the last reduction the market purchased bonds for a mere NOK 400mn. A further reduction in the near future appeared unlikely. During the period Norges Bank

sold government bonds at a value of NOK 2.2 bn at the same time as prices were adjusted upwards by a margin corresponding to an average interest rate decrease of a little over 0.2 percentage points.

During the rest of February and in March and April activity was sluggish in the secondary market for government bonds. Market actors stayed pat, awaiting developments and only a few insignificant changes in prices and interest rates were noted.

Uncertainty and little activity

The interest rate level in the private bond market remained virtually unchanged during this period. The interest rate differential between government bonds and private bonds was as high as 1-1 1/2 percentage points. The differential was essentially ascribable to credit policy instruments in effect, ie primary and supplementary reserve requirements. Private bonds were included in the basis of calculation for institutions' obligatory reserves. These reserves yielded little or no interest. Higher yield requirements were therefore set for private bonds than for government bonds.

Considerable interest rate differential between private and government bonds

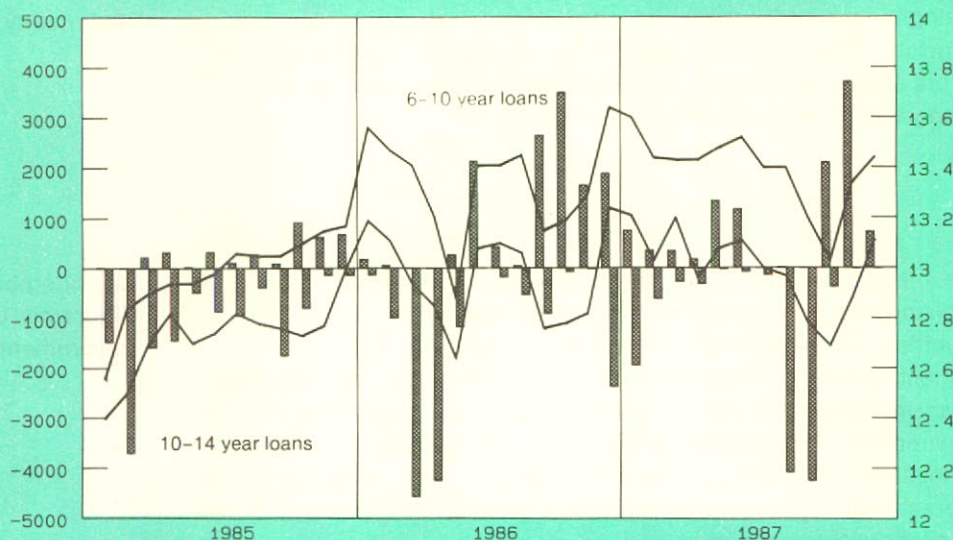
Table 5.
Norges Bank's Trade in Government Bonds
(NOK million)

	Purchase	Sale	Net	Gross
1984	1 774	1 621	153	3 395
1985	3 565	13 722	-10 157	17 287
1986	12 760	15 174	-2 414	27 934
1987	10 611	12 092	-1 481	22 703

Issues were relatively modest in the private bond market in this period. For the loans which were issued, the period to the first interest rate adjustment was fairly short, reflecting borrowers' expectations of an interest rate decrease.

Chart 6.
Norges Bank's Transactions in and Interest Rate Level for Government Bonds, 1985 - 1987

The columns show purchases (+) and sales (-) in NOK mn (left-hand axis). The curve shows the effective interest rate of government bonds which at the start of 1985 had 6-10 years and 10-14 years to maturity (guideline average for Norges Bank's trade in the secondary market).



Reduced expectations of an interest rate decline in May

Norges Bank's trading in government bonds picked up somewhat in May with an increase in purchases at the end of the month. This was related to the presentation of the Revised National Budget which gave no indication that the supplementary reserve requirement would be removed. Expectations of an early interest rate decrease were therefore put off. Furthermore, tighter regulation was adopted for controlling asset sales which financial institutions employment in their adjustment to credit policy requirements. Asset sales included temporary sales of private bonds, loan certificates and bank loans against government bond purchases. Since the scope for selling assets was narrowed, government securities became less attractive.

In June Norges Bank purchased government bonds at a net value of NOK 1.1 bn, slightly below the May level. The major portion of the purchases was made in the first half of the month, principally on 10 and 11 June. Apparently investors were motivated to sell by the weakening of the krone after the vote of no confidence in the government. Norges Bank's bond purchases had not, however, led to a major change in bond rates. These factors, in addition to a strengthening of the krone and a decline in the short-term interest rate level, created renewed stability. The remainder of the market was quiet, not only in the government bond market, but also in the market for interest-bearing securities in general.

After an unusually quiet July month, activity picked up considerably in August and September. Net sales of bonds by Norges Bank during this period amounted to NOK 4.1 and 4.3 bn respectively. Norges Bank was in a net seller position during this period with major sales concentrated on a limited number of days.

On 12 August Norges Bank sold government bonds amounting to NOK 1.4 bn. Market operators generally viewed the economic situation as favourable, and an interest rate decrease was widely thought to be imminent. Various operators started buying government bonds, probably to secure their position since they had option commitments connected to government bonds. Many investors quickly followed suit. On the following day Norges Bank sold bonds for an additional value of NOK 400 mn before the market stabilized.

Purchases pick up in August

On 27 August a renewed surge in buying was noted. Expectations of a decrease in the interest rate were still strong which, combined with some trading in options, made the market somewhat nervous. Expectations of a decrease in the interest rate level were clearly connected to speculations that a lower interest rate level would be signalled by the possible issue of an F-loan at the end of the month.

On the morning of 28 August it was announced that no F-loan would be issued for the time being. The D-loan (overnight loan) quota in September was increased instead, to supply the necessary liquidity. This was interpreted as Norges Bank's intention to reduce the interest rate on D-loans. Therefore, investors continued to buy bonds and in one week Norges bank sold bonds for close to NOK 2.8 bn.

Expectations of a reduction in the overnight lending rate

Prior to the municipal and county elections on 14 September, market rumours of the Ministry of Finance's intention to issue a new short-term government bond were rife, leading to a surge in government bond purchases, particularly of bonds with the shortest remaining maturity. In two days Norges Bank sold bonds for about NOK 2.6 bn and rates were adjusted upwards by a significant margin. The increase involved a 0.3 percentage point decline in the interest rate on government bonds in two days.

Rumours of a new government loan issue

No new government loan was announced and a tendency to sell government bonds was noted in the following days. Some market participants no longer expected an interest rate decline and they chose to sell their government bond holdings to realize capital gains. Sales were not made through Norges Bank, but at rates close to the central bank's.

However, there were considerable sales by Norges Bank on 16 September. Demand was particularly strong for loans where Norges Bank's holdings were very limited. Prices were therefore adjusted for relatively small amounts, and rumours started spreading that a new government loan would be issued.

Bond rates drop in August and September

In the second half of September the turnover in government bonds was relatively low as a result of a shift in demand to private bonds. Central government statements were interpreted to mean that an interest rate decline would only occur with the elimination of the supplementary reserve requirement. It was generally held that this would occur in the near future. The elimination of the supplementary reserve requirement would make it more attractive to banks to invest in private bonds. Consequently, prices on these bonds rose. At the end of September the interest rate in the private bond market was reduced by close to 1 percentage point against the level at the beginning of August. During the same period government bond rates fell by an average of 0.6 percentage points.

6 October – 31 December

Change in interest rate expectations in October

In contrast to the two preceding months, in October the secondary market for government bonds was marked by a spate of selling. The turning point was after presentation of the National Budget on 6 October. The view was that the Budget did not point to an early decrease in interest rates as previously expected. Some market operators therefore sought to realize capital gains. Norges Bank's first purchase of note was made on 9 October. By 25 October Norges Bank had bought bonds at a value of NOK 1.0 bn.

Despite a steep reduction in Norges Bank's holdings of government bonds in various loans in August and September, the central bank did not deem it necessary to buy large amounts of bonds at the relatively high prices prevailing. The central bank therefore purchased bonds at rapidly falling rates. In October, prices were adjusted upwards corresponding to an average interest rate increase of 0.3 percentage points.

In October, Norges Bank sold government bonds on one occasion – 21 October – in connection with the steep decline in share prices registered on the previous day. Some investors shifted to purchases of interest-bearing securities. Compared to other countries this transition was short-lived. In most countries bond rates did not recover after the stock market collapse.

Nervous foreign exchange market leads to selling in the bond market

Toward the end of October the Norwegian krone started to weaken. After only a short time the exchange rate index moved from 109.70 to 112. Norges Bank intervened to limit the krone's downward trend and money market rates started to climb. By mid-November money market rates had risen by close to 1 percentage point. A nervous foreign exchange market made an early decline in interest rates seem even more unlikely. As a result market operators started selling government bonds. By the middle of November, Norges Bank had bought bonds for close to NOK 2.7 bn. Purchases were exceptionally high on 13 November after the announcement of the interest rate on fixed rate loans (F-loans) from Norges Bank to banks. The F-loan rate was fixed by Dutch auction, and therefore at market rates. In spite of this, the interest rate was seen by some market operators to show that Norges

Bank was not in favour of an interest rate decrease, which led to increased sales of bonds.

Government bond sales also rose sharply in the second half of November. This period was marked by an increase in money market rates. In only a short period of time, rates increased by over 1 percentage point. The market's previous expectations of an interest rate decrease had now changed to the belief that a continuing high, or even increased, interest rate level was necessary to support the krone exchange rate.

Apart from two days or so, throughout December Norges Bank was on the buying side in the secondary market for government bonds. Activity was much more sluggish and irregular than in November.

In November and December Norges Bank chose, in contrast to October, to purchase relatively large amounts before prices were adjusted. In the period 6 October to year-end, prices were adjusted downwards corresponding to an average interest rate increase of 0.3 percentage points.

Money market rates and bond sales rise

Norges Bank's capital market operations in 1987 were marked by periods of substantial purchases and sales of government bonds. In 1987 interest rates therefore fluctuated considerably, see chart 7. At the beginning of the year the interest rate on government bonds with a remaining maturity of six to ten years (calculated on the basis of Norges Bank's turnover in the secondary market) was a good 13.6 per cent. By October the interest rate level had declined to roughly 13.0 per cent, and edged up to just above 13.4 per cent by the end of 1987. Bond rates with the longest remaining maturity (10–14 years) showed wider variations in the first half of the year. Rates fell from 13.2 per cent at the beginning of the year to 12.7 per cent by October and rose to 13.1 per cent by the end of December. In 1987 Norges Bank's gross sales and purchases of bonds amounted to NOK 22.7 bn. Most of the trading took place in the period August–November. Norges Bank's net bond sales amounted to NOK 1.5 bn in 1987.

Interest rate fluctuations in 1987

Chart 8 shows interest rate variations for selected government and private bonds. Early in the year there was a very wide interest rate differential between government and private bonds with a remaining maturity of 5 years. The interest rate differential, as mentioned earlier, can essentially be ascribed to the use of credit policy instruments. In the spring months the differential was narrowed as a result of relaxed supplementary reserve requirements for banks and expectations that the requirement would be lifted. The interest rate differential was narrowest after the announcement that the supplementary reserve requirement was to be removed. Toward the end of the year private bond rates showed a larger increase than government bond rates.

Chart 7.
Rate of Return in the Money and Capital Market. Effective Interest Rates
 Under one year: Swap market rates, right-hand side.
 Over one year: Norges Bank's purchase rates, government bonds.

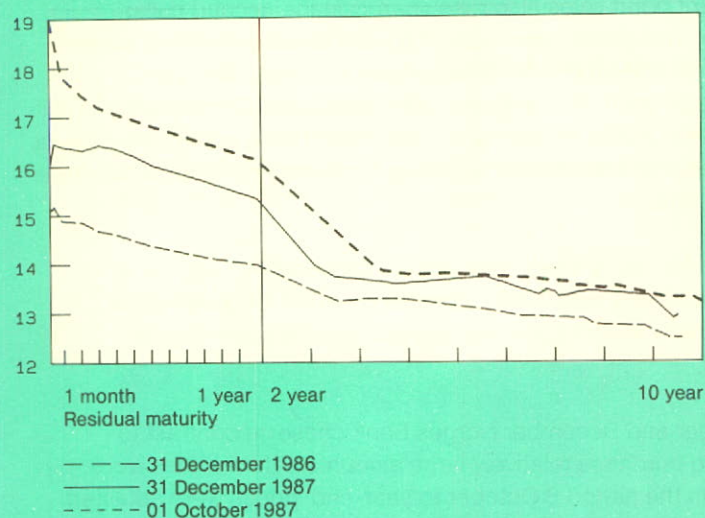
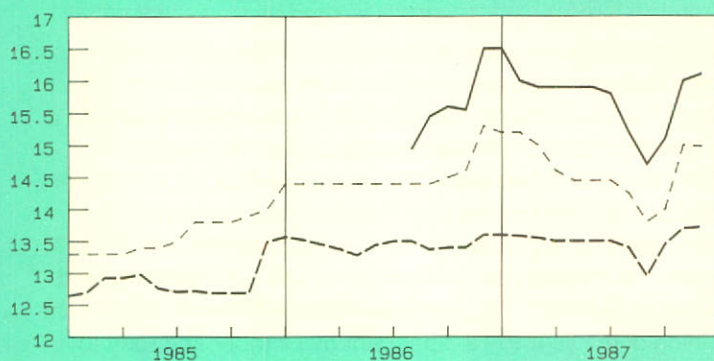


Chart 8.
Effective Government and Private Bond Rates, 1985-1987

—— Private bonds with one year to interest rate adjustment
 - - - Private bonds with five years to interest rate adjustment
 - . - Government bonds with 5 years to maturity



Administration of Norges Bank's International Reserves

Foreign exchange holdings

Norges Bank's gross international reserves as at 31 December 1987 were entered in the books at NOK 91.3 bn, representing a decline of NOK 3.7 bn on one year previously. The factors behind the decline are shown in table 6.

Pursuant to section 6 of act no. 23 of 30 May 1986 relating to the State self-insurance fund for petroleum activities, administration of the fund is assigned to Norges Bank. Under the provisions of the act, the moneys of the fund are to be placed in foreign currency. To this end, foreign currency at a value of NOK 332 mn has been purchased by the State and transferred to the fund. The amount has been charged to central government krone accounts with Norges Bank. Since Norges Bank merely administers the fund, the fund is not included in the currency reserves.

Purchase and sale of foreign currency in the form of swap transactions with Norwegian banks were previously an important means of regulating the domestic interest rate level and liquidity. During 1987, swap agreements entered into in 1986 fell due, leading to a reduction of in the holdings of NOK 7 bn. No swap agreements were entered into in 1987. The need to keep the value of the exchange rate index within swing margins of $\pm 2\frac{1}{4}$ per cent necessitated sizeable purchases and sales of foreign currency during the year. Interventions resulted in a net foreign currency sale of NOK 5 bn.

Interest income on the foreign exchange holdings amounted in 1987 to NOK 6 bn. Further, the decline in the holdings was mitigated by a loan at a value of NOK 2.8 bn which was raised abroad by the Norwegian State and converted to kroner at Norges Bank.

Reduction of NOK 3.7 bn in 1987

State self-insurance fund for petroleum activities

Swaps and spot interventions

**Interest income.
Central government borrowing**

Table 6.
International Reserves

	Billion kroner
Gross international reserves at 1 Jan. 1987	95.0
<i>Changes in 1987:</i>	
State self-insurance fund (petroleum)	-0.3
Exchange rate interventions	-5.0
Swaps, net	-7.0
Interest income	6.0
Government loans from abroad	2.8
For.exch. claims on domestic banks	-0.8
Other for.exch. transactions with banks and currency sales; various adjustments	2.4
Valuation adjustments in 1987	-1.8
Gross international reserves as at 31 Dec. 1987	91.3

Valuation adjustment

The US dollar's weight in the Norwegian currency basket is only 11 per cent, whereas a substantially larger portion of Norway's currency holdings is held in US dollars for intervention purposes. Consequently, reckoned in Norwegian kroner, a fall in the value of the dollar will lead to an agio loss on the currency holdings which only to a limited extent will be offset by concomitant value increases of other currencies making up the currency basket. Despite the plunge in the value of the dollar, it proved possible to contain the agio loss to NOK 864mn by shifting dollar placements into Japanese yen and European currencies (see below). Higher interest rates on the main investment currencies led to an agio loss of NOK 891mn on securities holdings.

Net reserves correspond to 5.1 months' imports

At year-end, net international reserves (gross international reserves less certain debt commitments and forward debt) totalled NOK 90.9bn, corresponding to 5.1 months of imports of goods and services. At end-1986 net assets amounted to NOK 87.6bn, corresponding to the value of 4.9 months' imports.

Dollar share reduced, yen and sterling share increased

The trend of recent years towards progressively freer capital movements, the emergence of new financial instruments and greater market efficiency, continued in 1987. Together with a falling dollar exchange rate, this led to a further reduction in the dollar's relative share of the holdings. At end-1987 the dollar share was 29 per cent, against 42 per cent the previous year. The shares of the German mark and Japanese yen rose to 29 per cent and 26 per cent, from 28 per cent and 17 per cent, respectively, at the end of 1986. Pound sterling's share was also substantially increased, as a result of Norges Bank widening its investment portfolio in 1987 to include UK government securities. Norges Bank also has funds placed in the Netherlands guilder, Swiss franc and ECU.

Decline in maturity of investments

The interest rate development expected in the various currencies is largely determinative for maturities in the securities portfolio. Interest rates on the main investment currencies were on the increase for much of 1987, notably in the case of the US dollar. Accordingly, average maturity of placements was markedly reduced during the year. Moreover, the weakening of the krone exchange rate in the autumn led to a more cautious investment policy, also implying a switch to short-term placements which lower the risk of having to realize long-term placements at a time when the market is unfavourable.

Distribution between securities

The most liquid segment of the holdings is placed in US government securities and is managed by Norges Bank's representative office in New York. They make up about 33 per cent of the securities portfolio. The remaining 66 per cent are placed in Japanese, West German and UK government securities, as well as in international bonds in the Euromarket and national markets. Under current guidelines, investment is exclusively in government and government-guaranteed bonds, and in bonds issued by international organizations.

Time deposits

The share of the reserves comprising time deposits with foreign banks increased from 20 per cent to 28 per cent by the end of the year. For currencies other than the US dollar, time deposits are the principal

form of short-term investment. Hence the increase was related to the reduction in the holdings' average maturity during the year. At year-end, maturity of time deposits averaged just under one month.

The gold holding

On 1 and 2 December 1987, Norges Bank repatriated its holding of gold coin from the Canadian Central Bank in Ottawa and the US Federal Reserve's Office in New York, where the gold had been in safekeeping since 1940. Between 1.3 and 1.5 mn gold coins weighing altogether 10 077.5 kg were brought back to Norway. Norges Bank's total gold holding, which also includes 26 754.1 kg of gold in bullion, was taken out of the country in dramatic circumstances upon the occupation of Norway in 1940, first to the United Kingdom and subsequently to Canada and the United States.

The bulk of the coin is Scandinavian, deriving from the period of monetary union between Norway, Sweden and Denmark. The coin was struck in the period 1875–1910, most of it with a nominal value of 10 or 20 kroner. The remainder is mainly Austrian and Hungarian. The holding's numismatic value naturally far exceeds the value of its gold content. The coin will now be scrutinized and registered. The gold in bullion will remain in safekeeping abroad.

The gold holding is entered in Norges Bank's accounts for 1987 at a value of NOK 284.8 mn. This is based on the official gold price of SDR 35 per ounce and a rate of NOK 6.87415 per SDR, corresponding to NOK 7 732.27 per kilo. The gold price quoted on 31 December 1987 in London was USD 391 per ounce, corresponding to about NOK 97 500,— per kilo.

Gold coin repatriated

Coin to be registered in detail

Gold entered in the books at the official gold price

Regulatory, Supervisory and Control Functions

Foreign exchange regulation

The basis in law for foreign exchange regulation is the Currency Control Act of 14 July 1950, with subsequent additions. The Ministry of Commerce has issued detailed provisions on foreign exchange regulation in pursuance of the act.

Information in regulations and circulars

Based on the Currency Control Act and Commerce Ministry's provisions, Norges Bank has issued regulations detailing foreign exchange transactions which can be carried out without the prior consent of Norges Bank. Information on regulatory practice in areas where special consent remains mandatory is published in Norges Bank's circulars to financial institutions.

Various policy considerations

Foreign exchange regulation attends in particular to credit policy concerns and to the need for a stable foreign exchange market. Tax and industry policy considerations, and the need for statistical information also play a part in the elaboration and practice of foreign exchange regulation.

Changes in 1987:

The following changes were made in foreign exchange regulation in 1987:

"Zero position regulation" of finance companies

At the start of 1987, "zero position regulation" of the largest finance companies was introduced. Previously all finance companies were required to obtain a licence from Norges Bank in order to borrow in foreign currency to cover their approved lending in foreign currency. Finance companies which are subject to zero position regulation may carry out a number of foreign exchange transactions without Norges Bank's consent, the condition being that the company's overall foreign exchange position is in approximate balance at the end of each day.

Krone loan arrangement

The arrangement involving krone loans to oil companies was established in 1982. In 1986 the arrangement was widened to include krone loans to other countries. Both arrangements were discontinued in January 1987: the turnaround in Norway's external economy made it desirable for petroleum activities to be financed to a greater degree by borrowing abroad.

Short-term securities denominated in foreign currency

As from 6 February 1987 certain nonresidents were permitted to buy short-term securities denominated in foreign currency (Euronotes, Commercial Paper etc). One reason for this was to give Norwegian foreign exchange banks a better opportunity of participating in loan issues of this type.

Portfolio investments in foreign quoted investment companies and securities funds

Residents' portfolio investments in foreign quoted investment companies and securities funds were subject to a licensing requirement as from 19 May 1987. Previously, portfolio investments could be freely be made in all foreign quoted companies and funds.

As from 20 July 1987, import-competing manufacturing enterprises were permitted to finance real investments by foreign currency loans. Previously only export industries were allowed to do so. Fish-farms which sell their products via sales cooperatives were also permitted to finance real investment in foreign currency. At the same time, export enterprises were permitted for a short period to convert existing krone loans to foreign currency loans. The changes were introduced because, up to the first half-year, it looked as though the National Budget quota for long-term financial loans in foreign currency would not be utilized to the full.

As from 20 July 1987 the quota for financing of merchandise credits was changed to the value of six months' imports of manufacturing inputs, and to the value of two months' imports of manufactured goods. Previously the quota was the value of two months' imports in both cases.

As from 20 July 1987 residents were permitted to sell options to foreign exchange banks, provided that the option sold by the customer to the bank is matched by an option in the opposite direction with the same amount and maturity.

In December 1987 The Storting (Parliament) adopted a decision to introduce a levy on vacation homes and real estate abroad. The decision encompasses all licence applications received by Norges Bank after the amount of the levy was announced on 30 October 1987. It was concurrently decided that applications received after 30 November 1984 requesting permission to finance purchases of vacation homes abroad with foreign currency loans, would be rejected.

There was a dramatic increase in licence applications in some areas in 1987. In loan categories shown in table 7 the number tripled. The increase was greatest in the case of licences for loans from abroad and for purchases of vacation homes abroad. The table does not show short-term foreign currency financing of exports and imports on a quota basis, an area expected to show a similar increase in applications numbers and which accounts for an estimated 25 per cent of total applications. Licensing of purchases of vacation property was taken over by Norges Bank's Bodø branch at end-September 1987, partly in order to ease work pressure at Head Office.

Table 7. Loans To and From Abroad

		Approved applications	
		Million kroner	Number
Loans from abroad ¹⁾	1985	27 500	730
	1986	22 000	811
	1987	52 625	2 227
Loans to abroad ²⁾	1985	21 068	461
	1986	14 000	500
	1987	26 550	680

1) Excl. licensed loans from abroad for purchase of vacation homes abroad and for short-term export- or import-financing. Loans from abroad also include foreign currency loans from Norwegian banks and finance companies to the domestic private sector.

2) Loans to abroad include loans from Norwegian financial institutions and other private sector.

Long-term loans in foreign currency

Financing of merchandise credits on a quota basis

Currency options

Purchase of vacation homes and real estate abroad

Strong growth in number of applications – relocation of job functions

Loans to and from abroad

Table 7 shows loans to and from abroad licensed by Norges Bank. In the case of loans from abroad the figures refer to loans to Norwegian subsidiaries' activities abroad, oil activity, shipping companies and long-term export and import financing, in addition to loans subject to quotas set out in the National Budget. The figures do not include loans licensed by the Ministry of Finance.

Long-term investment loans

The National Budget quota for new long-term loans from abroad to domestic activity for 1987 was set at the equivalent of NOK 7 500 mn. During the year 472 licences, corresponding in value to NOK 7 767 mn, were issued under the quota. A total of 230 applications, corresponding in value to NOK 5 245 mn, were turned down.

Loan conversion

Of 118 applications submitted during the limited period allowed for conversion of krone loans to loans in foreign currency, 53 were granted, corresponding to a total countervalue of NOK 679 mn. The licence amounts were debited to the long-term quota for licensed loans from abroad.

Although the shipping industry can also apply for permission to convert loans to other currencies, long-term term loans to this industry are debited to the above quota. Sixteen applications were granted in this category, corresponding to a countervalue of NOK 882 mn. Twenty seven applications, equivalent to a countervalue of NOK 993 mn, were rejected.

Operating credit

In the National Budget for 1987 the quota for outstanding short-term borrowing abroad was set at the equivalent of NOK 13 800 mn. By end-1987, 570 licences had been granted for the equivalent of NOK 11 865 mn.

Norwegian direct investment abroad

Table 8 gives an overview of licences granted by Norges Bank in connection with Norwegian direct investments in shares abroad by sector and country. Loans from Norwegian parent companies to subsidiaries abroad are not shown in the table. Loans totalling about NOK 7.7 bn were licensed in 1987. Hence the table gives only a partial picture of Norwegian trade and industry's total investment abroad. Overall, Norwegian direct investment in shares showed a fall on the two preceding years. Compared with 1986, there was a notable drop in direct investment in Sweden and Denmark, and a strong increase in the remainder of Europe and in Canada and Australia.

Sectoral distribution of investment

Direct investment abroad in wholesale and retail trade shows a marked fall, from a level in excess of NOK 1 500 mn in 1985 and 1986 to about NOK 300 mn in 1987. This is largely explained by heavy individual investments by Statoil in Sweden in 1985 and in Denmark in 1986.

Direct establishment abroad through share acquisitions in business services and property management rose by about NOK 1 300 mn in 1987 to a level of almost NOK 2 400 mn. An increase in the number of investments rather than in the size of individual investments was the main reason for the increase.

Table 8.
Foreign Exchange Licences Issued by Norges Bank for Direct Investments in Shares, by Sector and Country
(excl. shipping companies). (NOK million)

	Total 1986	Total 1987	Sweden	Denmark	United Kingdom	West Germany	United States	Rest of Europe, Canada, Australia	Asia, Africa, Latin- America
Total	5 571	4 160	482	127	30	71	397	1 574	376
Agriculture, forestry, fishing and hunting	111	239	—	1	6	—	38	191	3
Manufac. industry	1 193	869	32	8	186	58	137	419	29
Mining and quarrying	405	44	—	—	—	—	4	4	36
Distributive sector	1 540	302	195	40	18	9	20	19	1
Banking	752	3	—	3	—	—	—	—	—
Insurance	48	193	167	—	18	—	7	—	1
Business services and real estate	1 050	2 372	78	45	882	4	155	902	306
Other financing	194	70	—	28	16	—	13	9	—
Other	278	68	10	2	7	—	19	30	—

Table 9 gives an overview of residents' purchases and sales of foreign shares and bonds as portfolio investments. In the first eleven months of 1987 these sales and purchases more than doubled in relation to the whole of 1986. Residents' portfolio investments in foreign quoted shares do not require a licence, whereas a licence is required for trade with foreign bonds and unquoted shares.

Foreign shares and bonds

Table 10 shows figures for nonresidents' purchases and sales of Norwegian shares and bonds. Sale of Norwegian domestic bonds to nonresidents is prohibited. An exception refers to the sale of such bonds and shares to foreign insurance companies for the purpose of meeting insurance commitments in Norway. Special permission to sell Norwegian domestic bonds to nonresidents has also been given in other cases. Nonresidents' trade with shares in Norwegian companies is not subject to a licensing requirement.

Norwegian shares and bonds

Table 11 shows a threefold increase in in Norwegians' purchases of vacation homes abroad in the period 1985–1987. The average price increased from NOK 335 000 in 1986 to NOK 391 000 in 1987. About three quarters of vacation homes purchased abroad by Norwegians in the past three years are in Spain.

Vacation property abroad – largely in Spain

Table 9.
Residents' Purchases/Sales of Foreign Shares¹⁾ and Bonds (NOK million)

	1986		1987 ²⁾	
	Inflow	Outflow	Inflow	Outflow
Shares	4 026	5 684	10 565	12 618
Bonds	48 648	53 368	41 648	53 368

1) As portfolio investments.

2) January–November.

Source: External Accounts

Table 10.
Non-Residents' Purchases/Sales of Norwegian Shares¹⁾ and Bonds²⁾ (NOK million)

	1986		1987 ³⁾	
	Inflow	Outflow	Inflow	Outflow
Shares	9 254	11 720	12 632	14 763
Bonds	3 696	2 520	3 937	1 562

1) As portfolio investments.

2) In the secondary market. Includes eurokrone bonds with Norwegian debtor as well as market-making for foreign currency bonds with Norwegian debtor.

3) January–November.

Source: External Accounts

Table 11.
Foreign Exchange Licences Granted for Acquisition of Vacation Homes Abroad (amounts in NOK million)

				Distribution of the total among countries										
Private individuals		Of which companies ¹⁾		Spain		Sweden		France		USA		Other		
No.	Am't	No.	Am't	No.	Am't	No.	Am't	No.	Am't	No.	Am't	No.	Am't	
1983	530	95.5	23	12.0	209	54.0	280	37.3	14	5.9	12	4.8	38	5.5
1984	640	132.5	15	8.2	367	82.2	221	34.5	18	11.1	11	3.6	38	9.3
1985	1 110	292.3	13	10.5	834	228.2	193	33.9	25	14.9	12	11.1	59	14.7
1986	1 936	647.9	44	39.8	1 483	553.9	240	47.8	57	54.9	13	4.4	187	46.5
1987	3 651	1 427.1	2 836	1 083.6	270	82.5	80	75.3	41	34.9	424	150.8

1) Firms disclosed in the statistics as from 1987.

Foreign exchange control

Since 1958 all foreign exchange control has been delegated to Norges Bank, first from the Ministry of Commerce and subsequently from the the Ministry of Finance. Control is carried out in accordance within the framework set by the Currency Control Act of 14 July 1950, and the guidelines drawn up in Report no. 27 to the Storting (1977–78) entitled "Foreign exchange control". Control is in part preventive in that licence applications referring to undesirable transactions are weeded out in advance, and in part retrospective in that Norges Bank, via scrutiny of documents and accounts based on payment reports sent to Norges Bank, accounts extracts, correspondence etc, checks whether payments to and from other countries refer to the transactions stated.

Random checks

Complete scrutiny, including auditing of each company's accounts, is not practicable. There has to be some degree of confidence that the information and statements submitted are truthful and in accordance with applicable accounting and auditing legislation. Detailed inspection is carried out in individual cases, for instance in connection with routine random checks.

Control abroad difficult

To hope to completely eliminate currency violations by control measures would be unrealistic. Companies in the international arena have fairly ample opportunities of circumvention since the Norwegian authorities are unable to inspect foreign business partners.

Continual control of of payments and travel currency

In 1987, as in previous years, a continual check was kept on whether payments were made in accordance with licences granted. Widespread checks were also made to ensure correct use of travel currency – especially payment cards.

During the year a number of checks were made of Norwegian financial institutions' foreign exchange loans to nonresidents. Concurrently, checks were made to disclose whether licences to incur loans were granted on a correct basis. This referred primarily to long-term import financing.

Foreign companies with Norwegian owner-participation

Norges Bank gathers and records information on Norwegian direct investment abroad. The prime object is to ensure that activity in approved investment projects is in accordance with the terms set out in the individual licences.

Norwegian business activity via companies established abroad has shown substantial growth in recent years. Table 12 shows the number of foreign companies with Norwegian owner-participation, by location and sector, as at 31 December 1987.

Banks and finance companies which are subject to zero position regulation are required to report their foreign exchange position daily. This arrangement, introduced in 1983, was revamped in 1987 to reduce the report volume and enhance the quality of reports.

Norges Bank is currently reviewing priorities in the foreign exchange sphere as well as organization of control measures. In this connection, reorganization of archives and records covering Norwegian direct investments abroad is also under consideration.

In 1987 the Executive Board decided to remove responsibility for random checks on foreign payments to a regional branch. Which branch has yet to be decided.

Reorganization and relocation

Table 12.
Foreign Companies with Norwegian Direct or Indirect Owner Share of at least 10 per cent as at 31.12. 1987

	Total	Europe	America	Asia	Africa	Australia
Total	4 794	3 116	1 034	335	251	58
Manufacturing	681	515	95	59	9	3
Distributive sector	1 451	1 141	224	62	4	20
Shipping companies	580	129	161	103	186	1
Agents/brokers	203	65	78	43	8	9
Banks	26	18	4	4	—	—
Insurance	44	18	23	1	—	2
Other financing	216	150	57	3	5	1
Business services and property management	911	659	202	34	12	4
Other	467	280	153	7	14	13
No activity	215	141	37	19	13	5

Supervision of financial institutions

Regular statements

Norges Bank oversees that financial institutions fulfil credit policy reserve requirements and do not exceed loan and guarantee limits, also that banks keep to the limits set for overnight loans from the central bank. Norges Bank is also responsible for advance approval of borrowings in the form of bond and certificate issues. This is done by checking compliance with issue regulations. If it is established that reserve requirements are underfulfilled or quotas exceeded, penal interest is imposed on the institutions in question. In the summer of 1987 the primary reserve requirement for banks, life insurance companies and pension funds was removed. Banks' supplementary reserve requirements and financial institutions' primary reserve requirements were removed in the autumn of 1987.

Following up of credit policy reserve requirements and quotas, issues and borrowing by Norges Bank

Cooperation with the Banking, Insurance and Securities Commission intensified

In 1987 Norges Bank intensified both collaboration and exchange of information with the Banking, Insurance and Securities Commission. The two institutions now meet once a month. The collaboration has led to more effective supervision of compliance with credit policy regulation.

Efforts were made in 1987 to gain a better view of the trend in financial strength and profitability of financial institutions, an area in which collaboration with the Banking, Insurance and Securities Commission is of great significance.

Asset sales resulted in inadequate capital ratios

In 1987 the Banking, Insurance and Securities Commission was informed by letter that finance companies had taken over large loan items from banks at end-quarter in the second half of 1986. This was inadvisable from a solidity point of view, and at the same time lessened the effectiveness of credit policy regulation. Enquiries by the Commission subsequently revealed capital levels in a number of finance companies which fell far short of the capital adequacy requirement set out in the act on financing activity.

Major investigations

Discrepancies in credit market statistics from 1985 onwards

Early in 1986 it was established that during the autumn of 1985 large and widening discrepancies had arisen between banks' statements regarding loans *to* private finance companies and corresponding statements *from* finance companies regarding loans from banks.

During autumn 1986 Norges Bank became aware of major discrepancies in interbank deposits, which statistics showed were far larger seen from the asset side than the debt side.

Probe into interbank deposits

In the autumn of 1986 Norges Bank, in collaboration with the Banking, Insurance and Securities Commission, opened an investigation into discrepancies in credit market statistics. A key aim was to establish whether the discrepancies were due to circumvention of credit policy regulation.

Irregular asset sales removed private sector loans from the statistics

The discrepancies in interbank deposits, which rose from NOK 1.7bn in January 1986 to NOK 19.3 bn in September 1986, came under scrutiny first. Special statements from a selection of banks were processed, revealing a number of asset sales between banks. The bulk of these sales were transacted through a small number of broker's firms. They did not comply with regulations, and caused banks' total loans to appear lower than they in fact were. Further, they created the discrepancies in interbank deposits referred to above.

Loans to the private sector which a bank removed from its balance sheet (by selling them temporarily via a broker on a commission basis), were recorded on the purchasing bank's asset side not as loans but as deposits with the selling bank. Deposits with other banks were not included in the basis for calculation of primary and supplementary reserve requirements. Loans to the private sector and private bonds were, on the other hand, included.

In the light of this, Norges Bank in collaboration with the Banking, Insurance and Securities Commission, investigated in December 1986 the books of three brokers' firms. The object was to obtain documentation for each individual transaction as a sound basis for assessing the consequences of erroneous book entries for the banks involved. It proved necessary to limit the investigation to the period July–November 1986.

A feature common to many of the transactions was that two of the brokers' firms involved had issued misleading documentation to the purchasing bank, with the result that actual loans were recorded neither with the selling nor the purchasing bank.

After looking into the legal aspects of the matter in collaboration with the Banking, Insurance and Securities Commission, it was decided to disallow most of the asset sales in question. Owing to the misleading documentation from brokers to purchasing banks, Norges Bank asserted that under monetary and credit policy provisions no agreement on transfer of private sector loans had in fact been made by the banks in question.

Norges Bank was able to prove that private sector loans or private bonds totalling the following amounts had disappeared from the overall basis for calculation of the banks' reserve requirements:

		Mill. kroner
1986	July	6 990
	August	8 105
	September	9 140
	October	3 105
	November	2 515

A purely statistical discrepancy was also disclosed, with no effect on the basis for calculation of reserve requirements.

Accordingly, Norges Bank decided to make an upward adjustment in the "basis of calculation" of the banks involved and to impose penal interest for underfulfilment of primary and supplementary reserve requirements. On 29 May 1987, twelve banks received demands for payment of penal interest of altogether NOK 102 mn.

Seven banks appealed the decision with reference to the public administration act. The appeals were forwarded to the appeals instance, ie the Ministry of Finance, on 30 July 1987 accompanied by a recommendation that the findings be upheld. In a letter of 30 December 1987 to the banks in question, the Ministry of Finance fully endorsed Norges Bank's decision.

In mid-February 1987 Norges Bank addressed in earnest the other discrepancy brought to light in the statistics, viz. the discrepancy between what banks reported as loans to finance companies and what finance companies reported as loans to banks. At its peak, in September and October 1986, the deviation was a good NOK 10 bn.

Scrutiny of broker firms' accounts

Misleading documentation from brokers

Asset sales disallowed

"Basis of calculation" revised upwards; penal interest imposed

Banks' appeals rejected

Probe into discrepancy between banks and finance companies

Scrutiny of accounts

A preliminary investigation indicated that, here too, the bulk of the statistical discrepancy was related to transactions mediated by a small number of brokers. Accordingly, the books of three brokers' firms were examined in June 1987 by Norges Bank in collaboration with the Banking, Insurance and Securities Commission.

Small portion of the discrepancy related to irregular asset sales

The result of the investigation was made known in October 1987, and showed that most of the discrepancy was due to erroneous entries of no significance for the institutions' regulated lending and "basis of calculation". A small portion, however, was due to asset sale transactions between finance companies and banks, carried out in the same way as the asset sale transactions between banks described above.

Penal interest imposed – mostly on finance companies

Based on the same legal arguments as in the interbank issue, on 15 December 1987 penal interest totalling NOK 41 mn was imposed on four finance companies and five banks. The bulk of this fell to the four finance companies, the reason being that an irregular asset sale of a certain size incurs higher penal interest for a finance company than for a bank. Finance companies are in fact under direct quota regulation and pay penal interest on the entire overshoot, whereas banks only pay on the proportion they should have allocated to reserves pursuant to the monetary and credit policy act.

All the finance companies and two of the banks have appealed the decision. The appeals have been sent to the Ministry of Finance for final decision.

A more detailed account of the two investigations is given in the annex to a report to the Storting: St.meld. nr. 40 (1987–88) "Om kreditt-politikken, valutapolitikken og Norges Banks og Kredittilsynets virksomhet i 1986".

Norges Bank and the financial strength of banks

Loans to banks on special terms

Like most central banks, Norges Bank states that it will if necessary act as "lender of last resort". In a press release of 30 October 1987 the Bank expressed its readiness to prevent nervousness in the market as a result of fear that Norwegian credit institutions could come under pressure with respect to liquidity. One way to do this is to provide loans to banks on special terms (S-loans).

Furnishing security for liquidity loans to banks

Norges Bank regularly provides sizeable liquidity loans to banks. Regulation of money market rates in 1985 and 1986 meant that Norges Bank had to supply funds to the banks, and by end-1987 their debt to Norges Bank amounted to about NOK 50 bn. Given the size of this sum, little could be demanded in terms of security. Demands by Norges Bank for security that weakened the security of ordinary depositors, or meant that security had to be provided via insurance funds, would also be detrimental. It would have to be accepted that Norges Bank's position as lender of last resort involves a special risk in crisis situations.

Interest rate monitoring

Up to the autumn of 1985 the level of interest rates charged by life insurance companies and by commercial and savings banks was set in an "interest rate declaration" by the Minister of Finance. This system was replaced by an arrangement whereby the Ministry of Finance and Norges Bank monitor interest rates on a continual basis. As part of this process, Norges Bank obtains each quarter interest rate reports from all private banks and life insurance companies. Rates of interest and commission are reported as weighted averages at end-quarter for specified categories of loans and deposits. To make comparison possible they must be expressed as annual retrospective rates. Also, at year-end banks must declare the spread of their interest and commission rates. Based on the interest rate reports Norges Bank draws up surveys of interest rate developments for banks and life insurance companies as a whole, and for each of the two bank groups. About six weeks after end-quarter, a report on developments is sent to the Ministry of Finance.

Reports obtained from banks and life insurance companies

Table 13.
Commercial and Savings Banks.
Average (weighted) Interest Rates Including Commissions for Loans in Norwegian Kroner to the (non-financial) Private Sector and for Deposits in Norwegian Kroner from the (non-financial) Private Sector. Per Cent Per Annum¹⁾

	31.12 1985	30.06 1986	30.09 1986	31.12 1986	31.03 1987	30.06 1987	30.09 1987
1. Total Loans	13.41	14.73	15.07	15.97	16.08	16.27	16.65
Short-term loans	13.45	14.84	15.36	16.85	16.28	16.54	17.13
Medium- and long-term loans	13.40	14.68	14.93	15.53	15.98	16.12	16.40
2. Loans at market interest rates	13.52	14.82	15.17	16.09	16.20	16.38	16.77
3. Total deposits	9.14	9.22	9.52	10.14	10.90	10.79	11.02
4. Interest margin (1-3)	4.27	5.51	5.55	5.83	5.18	5.48	5.63

1) Defined as retrospective interest on whole-year basis.

Table 13 shows some main interest rates from end-1985 to the end of the third quarter of 1987. Average bank lending rates rose from 15.97 per cent per annum at the start of 1987 to 16.65 per cent at the end of the third quarter, ie an increase of 0.68 percentage points in the first three quarters of 1987. The third quarter showed the largest increase: 0.38 percentage points.

Banks' deposit rates averaged 10.14 per cent per annum at the start of 1987, increasing by 0.88 percentage points to 11.02 per cent by the end of the third quarter. Banks' interest margin vis-à-vis the private sector thus showed a slight decrease in the first three quarters of 1987, although having widened by about 1.4 percentage points since the autumn of 1985.

Interest margin widened in 1985-86; narrowed in 1987

Banks' interest rate adjustment is influenced by many factors, which are not easy to quantify. Nonetheless, some clear-cut factors which help to explain the trend in bank lending rates between end-1985 and the end of the third quarter of 1987 can be pointed out.

Factors explaining banks' interest rate adjustment

Changed financing structure, higher borrowing costs

The strong growth in lending from the banking sector to the (non-financial) private sector in recent years, combined with far lower growth in deposits from customers, have led to substantial change in banks' financing structure. The counterpart of the reduced significance of customers' deposits as a source of banks' finance is a strong increase in bank borrowing abroad and from the central bank. Whereas customers' deposits averaged about 70 per cent of banks' total debt in 1985, the figure was down to about 60 per cent in 1986 and to some 50 per cent by the end of the third quarter of 1987. Corresponding figures for borrowings from the central bank were less than 1 per cent in 1985, rising to some 7.5 per cent in 1986 and to about 10 per cent by the end of the third quarter of 1987. Since Norges Bank's lending rate has on average been higher than the rate on bank deposits, banks' financing costs have increased. Concurrently, Norges Bank's lending has increased from about 13 per cent per annum at end-1985 to about 14 per cent (14.7 per cent effective rate) at the end of the third quarter of 1987. The increased financing costs of the banks will in part be passed on to customers in the form of higher interest rates, and partly taken out of banks' earnings.

Demand shows little response to interest rates

Conditions on the demand side were marked by heavy demand for bank loans, little affected by interest rates. This enabled banks to compensate for increased costs by raising lending rates. The attention focused on interest rates, both in political quarters and in the media, has probably made the banks more reluctant to raise their lending rates than they otherwise would have been.

Influence of money market rates

A good third of bank deposits are "special deposits", ie large, short-term deposits carrying interest rates which must be rapidly adapted to those applying elsewhere in the money market. With short-term debt items making up such a large part of banks' liabilities, events in the money market will normally have a large bearing on banks' interest rate adjustment. Changes in money market rates will fairly quickly affect rates on special deposits and on other short-term types of loan, whereas it will take longer for effects to be seen on ordinary deposits and long-term loans.

Money market rates, measured as a quarterly average of eurokrone rates with one and three months' maturity, rose fairly sharply in 1986 - from 12.4 per cent (13.0 per cent effective) per annum in the fourth quarter of 1985 to 15.7 per cent (16.7 per cent) per annum in the fourth quarter of 1986. The figure declined in 1987, to 14.1 per cent (15.0 per cent) per annum in the third quarter.

Interest rates as a parameter of competition

Competition among the banks for ordinary deposits has shown a tendency to increase. Banks are now using interest rates more actively in marketing deposit facilities, both among themselves and vis-à-vis other placement alternatives. In fact, rates on ordinary customer deposits have increased more rapidly than rates on special deposits. In consequence, banks' financing costs have increased and their interest margin come under pressure.

A further factor to consider when assessing the trend in bank lending rates is the impact of the supplementary reserve requirement which was imposed on banks from the start of 1986 to October 1987. The strong growth in registered bank lending towards end-1986 and in 1987 meant that they had to place substantial amounts in non-interest bearing accounts with Norges Bank – or attempt to circumvent the requirement by selling off parts of their loan portfolio to other sectors. These sales also entailed extra costs. In June 1987, forced allocations and asset sales incurred an estimated NOK 80 mn in costs, corresponding to 0.3 per cent of loans to the non-financial private sector at an annualized rate.

Costs of reserve requirements and asset sales

Charges paid by borrowers upon incurring a loan are not included in the interest rate statements sent to Norges Bank. In the autumn of 1987, many banks switched from graduated charges based on the size of loan to a fixed charge. The new charges were on average lower than previously, and many banks compensated for this by raising interest rates on new loans – leaving effective interest rates unchanged. In the statistics this rearrangement shows up as an increase in the level of lending rates. Part of the increase in average bank lending rates in the third quarter of 1987 was related to such rearrangements.

Compensation for lower charges

In periods of climbing interest rates, rates on new loans tend to be higher than the average. Thus, in isolation, strong growth in lending will push the average upwards. This is assumed to have been the case throughout 1987.

Shift in loan stock towards new loans

At end-1986, lending rates charged by life insurance companies averaged 13.41 per cent per annum, and increased in the first three quarters of 1987 by 0.34 percentage points to 13.75 per cent. In the same period, average interest rates on loans for housing purposes rose by 0.44 percentage points from 13.15 per cent to 13.59 per cent per annum.

Life insurance companies

Advisory and Information Activity

According to sections 1 and 3 of the Act on Norges Bank and the Monetary System, the central bank shall be an advisory body for the authorities in the field of monetary, credit and foreign exchange policy. Moreover, the Bank is required to state its opinion on questions that are put before it, and to inform the Ministry of Finance when, in the opinion of the Bank, there is a need for measures to be taken by others than the Bank itself in the field of monetary, credit or foreign exchange policy. Furthermore, the Bank is required to inform the public about the monetary, credit and foreign exchange situation.

Recommendations and statements concerning economic policy

In addition to frequent, informal contact at various levels between the Bank and the Ministry of Finance, the Executive Board of Norges Bank issues in the course of the year a number of statements and recommendations. Among them are letters sent on a regular basis by the Bank to the Ministry, in connection with the presentation of the National Budget and the Revised National Budget.

The economic policy programme and the use of policy instruments

In these letters, emphasis is placed on the need for a tight economic policy in order to correct the imbalances in the Norwegian economy. It is pointed out that a slacker credit policy presupposes a markedly tighter financial policy and further changes in the tax system with a view to increasing the responsiveness of credit demand to changes in interest rates. Furthermore, Norges Bank has advised reorganizing and increasing the efficiency of the use of credit policy instruments by phasing out the remaining direct controls and increasing the use of market-oriented policy instruments. Norges Bank pointed out that exchange rate management must be given high priority when monetary and credit policy is formulated. Within the limits thus set, the interest rate can be adapted to serve the interests of domestic stabilization policy. In the opinion of Norges Bank, the primary task of foreign exchange regulation should be to facilitate exchange rate management by limiting destabilizing capital movements. Foreign exchange regulation should be formulated with a view to creating stable conditions for financial market participants.

Norges Bank's recommendations concerning financial market structure, etc.

Intensified efforts in connection with matters pertaining to financial market structure

In 1987, Norges Bank intensified its efforts in connection with questions related to financial market structure. Besides processing concrete licence applications from financial institutions, this means

that Norges Bank seeks at all times to keep abreast of current trends. Special emphasis is placed on following developments in the earnings and solidity of financial institutions and the risks taken by such institutions. Furthermore, Norges Bank evaluates whether these developments have a bearing on the extent to which the various means of regulating the financial market are appropriate. As part of this work, Norges Bank's cooperation with the Banking, Insurance and Securities Commission has been extended, both at executive officer level and with regular meetings for the top management. There was especially close contact between the two institutions in connection with developments on international stock exchanges and the Oslo Stock Exchange and changes in the profit and loss situation of financial institutions in the autumn of 1987.

Proposition No. 41 to the Odelsting regarding "Act relating to financial activities and financial institutions" signalled that the Ministry of Finance desired closer evaluation of the question of whether banking and insurance activities ought to be conducted within the same concern. A working group consisting of representatives from the Ministry of Finance, the Banking, Insurance and Securities Commission and Norges Bank was set up in September 1987. The group will present its report in March 1988.

In 1987, the Executive Board considered eleven applications for mergers between a total of 25 savings banks. In 1986, seven such applications were considered, and approval of all of them was recommended. The Executive Board recommended approval of ten of the applications from 1987. In the opinion of Norges Bank, it should not be recommended that Aure Sparebank in Møre and Romsdal be permitted to merge across the county border with Sparebanken Midt-Norge in South Trøndelag. However, the Ministry of Finance granted permission when it was made clear that a merger with other savings banks in Møre and Romsdal would be difficult to implement.

The Executive Board recommended approval of the applications from Bøndernes Bank A/S, Oslo, Buskerudbanken A/S, Drammen, Vestlandsbanken L/L, Bergen, for permission to merge into a new unit: Fokus Bank A/S.

The Executive Board recommended approval of the application from Bokreditt Kjøpekort A/S, Oslo, for permission to establish BK-Banken A/S and an application from Den norske Creditbank for permission to establish a bank in West Germany.

Furthermore, Norges Bank recommended approval of 14 applications pertaining to the establishment of branches. Norges Bank reviewed the principles of the guidelines for the establishment of bank branches. In a letter dated 4.11.87 to the Ministry of Finance and the Banking, Insurance and Securities Commission, Norges Bank explained that the merger policy will be the most important tool for the bank structure policy. In order to contribute to the building up of strong regional banking units, the authorities should take a positive view of mergers across county borders and between commercial and savings banks. On the condition that the merger policy be adapted

Bank mergers

Establishment of banks

Establishment of branches

accordingly, Norges Bank recommended primarily that the banks be permitted to establish branches, and that the obligation to obtain a licence be replaced by an obligation to register the branch. If structural policy goals make it impossible to permit the free establishment of branches, Norges Bank advised alternatively that the licensing practice should be somewhat more restrictive for the establishment of branches in small localities.

Establishment of finance enterprises

Norges Bank considered seven applications for permission to engage in financing activities. It was recommended that six of the applications be rejected because they failed to satisfy the formal requirements with regard to ownership structure which result from the proposal for the new Act relating to financing activity and financial institutions.

Increase of share capital and raising of subordinated loan capital by commercial banks ...

The Executive Board dealt with and recommended seven applications from banks regarding increase of capital totalling NOK 296 mn, as well as 14 applications for permission to raise subordinated loan capital amounting to a total of NOK 1 459 mn. In addition, there were three applications for permission to place subordinated loan capital in foreign currency, corresponding to NOK 3 903 mn, on an equal footing with share capital.

In accordance with Norges Bank's recommendation, the three largest commercial banks (DnC, Kreditkassen and Bergen Bank) were given permission to raise perpetual subordinated loan capital. Total subordinated loan capital may amount to up to as much as equity capital, provided that at least 50 per cent of the subordinated loan capital is perpetual.

Norges Bank considered, on grounds of principle, whether foreign-owned Norwegian commercial banks should be permitted to raise up subordinated loan capital. It was recommended that these banks should have the same right to raise subordinated loan capital as other Norwegian commercial banks.

... and by finance enterprises

Furthermore, Norges Bank dealt with and recommended approval of 22 applications by finance enterprises to take up share capital/ subordinated loan capital totalling NOK 555 mn.

Share capital in financial institutions also increased with permission being granted to issue dividend shares and bonus shares. In 1987, Norges Bank received 12 applications and approval was recommended in all cases. Based on the applications, dividend shares for a maximum of NOK 162 mn for the dividend year 1986 and bonus shares for a maximum of NOK 200 mn could be issued.

Financial institutions' equity participation in other companies

Norges Bank issued a statement to the Ministry of Justice concerning rules stipulating that a financial institution shall not own or vote for more than a limited portion of the capital of any given company that is engaged in activities other than insurance and financing. Norges Bank endorsed the principle of limiting the ownership and influence of financial institutions in such companies. A rule of that type can ensure that financial institutions limit the responsibility and risk related to an activity other than their traditional activity. The rules can also promote

competition by preventing financial institutions from influencing, through their power as owners, a company's purchase of financing services. However, overly strong limitations on such ownership interests may weaken the share capital/equity capital market and make it difficult to raise new capital. But before any such rules are applied, Norges Bank recommended a closer analysis of the consequences the significant changes in owner participation the proposed rules would entail. Furthermore, Norges Bank was of the opinion that the proposed rate of 10 per cent seemed to be somewhat low and that a rate of 20 per cent should be considered. It was recommended that a higher rate be considered for insurance companies than for banks and finance enterprises. Norges Bank was in favour of the same practice being applied to shareholdings acquired by financial institutions as a result of subscription guarantees.

According to the Act on Financing Activity, the King shall appoint one quarter of the members of the committee of representatives in enterprises with total assets of NOK 100 mn or more. Norges Bank offers suggestions in such cases, and in 1987 the Executive Board proposed representatives in 15 companies. In seven of these companies, it was the first time that public members were appointed to the committee of representatives.

Public appointment of members to the committee of representatives of large finance enterprises

Information activity

The Annual Report for 1986, prepared in compliance with section 28 of the Act of 24 May 1985 on Norges Bank and the Monetary System, was signed by the Executive Board on 18 March 1987 and forwarded to the Ministry of Finance for submission to the King and presentation to the Storting. The report was appended to a government white paper (Stortingsmelding no. 40 (1987-88)) concerning credit policy, foreign exchange policy and the activities of Norges Bank and the Bank Inspectorate in 1986. The report passed the King in Council on 25 March 1988, and was delivered to the Storting for consideration in the spring session of 1988.

Norges Bank's *Annual Report* was also issued in an abridged English edition.

Four issues of Norges Bank's publications, *Penger og Kreditt* and *Economic Bulletin* (the latter oriented towards readers abroad) were published in 1987. The regular content of these publications comprised economic surveys with supplementary analyses, as well as an overview of credit policy regulations currently in force and a statistical annex. They also contained articles on topics within the Bank's field of activity, and important statements issued by the Bank. The *Economic Bulletin* also provides information on economic policy in general in Norway.

The Bank also publishes *working papers* in which research work and other studies carried out under the auspices of Norges Bank are presented. Eleven working papers were published in 1987.

In *circulars* to financial institutions, Norges Bank announces credit and foreign exchange policy measures taken by Norges Bank or other authorities. Twenty-four circulars were issued in 1987.

Norges Bank makes known its financial position each month by publishing a *balance sheet*.

Regular statistical information on the monetary and credit market is provided in the form of about ten different appended reports published at varying intervals.

In addition, Norges Bank informs the public through press *releases* about the credit and foreign exchange situation and other matters of public interest. Forty-six press releases were issued in 1987.

In 1987, a video programme was prepared on Norges Bank's functions, activities and organization. The programme is used for information purposes in various connections, such as during visits by highschool students and other groups. The video programme may be borrowed from Norges Bank's library.

Means of Payment and Payments System

Norges Bank's role in the payments system

Norges Bank's functions in the payments system fall into three categories: responsibility for the payments system as a whole, mediation of payments on behalf of the Bank's customers, and the production and distribution of banknotes and coin.

For further details of the Bank's role in the payments system, including the establishment of a Liaison Committee for the Payments System, see Annual Report for 1986, p. 43. In addition to Norges Bank, the following institutions now participate in this liaison committee: The Norwegian Bankers' Association, the Association of Norwegian Savings Banks, the Association of Norwegian Finance Houses, the Federation of Norwegian Commercial Associations, the Directorate of Postal Services, the Norwegian Telecommunications Administration, the Data Inspectorate, the Consumer Council and the Banking, Insurance and Securities Commission.

Liaison committee for the payments system

The most important matter discussed by the Liaison Committee for the Payments System in 1987 was the development of the card-based electronic payments system, particularly the introduction of payment terminals in the retail sector. Other matters discussed and considered by the Liaison Committee in 1987 included problems in connection with coordination of the bank and postal giro system, state subsidizing of the postal giro and the banks as a result of the government's payment arrangements, as well as fees, floats and cost in the payments system.

The second category of functions, i.e. payment services for the Bank's customers, primarily covers services rendered to government institutions and state banks. Norges Bank participates on a par with other banks in the cheque and bank giro system and is also a major user of the postal giro system. In 1987, Norges Bank also participated in a working group to consider the state's financial administration, including government payment systems. In the light of this work, Norges Bank's role as banker to the central government will also be considered.

Payment services for central government and state banks

Banknotes and coin are currently produced at Norges Bank's Printing Works in Oslo and The Royal Mint at Kongsberg. The production of both coin and banknotes is an industrial activity of a somewhat complicated technical nature. The nature of the products necessitates special measures in terms of security, surveillance, etc.

Production of banknotes and coin

Electronically-based payments transmission

Various technologies

During 1987 substantial progress was made in the field of electronically-based payments services, particularly with regard to the introduction of payment terminals in the retail sector. Norges Bank's primary aim in this field was to ensure the coordination of different technological solutions based on plastic cards. Whereas the commercial banks chose to concentrate on microprocessor technology, the savings banks chose magnetic card technology.

Agreements stating intent to coordinate

Despite the fact that agreements of intention to coordinate and to share expenses (the wording of which varied to some degree) had been concluded between the Norwegian Bankers' Association, the Association of Norwegian Savings Banks and the Directorate of Postal Services (each one separately) on the one hand and the Federation of Norwegian Commercial Associations and the Norwegian Cooperative Union and Wholesale Society on the other hand, it proved difficult to achieve full coordination of the two systems.

Partial coordination of banking associations

A significant step forward was made in the spring of 1987, when consensus was reached concerning an agreement regarding the distribution of responsibility. According to this agreement, the commercial banks, the savings banks and the Directorate of Postal Services were each responsible for its own technology. During the summer, negotiations were held between the two bank associations in order to reach an agreement concerning coordination. After it proved to be impossible to come to terms completely concerning an agreement of that type, the two banking associations signed an agreement on 22 October 1987 which partly satisfied the need for coordination. The agreement represented a major step forward, since it will entail complete coordination, after a transition period, within the retail sector as well as for other companies with a turnover exceeding 5 million kroner per year – later for companies with over 3 000 transactions per year. At the end of 1988, Norges Bank will review the situation and consider whether new measures should be taken by the authorities to promote a coordinated system.

Notes and coin

The value of notes and coin in circulation increased in 1987 by NOK 1 850.9 mn to NOK 30 812.9 mn, or by 6.3 per cent compared with 6.5 per cent in 1986. In the past five years, the volume of notes and coin in circulation has increased by 25.5 per cent. In the same period, private consumption, measured in current kroner, has risen by 68 per cent.

Use of the NOK 1 000 note has shown a small but steady increase from year to year. In value terms, it now accounts for 64.3 per cent of notes in circulation, compared with 62.5 per cent in 1986 and 56 per cent in 1983. This increase still seems to be partly at the expense of the NOK 100 has fallen from 34.3 per cent to 30.1 per cent in the past five-year period.

The NOK 500 note's share of notes in circulation has decreased slightly and now represents 2.8 per cent as opposed to 3.1 per cent the previous year. As far as the NOK 50 note is concerned, its share of 2.1 per cent has remained the same as last year.

The volume of coin in circulation has increased in 1987 by NOK 112.8 mn to NOK 1 849 mn. At the end of 1987, the NOK 10 coin accounted for 43.5 per cent of the total coinage in circulation, compared with 42 per cent the previous year. Demand for the NOK 10 coin thus appears stable.

Production of 10 øre coins increased in 1987 by 34.3 million pieces to 169.7 million pieces.

Cheque clearing

In Norway, most cheques are cleared at the IDA data processing centre and at ABC Bank (former Union Bank of Norway). In 1987, 30.2 million cheques were cleared at the IDA in Oslo (compared with 32.4 in 1986) and 7.9 million in Bergen (compared with 8.6 in 1986). ABC Bank cleared 18.0 million cheques (compared with 20.0 in 1986). Whereas the number of cleared cheques in the clearing centres referred to remained virtually unchanged between 1984 and 1985, there was a 15 per cent reduction in 1986. Figures for 1987 show that the use of cheques decreased by a further 8 per cent. This decrease can probably be explained by the fact that the general public is still adjusting to the system of cheque charges, combined with increased availability of minibanks and terminals for plastic payment cards.

Norges Bank's Head Office and regional branches receive cheques from various public institutions, in the first instance the Postal Services Administration. Most of the cheques are submitted to the IDA for clearing. In 1987, 2.3 million cheques were received at Head Office, i.e. a decline of 4.2 per cent compared with 1986.

The turnover at the Oslo Bankers' Clearing House, i.e. cheques cleared at Norges Bank, amounted to NOK 504.9 bn in 1987. This is an increase of 16.6 per cent compared with 1986. The daily cheque clearing at Norges Bank's Head Office by transfers to and from the individual banks' current accounts with Norges Bank is largely confined to cheques for large amounts. The increase in turnover is attributable both to an increase in the number of credit institutions and to the fact that these institutions now make greater use than previously of Norges Bank as their settlement bank.

Settlement over bank giro

The bank giro system is based on electronic data processing of machine-readable bank giro forms at the Banks' Payments Centre (Bankenes Betalingssentral – BBS) in Oslo. The BBS handled 135.5

million transactions in 1987, i.e. 1.4 per cent more than in 1985. The amount involved showed an increase of 14.1 per cent on the previous year.

The number of giros (forms) sent from Norges Bank via the BBS in 1986 was 417 000, an increase of 2.5 per cent. Turnover value, however, decreased by 37.7 per cent. This is due, among other things, to the fact that interest and redemption payments on government loans are now settled over giro by the State Securities Centre instead of by Norges Bank.

Direct remittance (paperless transactions) is employed primarily in connection with wage transfers. Public institutions deliver transactions direct to the BBS by electronically readable means. In 1986, the number of paperless transactions from public institutions increased from 286 000 to 1.1 million, whereas the increase in 1987 was only 100 000 transactions.

Postal giro

The postal giro is one of the most important parts of the payments transmission system. In 1987, transactions (in-and out-payments, direct transfers) numbered 128.1 million, which represents an increase of 3.6 per cent compared with 1986. Turnover in 1987 amounted to NOK 2 202.4 mn, an increase of 13.2 per cent on 1986.

Norges Bank receives substantial amounts over its postal giro account for transfer to its customers' accounts. Deposits are made by both public authorities and private banks.

Interest compensation for cash holdings

From February 1983, on a trial basis, interest was paid to the banks and the Postal Services Administration in compensation for maintaining large cash holdings, so as to reduce the need for transporting cash. The results of this trial arrangement were disappointing, and the system was discontinued on 1.1.1988.

Charges for requisitioning of banknotes and coin

With effect from 1.1.1988, Norges Bank has decided to introduce a system of charges for banknote and coin handling. The charge is only payable when the customer requires banknotes of a special quality, such as for use in cash-dispensers, and for coin packaged in rolls. Notes in standard units and of ordinary quality, and coin packed in standard bags, will continue to be supplied free of charge. Furthermore, Norges Bank can now enter into agreements to carry out supplementary services in return for a charge that covers the extra cost in each individual case. The object of the new charge system is to arrive at an expedient sharing of responsibility between Norges Bank and the banking and postal systems.

International Cooperation

The International Monetary Fund

Norges Bank is the IMF's liaison body in Norway.

Central Bank Governor *Hermund Skånland* represents Norway on the Board of Governors of the International Monetary Fund. *Tormod Antonsen*, Secretary General at the Ministry of Finance, is his alternate. The Nordic countries are jointly represented both on the executive board and in the Fund's advisory bodies: the Interim Committee and the Development Committee. *Jørgen Ovi*, Denmark, is Executive Director for the Nordic countries and *Markus Fogelholm*, Finland, his alternate.

The Nordic countries' views in matters dealt with by the agencies of the IMF are coordinated by the appropriate authorities. Responsibility for coordination alternates between the Nordic central banks, and is currently in the hands of Denmark.

Representation in IMF agencies

Nordic monetary cooperation

The Nordic Committee on Financial Questions (NFU), which includes representatives of the central banks and finance or economics ministries of the five Nordic countries, held two meetings in 1987. The Committee primarily discussed matters to be considered by the Interim Committee and at the Annual Meeting of the Fund. But the Committee also dealt with exchange-rate and exchange-regulation issues of importance to the five Nordic countries.

Based on the Nordic finance ministries' decision in 1983, foreign exchange regulation in the Nordic countries is monitored with a view to further liberalization if balance of payments and monetary policy considerations should make this possible. Collaboration has been initiated with the Senior Officials' Committee for Industrial Questions with a view to establishing whether rules and practices in the field of foreign exchange and establishment prevent or impede industrial cooperation between the Nordic countries. A working group was set up. It presented two reports in 1987: "Industrial cooperation and direct investment" and "Industrial cooperation and portfolio investment". The reports propose some important, if fairly limited, liberalization measures.

Nordic Committee on Financial Questions (NFU)

Liberalization of foreign exchange regulations

The annual meeting of the Nordic central bank governors was held in Helsinki in 17-19 August 1987. The main topic was increased risk in banking activity and central bank monitoring of the same.

Credit agreements with other central banks and the Bank for International Settlements (BIS)

Norges Bank has for a number of years participated in swap arrangements with the Federal Reserve Bank and the other Nordic central banks. The agreement with the Federal Reserve is part of a body of agreements on reciprocal credits which the US central bank operates with 14 other central banks and the BIS. The object of the Nordic agreement is to provide foreign exchange support to a Nordic country which encounters balance of payments difficulties. Before such support is granted, the country must have utilized its own foreign exchange reserves to a reasonable extent.

Research, Models and Statistics

Research with and work on economic models

Most of the work on this field dealt with further elaborating the quarterly model RIKMOD. In 1987, important headway was made in elucidating recent consumer trends, wage and price formation mechanisms and the banking sector's response to various types of regulation. The research process and findings have been documented, and formalised in 11 reports in the "Working Paper" series published by Norges Bank.

The credit budget model, KRØSUS, was in operation throughout 1987. A large-scale software development project, wound up in 1987, has made the model more effective and user-friendly.

Further development of RIKMOD

Raising the effectiveness of KRØSUS

The TROLL programming system

Since 1978 Norges Bank has worked in close cooperation with the Center for Computational Research and Management Science (CCREMS) M.I.T., Boston, Mass., which developed TROLL. Norges Bank has continued its work in cooperation with CCREMS to further develop the programming system. In 1987, M.I.T. sold its property rights to TROLL to a private company, INTEX Solutions, Inc., Boston. Norges Bank has concluded an agreement with INTEX providing for continued cooperation under the same terms as previously.

New proprietor agreement

Foreign exchange statistics

In 1983, the reporting arrangement for payments to and from abroad – which is the basis for producing foreign exchange statistics/external account figures and monitoring foreign exchange developments – was modified and rationalized. Since then, the number of payments reported to the bank has continually increased as a result of less restrictive foreign exchange regulations and the growing internationalization of Norwegian business and industry. Payments can either be reported one-by-one or in sum depending on the case. The number of payments reported one-by-one was 20 per cent higher in 1987 than in 1984. Considerable rationalization has proved indispensable in dealing with a growing workload for the same number of staff and in our pursuit of higher quality input.

Increase in number of foreign exchange reports

Foreign lending and borrowing figures have already been entered in a terminal-based EDP-system. In 1987, this system was also used for *direct investment* in Norway and abroad and for *securities transactions with abroad*, which has improved the follow-up process and widened access to information stored in the system.

Extended use of EDP for compiling statistics and monitoring capital transactions

New report form for firms with accounts abroad

A terminal-based system for monitoring Norwegian firms' (excluding banks) payments via foreign accounts is already operational. The reporting system – ie forms and instructions – has not proved expedient. In 1987, a new form and new set of instructions were elaborated and will be available in the beginning of 1988. The new version is more rational and the instructions have been updated and tested by a number of major users. The new system will also provide the Bank with a sounder basis of information.

Revision of code list

The list of codes for foreign exchange payments was revised and simplified in 1987 to improve EDP efficiency of banks' foreign payments reporting to Norges Bank. The list is an overview of those payments which are indispensable in compiling the relevant statistics so that the list of codes and the number of the enterprise in the computer-readable reports from banks will provide information as to sector and means of payment, necessary to complete the external accounts.

Overview of actors in the foreign exchange market

In autumn 1987, a new weekly statistics production was initiated to show how private banks' currency trade on the spot and forward market is divided among major groups of buyers and sellers. The major groups comprise Norges Bank, other domestic sectors (besides Norges Bank and private banks) and foreign countries. The statistics are primarily based on foreign exchange position reports sent to Norges Bank each week by foreign exchange banks, the objective being to improve monitoring and analysis of market operators' transactions. For the time being, these statistics are for internal use only.

Financial Statistics

Complete revision of bank reports

The Financial Statistics Division works in close cooperation with the Banking, Insurance and Securities Commission and the Central Bureau of Statistics (CBS) in compiling and processing credit market statistics. Since 1984 the objective has been to develop a new basis for banking statistics. The project „Public banking statistics 1986“, initiated in January 1987, involved complete reorganization of the database for bank balance sheets and profit and loss accounts. Concurrently, paper forms supplanted magnetic tapes.

Poor quality necessitated provision of special statements

The new system gave rise to complications for all parties concerned. Delays arose from the start. Throughout the first half-year the quality of the reported data was so poor that the Central Bureau of Statistics was not able to publish any official banking statistics. Norges Bank was compelled to obtain special statements in order to keep abreast of the trend in credit and money supply growth. In the second half of the year the quality of data improved and the CBS resumed routine publication of banking statistics. Norges Bank still deemed the figures insufficiently reliable to be used as a basis for calculating banks' borrowing access with Norges Bank. Therefore, special statements with respect to the banks' basis of calculation were required on a special form for each month in 1987.

The banking statistics at the beginning of 1988 were approved as satisfactory but the quality of data in a number of reports still requires improvement.

**Normal operations as from 1988,
but reports still deficient**

Norges Bank's Fund for Economic Research

In 1987 the Fund made twelve awards totalling NOK 153 000. Two were used to organize conferences, four went to research projects and six to participation in conferences/research seminars to present research findings. The awards ranged from NOK 4 000 to NOK 25 000.

From Norges Bank's Leif Johansen Scholarship, which finances visits by prominent foreign research economists to the Institute of Economics at Oslo University over a ten-year period, a sum of NOK 135 000 was used in 1987 to finance a visit by Professor Michael Hanemann of the University of California.

Other Activities

Norges Bank's loans to industry

Advances of own funds

At the end of 1987, Norges Bank had seven outstanding loans to industry. Amounts granted and utilized in the past three years were:

	1985	1986	1987
Amount granted as at 31.12 (NOK mn)	104.7	90.2	57.9
Monthly average of utilized amounts (NOK mn)	96.1	84.0	47.8
Average utilization ratio (per cent)	94	93	82.4

In 1987, credit granted to the Central Fund for Operating Credits to Farmers amounted to NOK 30 mn. In accordance with the approved schedule for reduction of this credit line (effective as from 1 January 1985), this facility is reduced for 1988 to NOK 20 mn. It will be completely phased out by the end of 1989.

The six remaining loans of Norges Bank's own funds are to stockfish exporters as a supplement to the government loan arrangement. The loans were granted at the request of the Ministry of Fisheries and in consultation with the Ministry of Finance.

The largest of the loans is to the Fish Producers' Cooperative Marketing Association. It mainly finances stocks of stockfish which the Marketing Association's participant companies took over from the producers in 1982-83. It was granted against a bank guarantee and is reduced as the stocks are sold. In the past two years, this credit line has been reduced significantly. By the end of 1987, about NOK 10.5 mn of a total appropriation of NOK 20 mn had been utilized.

Of the five remaining stockfish credit lines, about NOK 7.7 mn of a total appropriation of NOK 14 mn had been utilized as of 31.12.87. These credit lines were reduced slightly during 1987.

Government-guaranteed loans to fisheries

A scope of NOK 260 mn was set by the Storting for such loans for the four-year period, 1987-1990. During the proceedings in the matter in the Storting, no fundamental objections were raised to discontinuation of government-guaranteed loans to fisheries in South Norway, provided that Norges Bank for the time being maintains those credit lines which cannot be transferred to private banks. Additionally, the Storting agreed that credit lines to the sales associations in South Norway should be wound up over a four-year period - provided, however, that operating credit would be granted for brief periods if extraordinary circumstances arose. The Storting also stipulated that developments should be closely followed, and that new measures should be proposed if necessary.

At end-1987, government-guaranteed credit lines had been granted by the regional branches in Vardø, Hammerfest, Tromsø, Bodø, Trondheim, Kristiansund, Ålesund and Bergen. Credit lines granted by the Kristiansund branch have now been discontinued, and Ålesund and Bergen have one credit line each, which are being wound up.

The loans are administered according to guidelines set by the Storting. They are granted in the form of overdraft facilities and are renewable annually. Amounts granted and utilized in the past three years were as follows:

	1985	1986	1987
Amount granted as at 31.12 (NOK mn)	146.8	146.6	166.5
Monthly average of utilized amounts (NOK mn)	106.4	117.9	130.0
Average utilization ratio (per cent)	67	74	82.4

At the end of 1987, there was a total of 45 loans, which is an increase of one compared with 1986.

At the end of 1987, claims were registered in five composition proceedings/bankrupt estates. Losses related to these loans are estimated at about NOK 1.3 mn.

In addition to the direct loans, the Bank provides guarantees, on behalf of the borrowers, to the Norwegian Raw Fish Organization for correct payments to fishermen. In 1986 such guarantees amounted to about NOK 26mn.

Government credit arrangements administered by Norges Bank

In order to ease the difficult situation which arose when stockfish exports to the Nigerian market declined in 1982, the Storting appropriated in 1982-83 a total of NOK 200 mn for extraordinary liquidity loans to stockfish producers.

Extraordinary credits to the stockfish industry, 1983

In 1986, the Nigerian authorities issued licences for the import of stockfish on condition that the seller accepted payment in Nigerian currency. The Ministry of Fisheries gave permission for export to take place on these terms, and in 1986 our borrowers exported 4 300 tonnes of stockfish, for a value of about 20.1 million naira. The proceeds of these sales, in Nigerian currency, are on deposit with Nigerian banks. Small consignments have also gone to other markets.

As at 31 December 1987, current loans under the extraordinary credit arrangement for the stockfish industry amounted to NOK 137.4 mn, distributed among 23 loans. This represents a decrease compared with 1986, when current loans totalled NOK 145.5 mn, distributed among 30 loans. The loan arrangement has been renewed annually and now runs to 31 December 1988.

As at 31 December in 1985, 1986 and 1987, current loans under the arrangement broke down as follows (amounts in NOK millions):

	1985	1986	1987
Producers and producer-exporters	21.1	17.4	11.7
Exporters	136.4	128.1	125.7
Current loans, total	157.5	145.5	137.4

Liquidity loans to small fishery enterprises in 1985

In June 1985, the Storting appropriated NOK 50 mn for liquidity loans to small fishery enterprises whose earnings had fallen as a result of the development in the cod fisheries. The Ministry of Fisheries established guidelines for the loan arrangement which Norges Bank was asked to administer.

A total of NOK 43.8 mn, distributed among 95 borrowers, has been disbursed. The total amount of loans as at 31 December 1987 (including unpaid interest) was NOK 42.0 mn.

The loans were granted free of interest and redemption payments for the remainder of 1986 and are to be made over a four-year period. The interest rate on the loans is set by the Ministry of Fisheries, and was 12.5 per cent for 1987.

In 1987, the Ministry of Fisheries gave Norges Bank authority to decide on applications for a deferral of interest and redemption payments for the first two quarters. 27 applications were received, nine of which were granted a deferral of interest and instalment payments, and twelve were granted a deferral of redemption payments.

Other loan arrangements

Under other government credit arrangements administered by Norges Bank, only one loan remained at the end of 1987. This loan amounts to NOK 430 000 and is related to the 1975 loan arrangement for extraordinary credit to cod fisheries.

Guarantees

At the end of 1987, Norges Bank had provided guarantees for a total of NOK 38.8 mn, against NOK 136.6 mn at the end of 1986. The guarantees are mainly in favour of foreign customers on behalf of Norwegian state enterprises, and refer essentially to advance payments for exports from such enterprises. The Executive Board has decided that, in future, the provision of guarantees shall be confined to the bank's own customers.

Cooperation with the Regional Development Fund

As previously, reports on companies and routine accounts analyses made up the bulk of the work done by Norges Bank for the Regional Development Fund in 1987. Additionally, some of Norges Bank's branches prepared accounts statistics for comparison of enterprises within the same trade or category. At several of Norges Bank's branches, the progress of newly established enterprises was closely

Reports, annual accounts analyses and branch statistics

monitored in 1987 – with a view to helping to put the enterprises on a sound footing. Local cooperation between Norges Bank and the Regional Development Fund showed a favourable development in 1987.

Table 14 shows the number of reports submitted in 1985, 1986 and 1987, as well as the number of enterprises whose were analyzed.

Table 14.
Assignments Carried Out for the Regional Development Fund
in 1985, 1986 and 1987

Norges Bank's branch	Reports submitted			Routine accounts analyses		
	1985	1986	1987	1985	1986	1987
Arendal	8	11	18	268	295	323
Bergen	70	71	49	819	1 045	1 131
Bodø	19	31	28	877	870	940
Drammen	21	32	26	175	220	22
Hamar	21	25	28	275	343	380
Hammerfest	2	10	14	196	284	268
Haugesund	15	9	33	57	61	64
Kristiansand S	26	41	49	85	138	149
Kristiansund N	10	16	30	270	399	410
Lillehammer	18	24	35	440	503	584
Skien	24	32	38	256	337	367
Stavanger	11	16	19	129	146	206
Tromsø	19	28	25	401	376	499
Trondheim	21	28	34	757	922	951
Vardø	8	15	7	134	111	152
Ålesund	7	10	15	420	489	53
Head Office	4	4	1	20	22	26
Total	304	403	449	5 579	6 561	7 202

As the table shows, there was a clear increase in the number of reports submitted in 1987 compared with the previous year. The same is true of annual accounts analyses. A greater number of reports than previously are concerned with the progress made at enterprises visited earlier and new establishments. The increase in the number of assignments carried out is a very good sign, and indicates that the concentration on computerization in this area is now paying off.

Norges Bank uses the analysis model, SEBRA (the Norwegian acronym for Computerized Accounts Analysis System). This system was developed entirely in Norges Bank and contains routines for annual accounts analyses, enterprise analyses with prognoses, sensitivity analyses and trade/category statistics. The model was in operation by the start of 1988. A comprehensive database, which currently contains annual accounts figures for over 9 000 enterprises, forms part of SEBRA. Accounts data covering a four-year period are stored in the database for a substantial number of enterprises.

SEBRA analysis model

In 1987, Norges Bank sold a number of SEBRA services to other institutions, for research purposes, among other things. The bank has registered a growing interest in such services and aims at meeting the demand as far as possible.

In 1987, Norges Bank held courses for executive officers in the industrial divisions in several counties, as well as several courses in financial management for the executives of small enterprises.

Work done for the Regional Development Fund in 1987 is estimated at about 40 man-years.

The Regional Development Fund is currently engaged in defining its future tasks, such as by determining whether specific tasks are to be handled centrally or at county level. Part of the guidance and supervisory service may be transferred from the Regional Development Fund to the individual counties. Norges Bank has stated that it is prepared to enter into cooperation agreements with the counties.

State Bank for Fishermen

When the State Bank for Fishermen established its own office in Bodø, it was agreed that Norges Bank was to continue to carry out assignments for the Fishermen's Bank for a transitional period of two years, subject to reimbursement of salary costs, etc. In 1987, these expenses amounted to NOK 0.8 mn, and at year-end only one of Norges Bank's employees was engaged in these tasks. This arrangement will be phased out by 1 June 1988.

National Insurance Fund

The secretariats for the National Insurance Fund's second, third, fourth and fifth district fund managements are attached to Norges Bank's branches in Skien, Bergen, Trondheim and Tromsø. At each of these branches, one staff member has been appointed secretary to the fund management concerned. Norges Bank's Head Office in Oslo administers the securities portfolio and keeps the business accounts for all the district fund managements.

Safe custody and trust

According to Section 17 of the Norges Bank Act of 24 May 1985, the Bank shall carry out banking transactions for the government, state banks and public funds. Accordingly, the Bank receives for safekeeping and administration securities belonging to the State and public funds.

In addition to such items of value, Norges Bank receives for safekeeping and administration securities which, pursuant to special statutory regulations, must be lodged with the Bank. By agreement, Norges Bank also administers the securities portfolio of the National Insurance Fund.

Since the establishment of the Securities Service Centre in 1986, a substantial part of the physical bonds and shares administered have instead been registered with the Securities Service Centre.

Domestic government loans, etc.

Norges Bank is the principal agent for the Government's domestic loan issues. No ordinary government loans were raised in 1987. Eight redemption-free government loans totalling NOK 2 811 mn and two sinking fund loans on which NOK 40 mn remained outstanding, fell due for repayment in 1987.

On 15 November 1986 and 15 February 1987, 68 government loans on which NOK 94.5 bn remained outstanding were registered at the Securities Service Centre. A dispensation has been granted, exempting one government loan from registration.

In 1987, one three-month treasury certificate and three twelve-month treasury certificates were issued. The last treasury certificate was issued in June 1987. See also the chapter on Norges Bank's operations in the foreign exchange and money market.

No savings bond loan was issued in 1987. In the case of Verdi-Spar '82 and Verdi-Spar '82 II, which fell due on 1 February and 1 June 1987 respectively, the State offered two years' postponement of redemption. In the extension period, the value of the bonds will be written up semi-annually in keeping with the consumer price index, but with no supplementary bonus. As at 31 December 1987, outstanding holdings of savings bonds amounted to NOK 2.6 bn compared with NOK 3.7 bn the previous year. This decline is due to the redemption of Verdi-Spar bonds.

No premium bond loans were issued in 1986. The seven current premium bond loans amount to a total of NOK 3.2 bn.

The Government's land purchase bonds are used in connection with the acquisition of land by public authorities and are issued by Norges Bank on behalf of the Ministry of Finance.

In 1987, land purchase bonds were issued for NOK 190 mn. Interest and redemption payments to 9 155 bond holders amounted to NOK 194 mn. Outstanding land purchase bonds amounted to NOK 1 011 mn as at 31 December 1987.

Government loans

Treasury certificates

Savings bonds

Government premium bonds

The Government's land purchase bonds

The Bank's Management and Administration

Executive Board and Supervisory Council

As described in the Annual Report for 1986, the Ministry of Finance proposed in Proposition No. 65 (1985–86) to the Odelsting to amend the Act relating to Norges Bank and the Monetary System so that members of the Executive Board would have personal deputy representatives. According to the previous provision, the deputy representatives were to attend meetings in the order in which they were appointed. The amendment was adopted by the Storting on 21 November 1986, but did not enter into force until so decided by the King. That decision was announced by Royal Decree on 18 December 1987. On the same day, Per Høybråten and Kari Gjestebø were reappointed for another period, and Eivind Reiten was appointed as a new member to succeed Finn T. Isaksen, who died on 29 September 1987. Personal deputy representatives were appointed at the same time.

On 14 December 1987, the Storting appointed eight members to the Supervisory Council for the period 1.1.1988 – 31.12.1991. Six members were reappointed. County Executive Olav Haukvik, Skien (Vice-Chairman of the Supervisory Council) and Inge Høyen, Svelvik, were appointed to succeed Sverre Frogner and Sverre Helland, who retired from the Council. Appendix B shows the composition of the Executive Board and the Supervisory Council.

Administration

In recent years, an extensive study has been made of Norges Bank's organization at the Head Office in Oslo and of the structure of the 20 regional branches.

Reorganization of policy departments in 1986

In 1986, as a first step in this work, the policy departments were restructured to bring about a functional organization of work in the field of macro-economics. The traditional bifurcated central bank administration with a foreign exchange department and a domestic economic policy department was replaced by a four-part structure. The following sections were created: the Economics Department, responsible for formulating advice and measures in the fields of both monetary policy and foreign exchange policy; the Research and Statistics Department, the Market Operations Department, responsible for operations in the foreign exchange, money and capital markets and for placing the country's foreign exchange reserves, and the Financial Markets Department, responsible for the structure of the financial market, regulating monetary and credit policy, issuing foreign exchange licences and for foreign exchange controls. The new organization has now functioned satisfactorily for two years, and, on the whole, the Bank is well satisfied with this organization.

The work of rendering the organization of Norges Bank more efficient continued in 1987. As far as the Head Office was concerned, attention was now focused on the supply of means of payment, the Bank's own banking activities and the internal administration. Particular importance was attached to improving the management's possibilities of coordinating and directing the Bank's total operations and strengthening the work of planning and development. These efforts have resulted in a resolution adopted by the Executive Board on 20 January 1988 concerning a new overall organization chart for Norges Bank. See Appendix B.

New organization chart in 1988

As shown in the new organization chart (see final page), up to eight directors, in charge of a total of 34 units, 21 of which are regional branches (including the Oslo branch), are responsible to the Governor and the Deputy Governor of Norges Bank. One of these directors has been given the title General Manager and is in charge of the 21 regional branches, the two production units – Norges Bank's Printing Works and The Royal Mint at Kongsberg – as well as the Head Office's Administration Department. The new organization becomes effective on 1 April 1988.

In the past few years, considerable efforts have been made to establish a more efficient structure for the Bank's regional branches. The Storting requested that the regional branch structure be examined and the study culminated in a proposal for a new regional branch structure, which was submitted to the Ministry of Finance by the Executive Board in December 1987.

Regional branch structure

The Executive Board based its assessment of the future branch network on the needs of Norges Bank in order to be able to carry out its specific tasks. As far as regional policy is concerned, the Executive Board did not consider it appropriate for Norges Bank to make evaluations of that nature, which should be the responsibility of the Government and the Storting.

On that basis, a majority of the Executive Board members voted in favour of reducing the number of branches from 20 to 12. Furthermore, the branch that is responsible for supplying means of payment and bank activities at the Head Office, is to be made a separate Oslo branch.

Majority of Executive Board in favour of reduction to 12 branches

The majority agreed that the branches in Kristiansund, Haugesund, Arendal, Drammen and Halden shall be closed, the three branches in the Mjøs district – Lillehammer, Hamar and Gjøvik – merged into one branch located in Moelv, and that the Bank's activities in Larvik and Skien shall be grouped under one of these two branches.

A minority was in favour of maintaining the following branches: Arendal, Haugesund and Kristiansund.

Minority proposal

The employee representatives voted in favour of another organizational model for a number of the branches that the Executive Board proposes to close, in which the various branches are maintained, but the distribution of work and the administrative structure is rendered more efficient.

The Ministry of Finance will draw up a proposition for the new branch structure, which is to be submitted to the Storting in the 1988 spring session.

Staff

At the end of 1987, Norges Bank employed a total of 1 361 persons (full-time and part time on monthly salaries): 693 women and 668 men. Man-years worked amounted to 1 285.

In addition, the Bank employs persons on hourly and daily pay, as well as stand-ins during vacations and other periods of absence. In 1987, this group worked 92 man-years.

Reduction and transfer of tasks to the regional branches

In connection with the construction of Norges Bank's new Head Office building in Oslo, the Ministry of Local Government and Labour stipulated as a condition for obtaining permission to build that the Bank submit a plan for transferring work tasks to branches outside the Oslo area, so that the number of persons employed at the Head Office, including the Auditing Department, but excluding the Printing Works, did not exceed a limit set in June 1983 at 580 man-years.

In 1987, the Head Office adopted a list of measures for rationalizing operations at the Head Office and transferring certain tasks to the regional branches. The bulk of these measures will be implemented by the end of 1989. The list has been submitted to the Ministry of Finance and the Ministry of Local Government and Labour for evaluation, and confirmation has been received that it satisfies the conditions stipulated for permission to build the last phase of construction of the Head Office.

An overview of the Bank's staff and changes in the number of employees in the last five-year period (1983-87) is provided in Appendix B.

1987 wage settlement deferred

In the negotiations between Norges Bank and the employees' organizations concerning wage adjustments for the second year of the current wage agreement period, the parties agreed to base wage adjustments on the government's income policy objectives for 1987 and 1988. In the national budget publications for 1987 and 1988, these goals were stated in the form of ceilings for wage growth for those two years of 6.5 per cent and 5 per cent respectively. This results in a total of 11.8 per cent for both years taken as a whole.

Negotiations were concluded in February, resulting in a total wage increase for 1987 and 1988 of 9.0 per cent, compared with 14.8 per cent for the other banks and 9.6 per cent for government employees. However, the wage adjustments for Norges Bank had not entered into

force by 29 February, the date the temporary legislation relating to an wage and dividend freeze became effective. The final settlement will therefore not be ready until the results of the negotiations have been tested in relation to the Act pertaining to wage and dividend regulation.

The Bank's buildings

As mentioned in last year's Annual Report, the new Head Office building was taken into use and inaugurated in 1986. The Printing Works moved the majority of its activities into the new premises in April/May 1987. A number of modifications and follow-up work covered by the construction guarantee were carried out, most of which were completed by the end of the year.

The Planning Committee is preparing a final report for the building project, which is expected to be completed in the summer of 1988.

At the initiative of Norges Bank, the Ministry of Finance appointed a "Committee of Inquiry for Norges Bank's new Head Office building" which consists of the following members:

Supreme Court Judge Trond Dolva, Chairman
Professor Kåre Lilleholt
Managing Director Per T. Eikeland
Professor Frank Henning Holen

The Committee has the following mandate:

- 1) The Committee shall review and describe the facts related to the planning, organization and implementation of the construction of Norges Bank's new Head Office building. On the basis of this information, the Committee shall clarify the causes of the increase in the cost ceilings that had to be made during implementation.
- 2) If the Committee finds reason to instigate investigations and make evaluations as regards distribution of responsibility, the actions of the Committee should base itself on the rules of 4 March 1975 issued by the Ministry of Justice concerning commissions of inquiry.

No major construction work was carried at the regional branches in 1987. Work on planning the new bank buildings at Bodø and Skien branches remains in abeyance pending consideration by the Storting of the report on the regional branches' future structure.

The question of a site for a new bank building for the Bergen branch has still not been resolved. Negotiations are in progress with Bergen Municipality. A revised outline project for a new building in Trondheim has been drawn up by the Directorate of Public Construction and Property in collaboration with Norges Bank. The project, which has been approved by the Executive Board, has been submitted to the Ministry of Finance and is to be considered by the Supervisory Council in the first half of 1988.

Head Office

Committee of Inquiry

Regional branches

Oslo, 23 March 1988

Executive Board of Norges Bank

Hermod Skånland

Kjell Storvik

Juul Bjerke

Per Høybråten

Arnulf Ingebrigtsen

Eivind Reiten

Kari Thu

Einar Magnussen

Norges Bank's Accounts for 1987
Comments of the Supervisory Council
on the Minutes of the Meetings of
the Executive Board

Accounts of Norges Bank for 1987

Statement by the Supervisory Council on the Minutes of the Executive Board

Report by the Executive Board on the Accounts for 1987

The profit for the year before valuation adjustments and extraordinary income/expenditure was NOK 7 782 mn in 1987, against NOK 6 495 mn in 1986.

Foreign interest income fell from NOK 7 926 mn in 1986 to NOK 5 966 mn in 1987. The main reason was the lower level of Norges Bank's foreign assets in 1987, but a lower interest rate level also contributed. Further, there was a shift in placement of the foreign exchange holdings from long-term investment with a high rate of return to more liquid assets with a lower rate of return.

Between 1986 and 1987, domestic interest income increased by NOK 3 265 mn to NOK 13 767 mn. Average disbursements to banks were substantially higher in 1987 than 1986.

Norges Bank's net agio loss in connection with exchange rate changes amounted to NOK 864 mn in 1987, compared with an agio gain of NOK 7 601 mn in 1986. The size of the gain is related to the downward adjustment of the krone's international value in May 1986.

Norges Bank's net loss in connection with revaluation of foreign bearer bonds amounted to NOK 891 mn in 1987, compared with the revaluation in 1986 which resulted in a gain of NOK 1 413 mn. The loss in 1987 was due to the fact that the interest rate level at year-end was higher than at the start of the year. This led to lower securities prices. The interest rate level fell towards the end of 1986 and securities prices rose.

The foreign exchange holdings are placed on deposit with foreign banks and in foreign treasury bills, bearer bonds and various market paper.

Norges Bank's holdings of the various currencies at end 1987 are shown in the table below. The table also shows the exchange rates employed for conversion to Norwegian kroner as at 31 December 1987.

Currency	Amount (million units)	Exchange rate (per currency unit)	NOK mn
US dollars	3 400.4	6.2325	21 193.1
Deutsche mark	6 722.1	3.9379	26 471.1
Japanese yen	420 614.0	0.05132	21 548.5
Pound sterling	316.7	11.670	3 695.8
Swiss francs	391.6	4.8634	1 904.6
Netherlands guilder	1 178.5	3.5014	4 126.5
ECUs	394.0	8.1160	3 197.5
Other			22.4
Total			82 159.4

In recent years Norges Bank has reduced the dollar share of the foreign exchange holdings and correspondingly increased the share of West European currencies and the Japanese yen. The shifts are rooted in a desire to spread exchange rate risk.

As at 31 December 1987, 25.7 per cent of the foreign exchange holding was placed in US dollars, 32.2 per cent in Deutsche mark and 26.3 per cent in Japanese yen. Corresponding figures for 31 December 1986 were 43.1 per cent in US dollars, 28.1 per cent in Deutsche mark and 17 per cent in Japanese yen.

During 1985 and 1986 a shift took place in Norges Bank's placements from short-term to more long-term investment. With the highly uncertain interest- and exchange rates in 1987, and turbulent market conditions, a larger share of the holdings was placed in assets with shorter residual maturity.

The changes in Norges Bank's foreign currency assets in 1987 are shown in the table below.

(Figures in NOK mn)	Holding as at 31 December 1987	Change in 1987
SDRs	2 750.4	-142.0
Reserve position in the IMF	4 401.7	21.8
IMF	1 775.5	-199.2
Deposits with foreign banks	24 055.6	9 213.5
Foreign treasury bills	2 571.5	1 172.1
Foreign bearer bonds etc.	55 532.1	-13 700.2
Foreign currency deposits with domestic banks	—	-836.5
Interest accrued, not yet due	1 721.3	-239.3
Total	92 808.1	-4 709.8

As related in last year's Annual Report, the new Head Office was taken into use in the autumn of 1986. The Printing Works moved in in March 1987. The building was brought to completion in 1987. The Executive Board did not finalize the accounts of the project in 1987 since settlement for some subcontracts is still being negotiated and some cases have been referred to litigation. Neighbours' claims for compensation for damage to adjacent buildings also remain to be resolved. The Executive Board assumes that the total costs will not exceed the cost framework set.

(Figures in NOK mn)	
Cost frame calculated for new Head Office	2 519
Transferred to "baseline"	-5
	2 514
Accrued costs as at 31 Dec. 1987	-2 507
Amount unutilized as at 31 Dec. 1987	7

Additional investments:

Restoration of Rådhusgata 10, 12 and Kirkegaten 6	66.5
Baseline	144.0
Norges Bank's share of the parking facility incorporated in the baseline	35.0
Total	245.5

The figures do not include site costs. Nor, in accordance with the practice of the Directorate of Public Construction and Property, are capital costs computed.

Guidelines for allocations and distribution of Norges Bank's profit were adopted by the King in Council on 7 February 1986. The guidelines read as follows:

1. Of Norges Bank's profit, amounts shall be set aside to the Adjustment Fund until this reaches a level equal to 20 per cent of the Bank's foreign exchange reserves, other foreign assets, foreign currency deposits with Norwegian banks, currency purchased forward, Norwegian bearer bonds and any other commitments which the Executive Board considers to entail more than negligible exchange rate risk.
2. Any profit after allocation to the Adjustment Fund shall be set aside to the Transfer Fund.
3. In connection with the closing of the books, each year an amount equal to the average of the gross allocations to the Transfer Fund in the three preceeding years shall be transferred to the Treasury from the Transfer Fund.

In accordance with the guidelines, the Executive Board proposes the following distribution of Norges Bank's profit for 1987:

In accordance with item 3 of the Guidelines for allocations and distribution of Norges Bank's profit, a sum of NOK 4 573 mn to be transferred to the Treasury from the Transfer Fund.

The remainder – NOK 8 677 mn – to be set aside to the Transfer Fund.

Profit and Loss Account (in whole 1 000 kroner)

		1987	1986
Interest income, etc.			
<i>Foreign</i>			
Interest on bank deposits		1 084 454	1 733 990
Discount on treasury bills		65 002	102 394
Interest on bearer bonds		4 484 251	5 744 926
Other interest income		326 530	340 332
Share dividend, BIS	Note 1	5 651	4 544
Gross interest income, etc., abroad		5 965 888	7 926 186
<i>Domestic</i>			
Interest on bearer bonds		3 089 422	4 922 519
Interest on negotiable certificates		290 891	625 806
Discount on treasury bills		1 816 594	1 648 626
Interest on fixed-term deposits		78 064	64 475
Interest on foreign currency deposits with domestic banks		16 351	203 340
Interest on forward exchange transactions		258 101	248 852
Interest on loans to banks		8 109 499	2 720 578
Interest on other loans, commissions etc		107 698	67 213
Gross domestic interest income, etc.		13 766 620	10 501 409
Interest expenses			
<i>Domestic</i>			
To the Treasury	Note 2	10 299 926	10 696 949
To public account holders	Note 3	379 597	331 813
On tax-free allocations to funds		108 163	105 142
On cash holdings of banks and the Postal Service		170 746	189 549
Other interest expenses, charges etc.		19 359	7 240
Gross domestic interest expenses		10 977 791	11 330 693
Net domestic interest income/expenses		2 788 829	-829 284
Net interest income, domestic and foreign		8 754 717	7 096 902
Other operating expenditures/income			
Wages and salaries, fees and other personnel costs	Note 4, 5	402 321	373 158
Other operating expenditures	Note 4, 5	187 239	142 189
Major works and purchases	Note 4, 5	409 759	102 758
Total		999 319	618 105
Sales income of the production units	Note 4, 5	-15 911	-16 546
Changes in stock of new notes/coin	Note 4, 5	-10 906	-
Total operating expenditures/income		972 502	601 559
Profit for the year before valuation adjustments and extraordinary income		7 782 215	6 495 343
Valuation adjustments			
Net exchange rate gain/loss	Note 6	-864 270	7 601 255
Net valuation gain/loss on securities	Note 6	-786 388	1 294 076
Net valuation adjustments		-1 650 658	8 895 331
Extraordinary income/expenditure			
Various holdings rel. to notes and coin		-	61 770
Interest accrued, not yet due		-	608 103
Re-entered funds and allocations	Note 7	3 549	542
Holiday pay and nat. insur. contributions		-	-26 407
Sale of real estate	Note 8	30 477	-
Total extraordinary income/expenditure		34 026	644 008
Result of the year after valuation adjustments and extraordinary income		6 165 583	16 034 682
Transfers			
From Housing Fund		-	333 318
From Adjustment Fund	Note 9	2 511 623	-
From Transfer Fund	Note 10	4 573 066	577 519
Amount available		13 250 272	16 945 519
<i>Distributed as follows:</i>			
Set aside to Adjustment Fund		-	2 648 802
Transfer to the Treasury from Transfer Fund	Note 10	4 573 066	577 519
Set aside to Transfer Fund	Note 10	8 677 206	13 719 198
Amount distributed		13 250 272	16 945 519

Balance Sheet as at 31 December (in whole 1 000 kroner)

ASSETS		1987	1986
International reserves	Note 11	91 317 481	94 991 645
Gold	Note 12	284 788	284 788
SDRs	Note 13	2 750 408	2 892 447
Reserve position in The International Monetary Fund	Note 14	4 401 701	4 379 873
Deposits with foreign banks	Note 15	24 055 596	14 842 133
Foreign treasury reserves		2 571 526	1 399 407
Foreign bearer bonds		55 532 130	69 232 358
Interest accrued, not yet due		1 721 332	1 960 639
Other foreign assets	Note 11	1 798 003	2 019 672
The International Monetary Fund	Note 14	1 775 503	1 974 672
Debtors	Note 16	22 500	45 000
Deposits with Norwegian banks		2 117 559	1 712 592
Postal giro		278 530	169 194
Commercial banks	Note 17	822 870	298 750
Savings banks	Note 17	1 016 159	408 100
Foreign currency deposits with banks		—	836 548
Norwegian treasury bills and negotiable certificates	Note 18	11 111 277	23 541 266
Treasury bills	Note 19	9 859 591	19 307 761
Treasury certificates		362 162	3 758 521
Other certificates		889 524	474 984
Norwegian bearer bonds	Note 18	13 749 281	24 723 570
Central administration		13 708 638	24 677 384
Local administration		6 072	7 214
State banks		1 437	1 690
Private credit enterprises		26 671	29 339
Other Norwegian sectors		6 463	7 943
Domestic loans		74 687 324	69 835 148
Commercial banks	Note 20	41 521 651	43 368 894
Savings banks	Note 20	32 740 932	25 902 029
Private finance companies	Note 21	18 723	194 170
Other Norwegian sectors	Note 22	406 018	370 055
Other domestic assets		2 681 471	2 588 140
Discounted bank drafts		512 464	849 674
Interest accrued, not yet due		2 090 400	1 603 786
Other debtors	Note 23	78 607	134 680
Real estate etc.	Note 24	—	—
TOTAL ASSETS		197 462 396	219 412 033
<i>Not included in the balance sheet:</i>			
Guarantee liabilities	Note 27	525 142	634 889
Govt. guaranteed guarantees	Note 27	26 050	19 010
Foreign currency sold forward		2 181 175	6 558 147
Foreign currency purchased forward		2 181 175	493 730
Allotted, unpaid shares in the BIS	Note 1	424 510	215 505

Oslo, 31 December 1987/17 February 1988

Hermod Skånland

Kjell Storvik

Juul Bjerke

Anne-Lise Hilmen

LIABILITIES AND CAPITAL		1987	1986
Debt to abroad		2 199 049	2 498 206
Foreign banks		37 892	90 653
Current account deposits of foreign customers		372 925	424 280
The International Monetary Fund	Note 14	1 775 566	1 974 760
Other foreign debt		12 666	8 513
Counterpart of SDR allocations	Note 25	1 482 617	1 525 182
Notes and coin in circulation		30 831 676	28 980 151
Notes in circulation		28 963 888	27 225 785
Divisionary notes and coin in circulation		1 867 788	1 754 366
Domestic sight deposits		121 831 755	146 560 674
Treasury		113 557 774	140 204 534
Public treasurers		5 620 770	4 083 088
Central government trust funds		80 398	168 786
Social security administration		7 366	13 074
Local government administrations		5 750	931
Commercial banks		725 161	186 132
Savings banks		2 951	350 190
State banks		153 403	357 770
Other private finance companies		128 430	57 750
Life insurance companies etc.		265	1 044
Postal Service (incl. Postal Giro)		703 018	711 089
Private credit enterprises		985	1 200
Other state enterprises		732 481	335 344
Other Norwegian sectors		113 003	89 742
Deposits referring to tax-free allocations to funds		1 443 184	1 567 783
Other domestic liabilities		110 601	306 845
Domestic cheques		1 852	34 618
Unearned discount	Note 19	—	180 904
Other domestic creditors		108 749	91 323
Share capital and reserves		39 563 514	37 973 192
Adjustment Fund	Note 9	21 740 177	24 251 800
Transfer Fund	Note 10	17 823 337	13 719 198
Other funds etc.	Note 26	—	2 194
TOTAL LIABILITIES AND CAPITAL		197 462 396	219 412 033

Executive Board of Norges Bank

Per Høybråten

Arnulf Ingebrigtsen

Eivind Reiten

Siri Caspersen
Assistant Director

Notes on the Accounts for 1987

General information on the accounts

Principles of valuation

- Assets and liabilities in foreign currency are converted to Norwegian kroner on the basis of the middle rates quoted at the Oslo Stock Exchange on 31 December 1987.
- The Bank's holdings of foreign bearer bonds are valued at the price obtaining on 31 December 1987.
- Holdings of raw materials at the production units are valued at average purchase price. Semi-manufactures at the production units and finished notes and coin for distribution from Head Office are valued at cost price.

Accounting principles:

- Procurements of fixed assets, such as machinery and fixtures, are entered under operating costs. The same applies to disbursements related to Norges Bank's new building in Oslo and the great majority of building works at regional branches.

Note 1. Shares in the Bank for International Settlements

Norges Bank has been allotted a total of 8 000 shares of 2 500 francs in the BIS. 4 000 shares were allotted in 1931, and of these a quarter were entered as expenditures in the same year. In 1970 Norges Bank was allotted a further 4 000 shares of which one quarter were free shares.

Norges Bank is liable for the uncalled portion, corresponding to 6 000 shares of 2 500 Gold Francs each. The liability can be redeemed either in Gold Francs or in gold. Since the latest price quoted for Gold Francs is from 1979, the liability at end-1987 is converted according to the price of gold – USD 486.50 per ounce – quoted on 31 December 1987 in London. This corresponded to NOK 97.48 per gramme.

This liability is recorded in a sum of NOK 424.5 mn as a footnote to the balance sheet. Dividend on the shares is entered as income in a sum of NOK 5.7 mn.

At end-1986 the liability was converted with reference to the 1979-price for Gold Francs.

Note 2. Interest payable to the Treasury

The Treasury receives interest on its deposits with Norges Bank at a rate equal to that on treasury bills, viz. 8.75 per cent in both 1986 and 1987.

Note 3. Interest payable to public treasurers

Deposits from public treasurers, central government funds and the social security administration yield interest corresponding to that on treasury bills.

Note 4. Operating costs distributed on Head Office, branches, Printing Works and Royal Mint

(Million kroner)	Head Office	Branches	Printing Works	Royal Mint	Total
Wages and salaries	132.8	99.1	27.7	15.2	274.8
Employer's national insurance contrib.	21.7	15.1	5.3	2.4	44.5
Other personnel expenses	69.0	11.0	1.7	1.4	83.1
Total personnel expenses	223.5	125.2	34.7	19.0	402.4
Other current operating expenses	98.1	34.2	24.1	30.8	187.2
Major works and procurements	370.9	8.2	30.4	0.2	409.7
Income from production units	–	–	–12.7	–3.2	–15.9
Change in stocks of new notes and coin	–10.9	–	–	–	–10.9
Total operating costs	681.6	167.6	76.5	46.8	972.5

At end-1987, approved man-years worked in Norges Bank (incl. the production units) totalled 1 377.5. The sum of NOK 274.8 mn – wages and salaries – includes remuneration to stand-ins, to employees paid by the hour and for overtime in a total amount of NOK 20.7 mn.

The item "other personnel expenses" includes expenditure on the Bank's pension scheme totalling NOK 45.5 mn. Of this, the employer's contribution to the Pension Fund amounts to NOK 23.4 mn, while the cost-of-living adjustment of pensions and direct superannuation total NOK 22.1 mn.

Interest rate support to the Pension Fund in connection with the housing loan scheme amounts to NOK 8.1 mn.

The remainder of the sum "other personnel expenses" refers to expenditure on training (NOK 8.6 mn), hired hands, the canteen, the Bank's health service and welfare measures.

The item "other current operating expenditures" covers purchase of office machines and equipment, expenditures on telecommunications, postage and transport, operation of the Bank's buildings, information activity, expenditure on leasing and maintenance of computer equipment etc.

This item also covers purchase of raw materials and semi-manufactures by the Printing Works and the Mint. Changes in stocks of raw materials are taken into account in the production units' accounts.

The largest sub-item under "major works and procurements" is special work on, and securing of, buildings in a sum of NOK 340.3 mn. This is almost exclusively work on bringing the new building in Oslo to completion.

"Major works and procurements" also includes purchase of production equipment by the production units and other special-purpose machinery, EDP investment and major projects and works.

The item "income from production units" shows income from production of passports, postage stamps, job-printing, medals, coin sets et al.

The item "stock changes: new banknotes and coin" shows changes in Head Office stocks of banknote and coin for distribution, ie the Bank's stock of new banknotes and coin. The holding is valued at cost-price.

Note 5. Further details on the Bank's operating and investment expenses

The table below gives an overview of the Bank's operating and investment expenses over a five-year period. Expenditure on operation of Norges Bank's representative office in New York and on the representative in Brussels are included under

"other operating expenses". For the years 1982-1985, internal transfers to Norges Bank's Pension Fund, funds and interim accounts are entered as costs under the item "investments". As from 1986 this item refers only to the transfer to the Pension Fund and is instead charged to "personnel expenses". Personnel expenses increased by about NOK 100 mn between 1985 and 1987. Of the increase, about NOK 30 mn refers to this reorganization of book entries.

To achieve concordance with the enterprise statistics which the Bank provides to the Central Bureau of Statistics, expenditure on operation of the New York office must be taken out. The same applies to internal transfers. The size of these items is shown in the overview.

Up to 1987 investments in Norges Bank's new Head Office building were not entered as a cost item, being debited to a separate interim account. In 1987 disbursements of NOK 323.2 mn relating to the new building were debited to the Profit and Loss Account.

Operating Costs/Investments, 1983-87 (million kroner)

	1983	1984	1985	1986	1987
Personnel expenses	256.4	277.8	301.7	373.1	402.4
Other operating expenses	118.8	128.2	128.7	142.2	187.2
Income, production units	-14.2	-13.7	-15.4	-16.5	-15.9
Total operating costs, net	361.0	392.3	415.0	498.8	573.7
Investments charged to operating budget	77.1	70.3	64.4	102.8	409.7
Changes in stocks of new notes and coin	-	-	-	-	-10.9
Total operating costs	438.1	462.6	479.4	601.6	972.5
<i>Investments debited to interim accounts:</i>					
New Head Office building	260.4	464.9	675.3	661.7	-
Alterations/new buildings at regional branches	-	15.2	8.9	2.4	0.3
Various	-	-	2.0	0.3	0.5
Total	260.4	480.1	686.2	664.4	0.8
Total operating and investment costs	698.5	942.7	1 165.6	1 266.0	973.3
<i>Of which:</i>					
Expenditure on offices in New York/Brussels	3.0	3.7	4.1	4.9	4.2
Internal transfers to Pension Fund/funds/interim accounts	13.9	27.0	29.6	27.5	31.5

In the period 1983–1987 disbursements totalled NOK 2 385.5 mn. Total disbursements related to the new Head Office building were NOK 2 752.1 mn. This sum includes NOK 16 mn which refers to amounts withheld/in hand and works performed but not paid for and is recorded in the balance sheet under "other domestic creditors".

The figures include restoration of no. 10, 12 and 14 Rådhusgate, the "baseline", and Norges Bank's share of the parking facility incorporated in the "baseline". Altogether this is estimated to cost NOK 245.5 mn.

Note 6. Valuation adjustments

Exchange rate adjustments:	Million kroner	
Bank deposits abroad	1 207	
Claims on the IMF	- 148	
Foreign treasury bills	- 456	
Foreign bearer bonds	- 1 468	- 865
Valuation adjustments relating to securities:		
Foreign bearer bonds	- 891	
Norwegian bearer bonds	116	
Norwegian govt. and bank certificates	- 11	- 786
		- 1 651

Note 7. Re-entry of allocations

As a consequence of the switch to a new accounting policy, unutilized budget funds will no longer be debited to the profit and loss account for allocation purposes. Allocations from previous years are re-entered in the books as extraordinary income for 1987.

A specification of allocations re-entered in 1987 follows below:

	(Thousand kroner)
Allocations to conversions/new buildings at branches	1 005
Allocation/preparedness measures	470
Unutilized funds for procurements etc.	2 549
	3 549

Note 8. Sale of real estate

Norges Bank sold the following properties in 1987:

	(Thousand kroner)
Bergen/Vågsalmenningen 14/22	20 000
Tromsø/Bankgt. 7	4 115
Ålesund/Director's residence	780
Oslo/3 detached houses/Haslum	4 000
Oslo/Flats/Hammerstadgt. 21 and Bentsegt. 8	1 582
	30 477

Note 9. Adjustment Fund

	(Thousand kroner)
Balance as at 1.1. 1987	24 251 800
Re-entered for 1987	2 511 623
Balance as at 31.12. 1987	21 740 177

which covers 20 per cent of the Bank's foreign exchange reserves (except gold), foreign currency purchased forward, Norwegian bearer bonds, Norwegian treasury- and bank certificates, guarantees in foreign currency and interest accrued abroad but not yet due.

Note 10. Transfer to the Treasury/Transfer Fund

According to guidelines for allocation and distribution of Norges Banks profit, any surplus after allocations to the Adjustment Fund is to be set aside to the Transfer Fund.

At each annual settlement of accounts, a sum corresponding to the average gross allocations to the Transfer Fund in the three preceding years shall be transferred from this fund to the Treasury.

For 1987, NOK 8.7 bn is transferred to the Transfer Fund. For 1986 the amount transferred was NOK 13.7 bn. There was no such transfer for the two preceding years. The transfer from the fund to the Treasury for 1987 amounts to NOK 4.6 bn.

Note 11. Foreign exchange reserves and other foreign assets

	Billion kroner
Gross international reserves as at 1 January 1987	97.0
<i>Changes in 1987:</i>	
Govt. self-insurance fund (petroleum)	-0.3
Interventions for exch. rate purposes	-0.5
Swaps, net	-7.0
Interest income	5.0
Govt. borrowings abroad	2.8
Foreign currency deposits with domestic banks	-0.8
Other foreign exchange transactions with banks and currency sales, various adjustments	-2.2
Exchange rate adjustment in 1987	-1.7
Gross international reserves as at 31 December 1987	93.1

Note 12. Gold holding

The book value of the gold holding is computed on the basis of the official gold price (SDR 35 per ounce) converted to Norwegian kroner at the central rate for the SDR in 1973, ie 6.87145 per SDR. This corresponds to NOK 7 732.27 per kilogram. The holding comprises:

The holdings consist of:	Kilogram	Book value in millions of kroner
Ingots	26 754.1	206.9
Coin	10 077.5	77.9
		284.8

The price of gold quoted on 31 December 1987 in London was USD 486.50 per ounce (NOK 3 032.11 per ounce). This corresponds to about NOK 97 500.- per kilogram. It is difficult to assess the market value of the coin. Norges Bank's holding of gold coin was repatriated in 1987.

Note 13. Holding of SDRs

	Million SDR	Million kroner
Balance as at 1 January 1987	318.2	2 892.4
Sales of SDRs to members of the IMF and prescribed holders of SDRs	-61.8	-530.3
Remuneration on reserve position in the IMF	23.4	211.7
Interest on SDR holdings	10.8	101.7
Redemption of loan of SDR 20 million to the Nordic Investment Bank	20.0	181.2
Interest on loan of SDR 20 million to the Nordic Investment Bank	0.6	5.8
Valuation adjustments in 1987		-112.1
Balance as at 31 December 1987	311.2	2 750.4

Note 14. Reserve position in the International Monetary Fund

(Million kroner)	1987	1986
Norway's quota in the IMF	6 177.2	6 354.5
The IMF's holding of Norwegian kroner	1 775.5	1 974.7
Reserve position	4 401.7	4 379.8

The reserve position in the IMF is regarded as part of Norway's foreign exchange reserves, whereas the remainder of the quota, NOK 1 775.5 mn, is entered under "other foreign assets". Debt to the IMF, NOK 1 775.6 mn, is entered under "debt to abroad".

Note 15. Deposits with foreign banks

This item includes the Bank's holding of foreign banknotes in a sum of NOK 30.7 mn.

Note 16. Other debtors

The sum of NOK 22.5 mn refers to a loan to the Bank of Tanzania. The original loan sum was NOK 135 mn. The loan is to be repaid by 11 January 1988 in annual instalments of NOK 22.5 mn. The loan is backed by a government guarantee. In 1987 the loan bore 8 per cent interest.

Note 17. Deposits with Norwegian banks

	Commercial banks	Savings banks
12-month fixed-term deposits	42 500 000.-	326 900 000.-
Housing loan deposits	780 370 000.-	689 259 175.-
Total	822 870 000.-	1 016 159 175.-

Twelve-month fixed-term deposits. Since February 1975 Norges Bank has been empowered to place deposits with banks as general liquidity support to economically weak districts. They are placed as twelve-month fixed term deposits yielding 11 per cent interest. The arrangement is administered by Norges Bank's branches. Since 1984 the branches have had an overall quota of NOK 370mn for such deposits. By end-1987, funds totalling NOK 369.4 mn had been deposited under this arrangement, ie 99.8 per cent of the overall quota.

Three-month fixed-term deposits with banks in connection with housing finance. Since 1981 Norges Bank has placed three-month fixed-term deposits with banks for advance conversion of building loans with a conversion commitment or certificate from state housing banks. The interest rate is set at 1 per cent below the rate for regulated building loans, and was at end-1987 10 per cent per annum. Up to 10 December 1987 deposits were given to the individual private bank branch. As from that date, deposits are given on the basis of accounts for each bank group and constitute 30 per cent of building loans with a conversion commitment or certificate from state housing banks. At end-December deposits amounted to NOK 1 469.6 mn, of which NOK 780.3 mn with commercial banks and NOK 689.3 with savings banks.

Note 18. Norwegian treasury bills, negotiable certificates and bearer bonds

Finance companies, life insurance companies and pension funds have been required to maintain their obligatory primary reserves in the form of treasury bills. Also banks have for the most part have fulfilled the primary reserve requirement by purchasing treasury bills. Primary reserve requirements for banks and finance companies were removed in 1987. At the start of the year banks were subject to a primary reserve requirement of 5 per cent of the "basis of calculation", while the corresponding figure for finance companies was 14 per cent. On 1 June, primary reserve requirements for banks were removed, and on 15 October for finance companies. Thus, given the low yield on treasury bills, demand for them among finance companies has virtually disappeared. This was the main reason for the fall in the outstanding holding of treasury bills in 1987.

In 1987 treasury bills issued had a term of 90 days. They carried 8.75 per cent interest per annum, and the rate charged for rediscounting at Norges Bank was 8.80 per cent per annum.

Four new treasury certificate loans were issued in 1987. Norges Bank subscribed for a total of NOK 200 mn in each loan. Norges Bank's trade in treasury certificates in 1987 reduced the holding by almost NOK 400 mn. The remaining reduction is related to falling due.

Norges Bank holding of other certificates comprises bank certificates.

As a result of trade in the secondary market and of loans falling due and instalment payments, Norges Bank's holding of government bonds was reduced in 1987. Further, in the period June–December no new repurchase agreements in bonds were entered into with the banks. At end-1986, bonds for repurchase accounted for about NOK 5 bn of Norges Bank's bond holding. The government incurred no new loans on the bond market in 1987.

Note 19. Unearned discount/ Norwegian treasury bills

Unearned discount as at 31 December 1987 is entered as a deduction item under "treasury bills"

Unearned discount as at 31 December 1986 was entered as a separate item under "other domestic liabilities".

Note 20. Loans to banks

	Commercial banks	Savings banks
Automatic liquidity loans		
– Overnight loans	27 426 305 000.–	22 161 614 000.–
– Fixed-rate loans	13 965 346 000.–	10 579 318 000.–
Loans on special terms	130 000 000.–	0.–
	41 521 651 000.–	32 740 932 000.–

The volume of Norges Bank's loans to banks was much higher in 1987 than in 1986. Daily lendings for the year averaged NOK 58.4 bn against 22.4 bn in 1986. The highest figure was recorded on 3 June 1987 (NOK 79.2 bn) and the lowest on 28 January 1987 (NOK 38.8 bn).

Throughout 1987 banks could incur automatic liquidity loans under the arrangement involving one borrowing tranche which was calculated as a percentage of the "basis of calculation" (banks' total credit to the private sector and municipalities in the form of loans, bonds and certificates). Total outstanding loans at the end of each day of the borrowing period must not exceed the quota for the borrowing period. Each borrowing period was one month. At the start of the year the interest rate 14.8 per cent per annum. On 28 January 1987

it was lowered to 14.5 per cent and on 3 February to 14.2 per cent. From 16 February to year-end it was 13.8 per cent. In January and February the borrowing quota was 650 per cent of the "basis of calculation", a borrowing potential equivalent to daily borrowings of NOK 50.9 bn and 65.1 bn, respectively. In March, April and May the borrowing quota was 800 per cent, ie NOK 72.0 bn in March and April and NOK 74.4 bn in May.

With effect from 1 June the banks' borrowing facility with Norges Bank was altered to allow the central bank to lend to commercial and savings banks for a given period at a fixed interest rate for that period (F-loans). The overnight loan arrangement was retained, and in June the ceiling for this arrangement was set at 700 per cent of the "basis of calculation", ie NOK 65.6 bn. The ceiling was changed each month. In July it was 450 per cent (NOK 40.5 bn), in August 325 per cent (NOK 31.7 bn), in September 500 per cent (51.1 bn), in October 450 per cent (NOK 44.9 bn), in November 300 per cent (NOK 32.1 bn) and in December 350 per cent (NOK 37.5 bn).

Banks were offered a liquidity loan at fixed interest with effect from 1 June 1987. The loan had a term of three months and carried a nominal interest rate of 14.2 per cent per annum. A good NOK 12 bn was allocated. On 1 July banks were offered two new F-loans with a term of four and nine months and bearing 14.4 and 14.5 per cent, respectively. A total of NOK 15 bn was made available. A sum of NOK 6.1 bn was allocated for the F-loan, carrying 13.8 per cent interest per annum, offered to banks on 9 October 1987. The term of this loan was 87 days.

Commercial and savings banks' borrowing facility with Norges Bank was changed anew with effect from 9 November 1987: in addition to the F-loan arrangement introduced in June, it was now possible to auction F-loans. The first F-loan auction was on 9 November 1987. The amount allocated was NOK 12 bn, the term 80 days and the interest rate 14.7 per cent per annum.

Total loans to banks include loans on special terms, granted to banks individually on application. They are granted in the form of overdraft facilities in a specific sum for a six-month term. The interest rate is currently 11 per cent per annum, and security must be provided. One such loan was granted in the spring of 1987.

The loan was not renewed on maturity, and at year-end only one bank held a loan on special terms. NOK 130 mn was appropriated in 1987, against NOK 165 mn by end-1986.

Note 21. Loans to private finance companies

This item includes Norges Bank's advances of its own funds to the Central Fund for Operating Credits to Farmers. For 1987 the Central Fund was granted a credit facility of NOK 30 mn. In accordance with the approved reduction schedule, the facility is being reduced by NOK 10 mn yearly and will be fully phased out by 1 January 1990. At end-1987, NOK 18.7 mn had been utilized.

Note 22. Loans to other Norwegian sectors

This item includes Norges Bank's loans to its own staff and retirees in a sum of NOK 247.8 mn, of which housing loans accounted for NOK 212.8 mn. By end-1987 Norges Bank's staff and pensioners totalled 2 020.

It also includes government-guaranteed loans to the fisheries in a sum of NOK 137.6 mn and Norges Bank's loans of its own funds to industry in a total sum of NOK 18.3 mn. The latter are loans granted in connection with government efforts to resolve the crisis in the stockfish industry.

Note 23. Other Norwegian debtors

This item includes activated holdings of raw materials and semimanufactures at The Royal Mint and the Printing Works as well as stocks of finished notes and coin for distribution in a sum of NOK 64.7 mn.

Norges Bank holds 82 per cent of share capital in the parking facility, Bankplassen Parkeringsanlegg A/S. Oslo Municipality holds the remaining 18 per cent. The share capital is entered in the books at NOK 41 000.- under this item. The facility came into operation in 1986. The accounts for 1986 showed a deficit of NOK 263 000.-.

Note 24. Real estate etc.

Norges Bank does not activate its properties. Norges Bank's buildings as at 31 December 1987 are specified below:

Branch	Address	Year of construction (or purchase)	Subsequent building project	Year of completion	Gross area incl. area let and staff flats
Arendal	Kirkebakken 2	1914	Rest./extension	1980	924 sq.m
Bergen	Vågsalmenningen 12	1846	Restoration	1976	1 100 sq.m
Bodø	Dronningensgt. 36	1951			926 sq.m
Drammen	Strømsø Torg 6	1838	Restoration	1976	760 sq.m
Fredrikstad	Nygårdsgt. 17 B	1909	Restoration	1976	945 sq.m
Gjøvik	Jernbanegt. 4	1902	Rest./extension	1979	1 150 sq.m
Halden	Borgergt. 10	1854	Restoration	1980	990 sq.m
Hamar	Parkgt. 21	1882	Restoration	1977	1 130 sq.m
Hammerfest	Sørøyggt. 10	1962			1 420 sq.m
Haugesund	Strandgt. 162	1910	Restoration	1975	1 000 sq.m
Kristiansand S	Dronningensgt. 30	1816	Rest./extension	1975	1 350 sq.m
Kristiansund N	Konsul Knudtsongt. 2	1880	Restoration	1982	1 400 sq.m
Larvik	Bredochsgt. 4	1902	Rest./extension	1985	1 667 sq.m
Lillehammer	Storgt. 1	1861	Restoration	1977	1 450 sq.m
Skien	Liegt. 8	1836	Restoration	1973	790 sq.m
Stavanger	Domkirkepl.3	1964			2 880 sq.m
Tromsø	Bankgt. 9/11	1973			4 000 sq.m
Trondheim	Kongensgt.1	1816	Alterations	1977	1 000 sq.m
Varde	Brodtkorbsgt.1	1961	Restoration	1986	1 450 sq.m
Ålesund	Nedre Strandgt.2	1902	Restoration	1976	834 sq.m
DKM, Kongsberg	Hyttegt. 1	1960			2 950 sq.m
"	"	1688, 1750, 1841			1 835 sq.m
Oslo	Bankpl. 2	1978-86	New Head Office		60 000 sq.m
"	Kirkegt. 2	purchased 1969	Restoration	1970	1 660 sq.m
"	Øvre Slottsgt. 2	1963			3 790 sq.m
"	Nedre Slottsgt. 1 B	1963			7 500 sq.m
"	Borgenvn.14	purchased 1972		1975	700 sq.m
"	Prinsessealleen 18	purchased 1980			680 sq.m
Venastul	Venabygd	1963	Manager dwelling	1971	1 500 sq.m
Vindåsen	Sundane	purchased 1956	Annex	1960	950 sq.m
New York	275, West 96th Street	purchased 1984			120 sq.m
Brussels	Madeliefjeslaan 12	purchased 1986			200 sq.m

In addition to staff apartments at some branches, the Bank owns two apartments in Oslo at Olaf Schous vei 21 and Gabelsgate 43, respectively.

With new buildings in mind the Bank has purchased sites in Kongsberg (1974), in Bodø (1978 and 1984), Skien (1982) and Trondheim (1983). Nos. 10, 12 and 14 Rådhusgate and no. 6 Kirkegate are also owned by Norges Bank. These properties form part of Norges Bank's new Head Office complex in Oslo. No. 2 Øvre Slottsgate and no. 1 B Nedre Slottsgate will be taken over by the Directorate of Public Construction and Property in 1988.

Note 25. Counterpart of SDR allocations

The counterpart of SDR allocations from the International Monetary Fund refers to cumulative allocations since the inception of the arrangement on 1 January 1970.

No new SDR allocation took place in 1987. After downward exchange rate adjustments of NOK 42.6 mn in 1987, the balance in SDRs remains 167 770 000.

Note 26. Other funds etc.

Allocation for conversions/new buildings at branches	(Thousand kroner)
Balance as at 1 January 1987	1 277
Disbursed in 1987	- 272
Re-entered allocations	- 1 005
Balance as at 31 December 1987	0
Allocation to contingency measures	
Balance as at 1 January 1987	916
Disbursed in 1987	- 446
Re-entered allocations	- 470
Balance as at 31 December 1987	0

Note 27. Guarantees

At end-1987 Norges Bank had granted guarantees in Norwegian kroner totalling NOK 525.1 mn. Of this, NOK 39.1 mn referred to A/S Raufoss Ammunisjonsfabrikker. The guarantees refer to advance payments in connection with contracts entered into.

Additionally, Norges Bank has made available a guarantee of SDR 55 mn for a loan awarded by the IMF. As at 31 December 1987 this corresponded to NOK 486 mn.

By the end of 1987 Norges Bank had provided guarantees to the fisheries in North Norway totalling NOK 26 mn. These guarantees are in turn guaranteed by the Norwegian state.

Auditors' Report

to the Supervisory Council of Norges Bank

We have carried out the audit for 1987 in accordance with generally accepted auditing principles.

The accounts for the year, which show a profit of NOK 6 165 582 043.–, are in compliance with the Act on Norges Bank and in our opinion express the Central Bank's result of the year and its financial position which, with the exception of procurements of fixed assets and buildings, which are entered as expenditures, are in accordance with generally accepted accounting principles.

The Executive Board's proposal for distribution of the profit complies with the above-mentioned act and guidelines for allocation and distribution of the profit established by the King in Council.

The Statement of Profit and Loss and the Balance Sheet may be adopted as the Accounts of Norges Bank for 1987.

Audit Department of Norges Bank

Oslo, 18 February 1988

Kjell Hauen Eriksen

State authorized auditor
(Norway)

Solbjørg Lie

State authorized auditor
(Norway)

Resolution of the Supervisory Council concerning the Accounts

Pursuant to Section 5, third paragraph, of the Act on Norges Bank and the Monetary System, the Supervisory Council adopted at its meeting on 18 February 1988 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 makes reference to the auditors' report of 18 February 1988 upon which it has no comment.
2. The Supervisory Council approves the accounts as presented by the Executive Board as Norges Bank's accounts for 1987 as follows: NOK 4 573 066 mn to be transferred to the Treasury and NOK 8 677 206 mn set aside to the Transfer Fund, ie a total of NOK 13 250 272 mn.
3. The accounts, together with the Executive Board's report on the accounts and the auditors' report, are to be forwarded to the Ministry of Finance for submission to the King and communication to the Storting.
4. The Supervisory Council endorses the Standing Committee's recommendation which is to be forwarded to the Ministry of Finance together with the accounts.

The Standing Committee's recommendation reads as follows:

The Standing Committee makes reference to the Executive Board's report on the accounts and the auditors' report and makes the following recommendation:

- 1.1 The result of the year before valuation adjustments and extraordinary income/expenditure was NOK 7 782 mn in 1987 against NOK 6 495 mn in 1986.
- 1.2 Domestic interest income increased from NOK 10 501 mn in 1986 to NOK 13 766 mn in 1987. The increase from 1985 to 1986 was from NOK 2 021 mn to NOK 10 501 mn. The increase from 1986 to 1987 was due to an increase in average daily disbursements to domestic banks, on average from NOK 22.4 bn to NOK 58.4 bn. Interest earnings on loans to domestic banks tripled – rising from NOK 2 720 mn to NOK 8 109 mn. Interest income from abroad fell from NOK 7 926 mn in 1986 to NOK 5 965.9 mn in 1987. Interest income from abroad in 1987 was lower than in 1986 because banks' foreign assets were lower in 1987 than in 1986. The interest rate level internationally was lower and the Bank made switch from high-yield assets to more liquid, lower-yield assets.
- 1.3 Norges Bank's interest payments to the Treasury in 1986 were NOK 10 697 mn against NOK 10 300 mn in 1987.

The drop is related to the decline in Treasury sight deposits from NOK 140 204 mn at end-1986 to NOK 113 557 mn at end-1987.

- 1.4 Operating expenditure increased from NOK 601 mn in 1986 to NOK 972 mn in 1987. The increase includes NOK 323 mn disbursed to the new Head Office building over the cost accounts in 1987 as part of the overall quota of NOK 2 519 mn for the new building which was approved by the Supervisory Council on 9 April 1987. Disbursements to the new building were previously debited to the building fund. In this connection the Committee also refers to the Executive Board's assumption that total costs will be within the calculated cost frame of NOK 2 519 mn. Final accounts for the new Head Office building are expected to become available in the third quarter of 1988. Personnel costs increased from NOK 373 mn in 1986 to NOK 402 mn in 1987. This item includes expenditure on the Bank's pension scheme in a sum of NOK 45.5 mn for 1987.

- 1.5 In 1987 Norges Bank recorded a net loss after exchange rate adjustments totalling NOK 1 650 mn, compared with a net gain in 1986 of NOK 8 895 mn.

The exchange rate loss per se amounted to NOK 864 mn compared with a net exchange rate gain of NOK 7 601 mn in 1986. The gain in 1986 was in part due to the downward adjustment of the value of the krone in May 1986. The Committee notes that the limited net exchange rate loss in 1987 was due to the switch in investment of the Bank's foreign exchange holdings which had been under way for several years. In 1983 the US dollar accounted for 81 per cent of the foreign exchange holding. This share has been progressively reduced to about 26 per cent by end-1987. Placements in West European currencies and the Japanese yen have increased correspondingly. As at 31 December 1987, the Bank's foreign currency assets totalled NOK 92 808 mn, ie NOK 4 709 mn less than one year previously.

As at 31 December 1987, the Bank's foreign securities holding showed a net valuation loss of NOK 891 mn, compared with a net gain of NOK 1 413 mn after valuation adjustments one year previously. The loss in 1987 is due to the fact that the interest rate level was higher towards year-end than at the start of the year. This led to a decline in securities prices. In 1986 the interest rate level declined towards year-end and securities went up in price.

- 2.1 The result of the year *after* valuation adjustments and extraordinary income/costs is NOK 6 165 mn, against NOK 16 034 mn for 1986. See point 1.5, on the net exchange rate loss in 1987 and the gain in 1986, for the background to the wide difference between the figures for the two years. In connection with the closing of the books, NOK 2 511 mn was transferred from the Adjustment Fund and NOK 4 573 mn from the Transfer Fund, bringing the total available to NOK 13 250 mn.

The transfer from the Transfer Fund corresponds to the amount which, according to the guidelines for use of the Bank's profit, are to be transferred to the Treasury for 1987. The sum of NOK 4 573 mn is entered in the books to this end. The remainder, NOK 8 677 mn is transferred to the Transfer Fund.

The committee would point out that the transfer from the Adjustment Fund implies that moneys from this fund are to be used for purposes other than exchange rate adjustment. In the Committee's view, allocations made previously to the Adjustment Fund should not be reduced in subsequent years even if the fund should, because of a lower basis of calculation in a particular year, exceed 20 per cent of the basis of calculation. This understanding of "Guidelines for allocation and distribution of Norges Bank's profit" should in the Committee's view provide the basis for subsequent settlements of accounts where a similar situation arises. The Committee refers to the above comments, but where the accounts for 1987 are concerned it accepts the Executive Board's understanding of the rules for setting up the accounts.

- 3.1 The item "Total assets" shows NOK 197 462 mn as at 31 December 1987 against NOK 219 412 mn as at end-1986.
- 3.2 The Committee notes that the Bank's assets are not offered as security for the Bank's or for others' commitments, and that there are no endorsements or guarantee liabilities beyond those set out in the accounts for 1987 in a sum of NOK 525 mn. The Committee has no comments on the principles underlying the valuation of assets and liabilities in foreign currency, the Bank's holdings of foreign and domestic securities or holdings of raw materials at the production units.

The Committee also notes that the new accounting policy has now been implemented, except in regard to procurements of fixed assets such as machinery and fixtures which are entered under operating costs. The same applies to disbursements in respect of the new Head Office building in Oslo and most building works at the branches.

- 3.3 Housing loans to the Bank's staff average NOK 215 000.

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

Pursuant to Section 5, third paragraph, of the Act on Norges Bank and the Monetary System, the Supervisory Council adopted at its meeting on 12 February 1987 the following resolution which, with reference to Section 28, second paragraph, is to be forwarded to the Ministry for submission to the King and communication to the Storting:

The Supervisory Council has no comments on the minutes of the Executive Board for 1987

Oslo, 18 February 1988

Olav Haukvik

Deputy Chairman of the Supervisory Council

Kristian Asdahl

Chairman of the Supervisory Council

Appendices

A. Tables

B. Norges Bank's Management, Administration and Personnel as of 1 January 1988

Appendix A

Tables:

- 1 Norges Bank's balance sheet as at end-1986, and at end of each month in 1987
- 2 Norges Bank's Profit and Loss Account as at 31 December
- 3 Loans from Norges Bank, except loans to banks, distributed on regional branches. Quarterly figures 1986 and 1987.
- 4 Distribution of "other loans" from Norges Bank on borrower groups at end of 1986 and 1987
- 5 Norges Bank's average loans to banks in 1987 (million kroner) by type of loan, D-loans' share of borrowing potential
- 6 Norges Bank's Lending Rates for D-loans and F-loans in 1987: Term and amount of F-loans
- 7 Denominations of coin in circulation 1985–1987, annual average and at end of each month of 1987
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- 10 Average life of notes 1985–1987
- 11 Banknote production at Norges Bank's Printing Works 1978–1987
- 12 Coin production at The Royal Mint 1978–1987
- 13 Norges Bank's banknote series 1877–1987. Period of production

Appendix table 1. Norges Bank's Balance Sheet as at end-1986 and at the end of each month in 1987 (million kroner)

	1986	1987		
	31 Dec.	31 Jan.	28 Feb.	31 March
Financial assets ¹⁾ :				
International reserves:				
Gold	285	285	285	285
Special Drawing Rights in the IMF	2892	2820	3064	3072
Reserve position in the IMF	4380	4274	4260	4354
Deposits with banks abroad ²⁾	14842	13880	17272	16944
Foreign treasury bills	1399	1057	120	106
Foreign bearer bonds	69232	68747	65129	64992
Interest accrued, not yet due	1961	1961	1961	1961
Countervalue of IMF's krone holding	1975	1921	1920	1762
Other foreign assets	45	22	23	23
Deposits with Postal Giro	169	127	219	337
Deposits with commercial banks	299	304	347	342
Deposits with savings banks	408	410	406	386
Foreign currency deposits with authorized banks	837	706	456	420
Norwegian treasury bills	19308	21540	20854	13459
Norwegian treasury certificates	3758	3096	3416	3203
Other Norwegian certificates	475	400	460	500
Norwegian government bonds	24677	26297	29214	30380
Other Norwegian bearer bonds	46	45	45	43
Loans to commercial banks	43369	33221	37826	33686
Loans to savings banks	25902	23118	32799	21322
Other domestic loans	564	571	409	420
Discounted bank drafts	849	397	523	870
Interest accrued, not yet due	1604	1604	1604	1604
Other domestic claims, etc.	135	182	208	266
Transitory items, etc. ³⁾	—	5007	2171	2803
Expenditures	—	1030	2033	3039
Total	219412	210022	227024	206579
Liabilities and capital ¹⁾ :				
Debt to foreign banks	91	55	23	63
Krone debt to the IMF	1975	1921	1920	1762
Other foreign liabilities, etc.	432	451	403	260
Allocations of SDRs in the IMF	1525	1487	1483	1468
Notes in circulation	27226	25672	25464	24864
Divisionary notes and coin in circulation	1754	1728	1728	1732
Domestic sight deposits:				
Treasury	140204	127447	136927	119713
Other central government	4252	4983	3725	4283
Social security legislation and local governments	14	14	14	20
Commercial banks	186	701	5507	1615
Savings banks	350	783	2948	511
State banks	358	158	248	201
Other domestic finance institutions	60	235	81	57
State enterprises ⁴⁾	1047	1118	724	1370
Other Norwegian sectors	90	89	56	61
Tax-free allocations to funds	1568	1496	1434	1569
Other domestic liabilities	307	1144	2014	2933
Adjustment Fund	24252	24252	24252	24252
Transfer Fund and other funds, etc.	13721	13720	13720	13720
Transitory items, etc. ³⁾	—	—	0	—
Income, domestic	—	2108	3115	4302
Income, foreign	—	459	1238	1823
Total	219412	210022	227024	206579
Specifications:				
Foreign assets, total	97011	94966	94034	93498
Foreign liabilities	2498	2428	2347	2085

¹⁾ As from 1986 foreign assets and liabilities are entered in the books at the current rates. Adjustments are provisionally entered under the items "transitory items" up to the closing of the books. Note 6 to the accounts gives a summary of all valuation adjustments between 31 December 1986 and 31 December 1987.

²⁾ Including foreign notes and coin.

³⁾ Chiefly adjustments relating to foreign accounts.

⁴⁾ Including Postal Giro.

1987								
30 April	31 May	30 June	31 July	31 Aug.	30 Sep.	31 Oct.	30 Nov	31 Dec.
285	285	285	285	285	285	285	285	285
3065	3163	3141	3146	3212	3218	3232	2805	2750
4309	4376	4389	4392	4478	4344	4323	4246	4402
19033	17339	20064	25002	25424	28166	32733	29765	24055
146	260	99	98	550	1674	3191	2515	2572
66299	63666	62691	60673	62254	61810	58629	58279	55532
1961	1961	1961	1961	1961	1961	1961	1961	1721
1793	1661	1607	1613	1510	1655	1702	1822	1776
23	23	23	23	23	23	23	23	23
244	244	228	154	114	355	0	212	279
334	343	339	344	296	287	274	274	823
383	371	392	389	390	376	379	405	1016
348	135	—	—	—	—	—	—	—
13574	16213	23441	18562	12877	8712	10030	10859	9859
1348	1009	369	372	503	508	371	415	362
495	455	490	640	540	540	240	940	889
30277	27963	18071	17518	14771	8268	8942	13375	13709
43	43	42	41	40	39	39	38	40
41066	42134	45586	33202	39871	31995	35818	27150	41522
31283	28030	26731	26042	27158	24739	25530	24549	32741
410	415	1020	414	421	433	434	434	425
801	579	351	686	1105	706	550	726	512
1604	1604	1604	1604	1604	1604	1604	1604	2090
293	328	340	352	362	374	387	385	79
3016	3582	4635	4506	4223	4642	2944	2137	—
4126	5050	6088	7120	7927	8722	9515	10236	—
226559	221232	223987	209139	211899	195436	203136	195440	197462
61	28	55	36	30	46	48	44	38
1793	1661	1607	1613	1511	1655	1702	1822	1776
188	185	183	318	328	343	439	316	385
1465	1449	1439	1441	1437	1440	1446	1457	1483
25011	25037	25617	25501	25169	26663	27653	26773	28964
1774	1756	1766	1772	1779	1786	1803	1824	1868
135354	128659	128801	109121	108346	92680	93051	84265	113558
5599	3810	3176	4210	4957	3779	6928	5253	5701
30	26	67	11	11	40	30	11	13
1885	2219	2345	2667	4273	1028	1496	1619	725
493	766	772	670	841	172	251	603	3
238	281	259	137	90	170	219	125	153
160	81	100	279	429	40	9	355	130
1116	1392	1143	1640	1050	1894	1486	3412	1435
54	58	70	65	64	72	65	86	113
1656	1611	1606	1577	1550	1518	1474	1414	1443
4024	4838	5911	6884	7630	8410	10162	9763	111
24252	24252	24252	24252	24252	24252	24252	24252	21740
13721	13721	13720	13720	13720	13720	13721	13720	17823
—	—	—	0	—	—	—	—	—
5594	6754	7900	9592	10280	11366	12041	12852	—
2121	2648	3198	3633	4152	4392	4860	5474	—
226559	221232	223987	209139	211899	195436	203136	195440	197462
96913	92734	94259	97192	99696	103135	106077	101700	93160
2042	1874	1845	1967	1869	2044	2190	2183	2199

Appendix table 2. Profit and Loss Account as at 31 December (million kroner)

	1983	1984	1985	1986	1987
<i>Interest income, etc.</i>					
<i>Foreign:</i>					
Interest on bank deposits	2467	2355	3051	1734	1086
Discount on treasury bills	672	1273	1021	102	65
Interest on bearer bonds	1240	1426	3544	5745	4353
Other interest income	290	396	320	340	326
Share dividend, BIS	4	4	4	5	6
Gross interest income, etc., abroad	4673	5454	7940	7926	5836
<i>Domestic:</i>					
Interest on bearer bonds	254	873	1088	4922	3089
Interest on negotiable certificates	—	—	282	626	291
Discount on treasury bills	433	242	260	1649	1817
Interest on bank deposits	158	98	153	268	94
Interest on forward exchange transactions	—	—	—	249	258
Interest on loans to the Treasury	648	—	—	—	—
Interest on loans to banks and other loans, commissions, etc.	287	384	238	2788	8217
Net agio gain/loss(—) on foreign exchange transactions	—32	765	—	—	—
Gross domestic interest income, etc.	1748	2362	2021	10502	13766
<i>Interest expenses</i>					
<i>Domestic:</i>					
To the Treasury	455	2372	5346	10697	10300
To public account holders	—	—	228	332	380
On money market paper	136	343	42	—	—
On tax-free allocations to funds	34	79	102	105	108
On cash holdings of banks and the Postal Service	93	131	147	190	171
On forward exchange transactions	—	117	146	—	—
Other interest expenses	—	4	8	7	19
Gross domestic interest expenses	718	3046	6019	11331	10978
Net domestic interest income	1030	—684	—3998	—829	2788
Net interest income, domestic and foreign	5703	4770	3942	7097	8624
<i>Other operating expenditures/income:</i>					
Wages and salaries, fees and other personnel costs	256	278	302	373	402
Other current operating expenditures	119	128	129	142	187
Major works, purchases and internal transfers	77	70	64	103	410
Sales income of the production units	14	13	15	16	16
Stock changes, notes and coin for distribution	—	—	—	—	11
Total other operating expenditures	438	463	480	602	972
<i>Profit for the year before valuation adjustments and extraordinary income</i>	5265	4307	3462	6495	7652
<i>Extraordinary income/expenditures:</i>					
Interest accrued, not yet due	—	—	3363	608	—
Re-entered funds and previous allocations	—	—	629	1	4
Various holdings of notes/coin	—	—	—	62	—
Holiday pay, employer's contribution	—	—	—	—26	—
Sale of real estate	—	—	—	—	30
<i>Valuation adjustments:</i>					
Net foreign exchange gain/loss	—	—	—9771	7601	—858
Net gain on securities	—	—	1392	1294	—786
<i>Result of the year after valuation adjustm. and extraordinary income/expenditures</i>	—	—	—925	16035	6042
<i>Transfers:</i>					
From Adjustment Fund	624	—	25028	—	2536
From Transfer Fund	—	578	578	578	4573
From Housing Fund	—	—	—	333	—
Amount available	5889	4885	24681	16946	13151
<i>Distributed as follows:</i>					
Distributed dividend	4	4	—	—	—
Building Fund	500	—	—	—	—
Adjustment Fund	—	1753	21603	2649	—
Other allocations	52	50	—	—	—
Compensation to the Government	600	—	—	—	—
Transferred to the Treasury	3000	3078	3078	578	4573
Transfer Fund	1733	—	—	13719	8578

Appendix table 3. Loans from Norges Bank, Except Loans to Banks, Distributed on Regional Branches. Quarterly figures 1986 and 1987 (million kroner)

	1986				1987			
	31 Mar.	30 June	30 Sep.	31 Dec.	31 Mar.	30 June	30 Sep.	31 Dec.
Bergen branch	—	—	—	—	3.6	3.8	3.6	3.8
Bodø branch	30.8	36.4	33.0	32.5	36.7	45.7	45.0	45.9
Hammerfest branch	5.4	6.4	5.1	4.2	4.7	5.8	6.0	11.2
Kr.sund N. branch	—	—	0.3	0.0	0.0	0.0	—	—
Tromsø branch	63.4	66.9	57.6	52.6	53.2	50.0	50.7	42.4
Trondheim branch	6.5	6.6	3.2	2.6	2.7	4.2	4.0	2.9
Vardø branch	51.7	55.2	73.6	43.5	47.1	46.2	51.5	47.2
Ålesund branch	4.4	4.7	5.6	4.7	4.9	5.9	5.5	2.4
Head Office	47.8	48.6	33.3	30.6	32.0	33.2	23.1	21.0
Total	210.0	224.8	211.7	170.7	184.9	194.8	189.4	176.8

Appendix table 4. Distribution of "Other Loans" from Norges Bank on Borrower Groups at end of 1986 and 1987 (1 000 kroner)

	1986	1987
Other private finance companies	28 259	18 723
Food industry, etc.	8 158	7 730
Textile industry	—	—
Wholesale and retail trade	23 580	12 822
Total	59 997	39 275

Appendix table 5. Norges Bank's Average Loans to Banks in 1987 (million kroner) by Type of Loan, D-loans' (Overnight Loans) Share of Borrowing Potential

Month	D-loans ¹⁾	D-loan quota ¹⁾ in per cent of basis of calculation	Utilization of borrowing potential for D-loans	F-loans ²⁾	S-loans
January	48 184	650%	94.6%	—	138
February	52 793	650%	81.1%	—	130
March	57 037	800%	79.2%	—	133
April	62 252	800%	86.5%	—	135
May	64 613	800%	86.8%	—	135
June	57 624	700%	87.9%	12 342	135
July	31 899	450%	78.7%	27 565	135
August	30 456	325%	96.0%	27 577	135
September	45 712	500%	89.5%	15 234	135
October	36 584	450%	81.5%	19 780	130
November	28 912	300%	90.0%	20 029	130
December	37 116	350%	99.1%	24 544	130

¹⁾ A-loans up to 1 June 1987.

²⁾ F-loans introduced on 1 June 1987.

*Appendix table 6. Norges Bank's Lending Rates for D-loans and F-loans in 1987.
Term and Amount of F-loans.*

D-loans ¹⁾			F-loans ²⁾			
Interest rate			Term	Am't (NOK bn)		Int. rate
Period	Nom.	Eff.		Subsc.	Alloc.	Nom. Eff.
17.12.86–27.01.87	14.8%	15.8%	01.06.87–01.09.87	43.9	12.3	14.2% 15.0%
28.01–02.02.87	14.5%	15.5%	01.06.87–02.11.87	24.0	8.8	14.3% 15.0%
03.02.87–15.02.87	14.2%	15.1%	01.07.87–05.04.88	18.3	6.4	14.5% 14.8%
As from 16.02.87			09.10.87–04.01.88	16.6	6.1	13.8% 14.5%
			13.11.87–01.02.88	(auction)	12.0	14.7% 15.6%

¹⁾ A-loans up to 1 June 1987.

²⁾ F-loans introduced on 1 June 1987.

Appendix table 7. Denominations of Coin in Circulation 1985–1987, annual average and at end of each month of 1987 (million kroner)

	10-krone	5-krone	1-krone	50-øre	25-øre ²⁾	10-øre	Copper coins ²⁾	Total ¹⁾
1985	320.4	345.5	349.6	92.8	45.6	94.0	26.5	1274.2
1986	639.2	342.0	360.8	96.9	43.8	104.8	26.1	1613.6
1987	744.8	352.4	372.2	101.4	42.9	116.5	26.0	1756.2
1987:								
January	719.3	349.6	366.6	99.7	43.2	111.6	26.0	1716.3
February	720.5	348.8	365.6	99.9	43.2	112.3	26.0	1716.6
March	723.7	348.3	365.8	100.3	43.1	113.5	26.0	1720.9
April	729.7	349.2	368.6	100.9	43.0	114.5	26.0	1532.2
May	737.4	350.3	370.2	101.5	43.0	115.6	26.0	1744.2
June	731.8	349.6	371.0	99.4	42.9	116.7	26.0	1737.7
July	737.2	352.6	374.0	100.6	42.9	117.3	26.0	1750.8
August	739.0	352.6	373.9	101.2	42.8	118.3	26.0	1754.0
September	750.3	352.9	373.4	102.4	42.8	119.2	26.0	1767.2
October	766.7	354.7	374.3	102.8	42.7	119.8	26.0	1787.3
November	777.9	356.3	378.5	103.6	42.7	118.9	26.0	1804.2
December	804.6	364.0	386.2	105.3	42.6	120.3	26.0	1849.1

¹⁾ Excl. silver coins for a total of kr. 6743000 and 10-krone, 25-krone, 50-krone, 100-krone and 200-krone commemorative coins.

²⁾ No longer legal tender, but still redeemable at Norges Bank.

Appendix table 8. Denominations of Notes in Circulation 1985–1987, annual average and at end of each month in 1987 (million kroner)

	1 000-kr.	500-kr.	100-kr.	50-kr.	10-kr.	5-kr.	Total
1985	13 674.8	801.3	7 677.4	458.7	491.9	6.2	23 110.3
1986	15 109.4	790.5	8 033.9	540.3	234.5	6.2	24 714.8
1987	16 244.5	763.7	8 264.1	577.8	173.2	6.2	26 029.5
1987:							
January	16 100.0	775.8	8 051.1	554.4	184.4	6.2	25 672.2
February	15 887.4	768.8	8 067.8	551.6	181.7	6.2	25 463.7
March	15 493.6	751.8	7 880.3	552.7	179.4	6.2	24 864.3
April	15 427.1	750.2	8 089.0	561.0	177.5	6.2	25 011.2
May	15 367.9	754.0	8 154.8	578.8	175.5	6.2	25 037.6
June	15 694.2	757.6	8 386.3	599.0	172.9	6.2	25 616.4
July	15 580.9	754.0	8 396.5	591.4	171.5	6.2	25 500.6
August	15 449.8	737.5	8 224.2	581.7	169.8	6.2	25 169.4
September	16 707.4	742.0	8 414.9	594.4	168.2	6.2	26 633.3
October	17 654.5	756.0	8 475.6	593.9	166.9	6.2	27 653.2
November	16 926.6	801.2	8 290.4	582.4	165.8	6.2	26 772.9
December	18 644.8	816.1	8 739.0	592.5	165.0	6.2	28 963.8

Appendix table 9. Denominations of Notes Cancelled 1985–1987 (million kroner)

	1 000-kr.	500-kr.	100-kr.	50-kr.	10-kr.	Total
1985	2 957.9	382.7	3 868.5	605.7	600.1	8 415.9
1986	3 005.1	359.1	4 524.4	752.7	265.5	8 906.8
1987	3 026.6	343.9	5 628.8	735.2	25.8	9 760.3

Appendix table 10. Average Life of Notes 1985–1987 (in years)

	1 000-kr.	500-kr.	100-kr.	50-kr.	10-kr.
1985	4.6	2.2	2.0	0.7	0.9
1986	4.6	2.2	1.7	0.6	¹⁾
1987	5.6	2.3	1.5	0.7	

¹⁾ 10-kroner note withdrawn from circulation.

Appendix table 11. Banknote Production at Norges Bank's Printing Works 1978–1987 (Number of packets, each containing 500 notes)

	1 000-kr.	500-kr.	100-kr.	50-kr.	10-kr.
1978	3 504	3 228	109 120 ²⁾	7 632	100 156
1979	3 432	—	50 880 ³⁾	17 712	163 072
1980	4 164	—	66 120 ⁴⁾	20 736	113 484
1981	9 804	—	43 560 ⁵⁾	27 648	132 300
1982	6 900	3 012	74 160 ⁶⁾	25 344	156 408
1983	9 120	—	85 440 ⁷⁾	21 600	143 472
1984	5 760	—	99 840 ⁸⁾	47 088 ⁹⁾	98 980
1985	10 140	6 120	108 360	41 328 ¹⁰⁾	51 156
1986	19 440	—	143 640	29 232 ¹¹⁾	—
1987	9 840	—	126 360	51 408	—

¹⁾ Of which 54 720 packets issue VI.

²⁾ Of which 15 120 packets issue VI.

³⁾ Of which 49 680 packets issue VI.

⁴⁾ As from 1981, all issue VI.

⁵⁾ Of which 4 320 packets series II.

⁶⁾ Of which 37 800 packets series II.

⁷⁾ As from 1984, all issue VI, series II.

⁸⁾ Of which 13 104 packets issue VI.

⁹⁾ As from 1985, all issue VI.

¹⁰⁾ As from 1986, all issue VI.

Appendix table 12. Coin Production at The Royal Mint 1978–1987
(1000 pieces)

	10-krone	5-krone	1-krone	50-øre	25-øre	10-øre	5-øre	Total
1978		8843 ¹⁾	24323	16209	11259	39615	13838	114887 ²⁾
1979		6818	16076	9575	16667	27354	25256	101746
1980		1578	5918	15037	13336	42670	27515	106352 ³⁾
1981		1091	16062	3388	19086	42061	24515	106203
1982		1737	29094	11154	16857	41082	16843	117567 ⁴⁾
1983	4032	5050	33922	15758	20 ⁵⁾	46527	5072 ⁵⁾	110381
1984	26169	1267	3488	8619	—	100066	—	139609
1985	22722	1443	10466	4462	—	106387	—	145480
1986	28747	2325 ⁶⁾	7022	3303	—	135583	—	176980
1987	7987	900	9451	5977	—	169764	—	194079

¹⁾ Of which 2990000 commemorative 5-krone coins.

²⁾ Incl. 800000 commemorative 50-krone coins.

³⁾ Incl. 298000 commemorative 200-krone coins.

⁴⁾ Incl. 800000 commemorative 100-krone coins.

⁵⁾ Bearing the year 1982.

⁶⁾ Incl. 5000 commemorative 5-krone coins.

Appendix table 13. Norges Bank's Banknote Series 1878–1987. Period of production.

	Issue I	Issue II	Issue III	Issue IV	Issue V	Issue VI
1000-krone notes	1877–98	1901–45	1945–47	1949–74	1975–	—
500- »	1877–96	1901–44	—	1948–76	1978–	—
100- »	1877–98	1901–45	1945–49	1949–62	1962–77	1977–
50- »	1877–99	1901–45	1945–50	1950–65	1966–83	1984–
10- »	1877–99	1901–45	1945–53	1954–74	1972–84	—
5- »	1877–99	1901–44	1945–54	1955–63	—	—

Divisionary notes

1-krone notes	1917	1940–50
2- »	1918	1940–50

Issue I notes were taken out of circulation in 1903 and divisionary notes in Issue I in 1926, but they are still redeemed by the Bank. Issue II notes apart from 1 and 2 krone notes were invalidated as legal tender in connection

with the monetary reform in 1945 and are no longer redeemed by Norges Bank. The other note issues are still legal tender.

Norges Bank's Management, Administration and Personnel as at 1 January 1988

The supreme bodies of the Bank are the Executive Board and the Supervisory Council. The Executive Board has seven members who are appointed by the King. The Central Bank Governor is Chairman of the Board and the Deputy Central Bank Governor is Deputy Chairman. The Supervisory Council has fifteen members elected by the Storting, which also appoints the Chairman and Deputy Chairman. Members of the Cabinet and members of the Storting may not serve on the Executive Board or on the Supervisory Council.

Each of the Bank's twenty regional branches shall have a Board of Management composed of four members. In the period 1 January 1986-31 December 1989 each Board of Management will – as a provisional arrangement – have five members.) The regional manager is Head of the Board of Management. The remaining members are appointed by the Storting. The employees are represented on the Executive Board and the regional Boards of Management when administrative matters are discussed.

Executive Board

Central Bank Governor Hermod Skånland, Chairman.
(Appointed for the period 1 April 1985-1 April 1991)
Deputy Central Bank Governor Kjell Storvik, Deputy Chairman.
(Appointed for the period 1 June 1985-1 June 1991)

Other members:

Juul Bjerke (11 November 1985-11 November 1989)
Alternate: Torstein Moland¹⁾ (11 November 1985-11 November 1989)
Kari Gjestebø¹⁾ (11 November 1987-11 November 1991)
Alternate: Anne-Lise Hilmen (18 December 1987-18 December 1991)
Per Høybråten (11 November 1987-11 November 1991)
Alternate: Aud Inger Aure (11 November 1987-11 November 1989)
Arnulf Ingebrigtsen (11 November 1985-11 November 1989)
Alternate: Kari Thu (11 November 1985-11 November 1989)
Eivind Reiten (18 December 1987-18 December 1991)
Alternate: Anny Felde (18 December 1987-18 December 1991)

Employee representatives:

Oddmund Hansen
Ingjerd Tørring
Eva Aspblad (alternate)
Aud Aasland (alternate)

1) Currently barred from attending under §6.5 of the Norges Bank Act.

Chairman of the Supervisory Council

Kristian Asdahl

Auditing Department

Kjell Hauen Eriksen, State Authorized Auditor
Solbjørg Lie, State Authorized Auditor

Departments at Head Office:

Hermod Skånland, Governor
Kjell Storvik, Deputy Governor

Administration Committee

Hermod Skånland, Governor
Kjell Storvik, Deputy Governor
Einar Magnusson

Employee representatives:

Oddmund Hansen
Ingjerd Tørring

Secretariat and Legal Department

Viking Mestad, Director
Arne Bondevik, Head of Division

Administration Department

Einar Magnusson, Director
Else Nissen, Personnel Director
Erik Børøe, Technology Director
Inger-Johanne Sletner, Assistant Director
Kjell Stixrud, Assistant Director

Dag Stenersen, Assistant Director (acting)
Håkon Sannes, Counsellor for Economic and Monetary Affairs (Brussels)
Liv Kielland, Chief Information Officer
Leif-Åge Bergseng, Head of ADP services
Kasper Holand, Head of Division (leave of absence)
Andreas Sand, Head of Division
Harald Haare, Head of Division

Banking Department

Ragnhild Lagerløv, Director
Siri Caspersen, Assistant Director
Sylvi Johansen, Assistant Director
Oddvar Trones, Assistant Director
Karin Lohrmann, Head of Division
Thormod Lærum, Head of Division
Vigleik Nilsen, Head of Division
Gunnar Stakkeng, Head of Division

Financial Markets Department

Jon A. Solheim, Director
Asbjørn Fidjestøl, Assistant Director
Knut Knutsen, Assistant Director
Jan F. Haraldsen, Head of Division
Carl J. Vogt, Special Adviser

Market Operations Department

Arne Lie, Director
Trygve Spildrejord, Director (New York)
Leif Eide, Assistant Director
Bjarne Hansen, Assistant Director
Bjørn Taraldsen, Head of Division
Finn Torkildsen, Head of Division
Brynjuv Volla, Head of Division
Terje Prøsch, Special Adviser

Research and Statistics Department

Jarle Berge, Director
Jon P. Holter, Director of Statistics
Leiv Vidvei, Assistant Director
Jan F. Qvigstad, Assistant Director
Eilev S. Jansen, Head of Division
Herborg Hagesveen, Head of Division
Trond M. Johansen, Head of Division
Per Steina, Special Adviser
Henning Strand, Special Adviser

Economics Department

John Tvedt, Director
Knut Andreassen, Assistant Director
Harald Bøhn, Head of Division
Audun Grønn, Special Adviser

Note and Coin Production

Norges Bank's Printing Works, Oslo

Management Board:

Arnulf Ingebrigtsen, Chairman
Kari Gjestebø (alternate)
Per Ulsteen
Ragnhild Lagerløv

Employee representatives:

Ivar Svenningsen
Jan Syversen
Hans Bjørge (alternate)
Karin Foss (alternate)

Administration:

Per Ulsteen, Director
Peter Ravnsborg-Gjertsen
Johannes Bjørge
Frode Grjøtheim
Harald Sivertsen

The Royal Mint

Control Committee:

Juul Bjerke, Chairman
Geirmund Ihle
Roar Flåthen

Employee representatives:

Johnny Fjellidal
Kjell Jensen (alternate)
Ole Bjerknes
Halvard Riggengholt (alternate)

Administration:

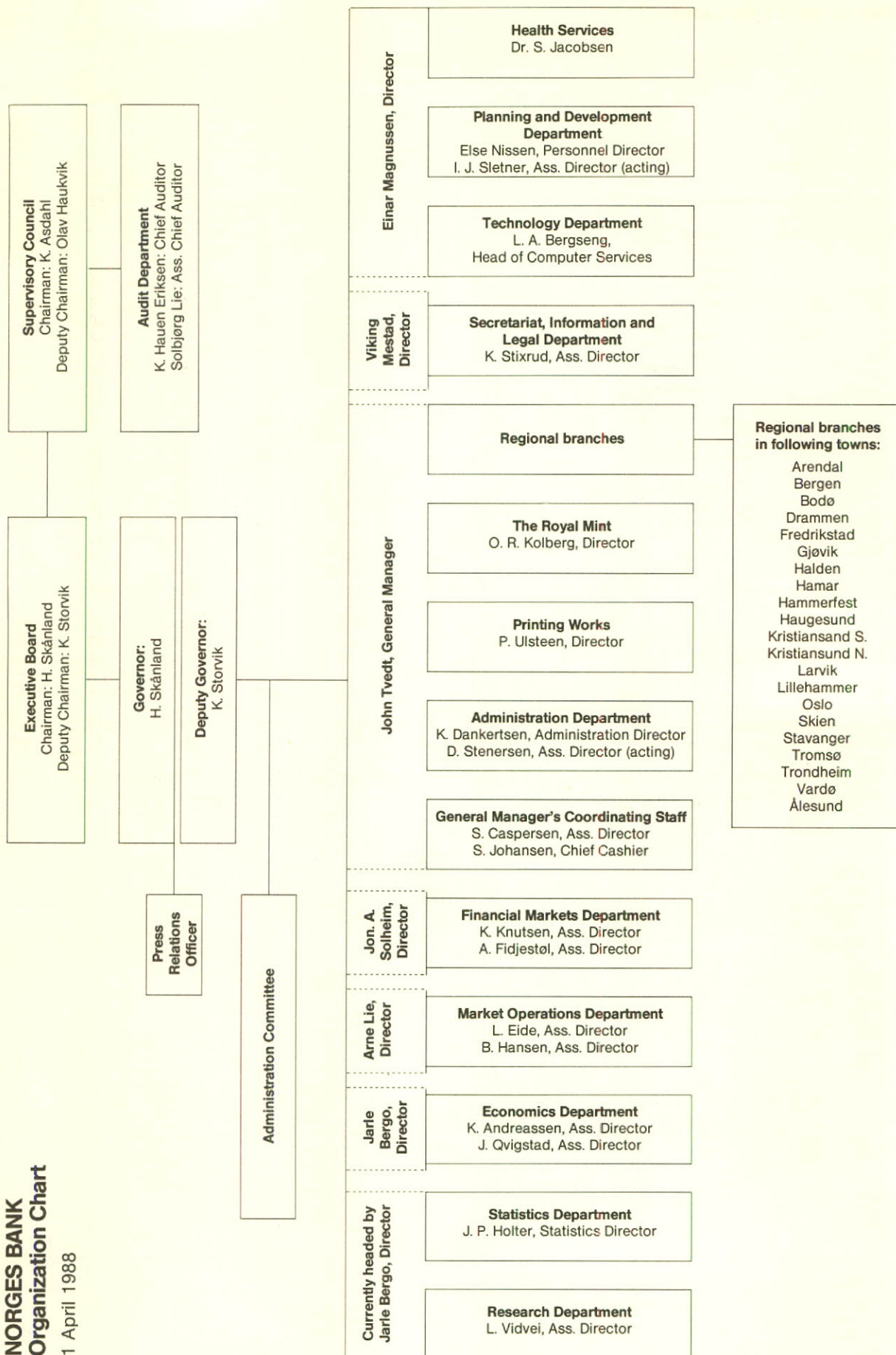
Ole-Robert Kolberg
Olav J. Herstad

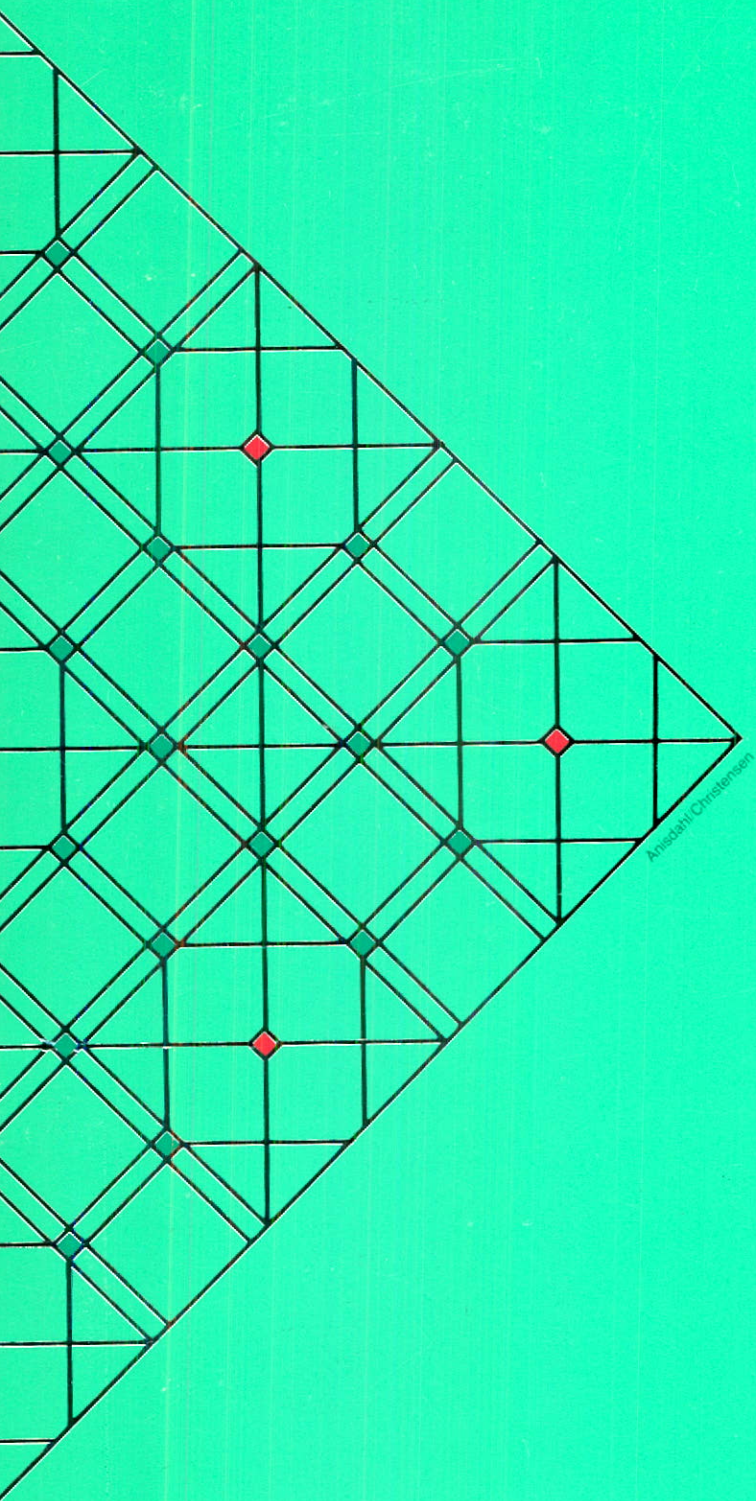
Norges Bank's Personnel

The figures refer to full-time and part-time employees on monthly salaries at end of each year

	1983	1984	1985	1986	1987
Head Office				254	247
Auditing Department	25	30	28	31	29
Total Head Office and Audit Department	645	656	642	662	634
Regional branches:					
Arendal	17	17	18	17	17
Bergen	50	57	56	54	45
Bodø	43	43	44	43	42
Drammen	23	23	23	24	21
Fredrikstad	26	28	28	26	26
Gjøvik	20	20	20	20	21
Halden	13	13	11	12	13
Hamar	22	22	23	21	20
Hammerfest	17	18	17	18	17
Haugesund	21	20	21	21	20
Kristiansand S	33	33	33	32	31
Kristiansund N	19	18	22	19	19
Larvik	18	19	22	21	20
Lillehammer	21	22	22	22	23
Skien	26	25	26	26	26
Stavanger	41	41	39	41	37
Tromsø	32	33	37	37	35
Trondheim	46	50	49	48	47
Vardø	17	17	15	14	16
Ålesund	26	26	27	24	23
Total regional branches	531	545	553	540	518
Printing Works	143	141	135	134	129
Royal Mint	76	75	78	78	76
Representative Office New York	4	4	4	4	4
Total	1 399	1 421	1 412	1 418	1 361
Man-years worked by full-time employees	1 313	1 332	1 334	1 329	1 285 ¹⁾
Man-years worked by employees on hourly and daily pay and by stand-ins	100	84	105	83	92 ¹⁾

1) The figure for 1987 is not adjusted for absence due to illness, temporarily unfilled positions etc, as done previously to obtain figures for man-years *worked*.





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