# NORGES BANK

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## Annual Report 1980

1980

# NORGES BANK 1980

(Bank of Norway)

## Report and Accounts

Oslo 1981

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## International Background

At the beginning of 1980 the international economic situation was characterized by conflicting trends. On the one hand, the considerable oil price increases during 1979 and the tightening of economic policy in the industrial countries had exacerbated the international economic outlook. On the other hand, economic activity in the OECD countries towards the end of 1979 and in the beginning of 1980 kept up better than expected. According to estimates made by the OECD, the effect of the oil price hikes during 1979 could be to reduce the end-1981 level of real GNP of the member countries by 4–5 per cent. Only a small part of this effect worked through in 1979. A noticeable weakening of the international economic situation therefore seemed inevitable in 1980. While the production growth was expected to remain relatively high in the first half of the year, the effects of the higher oil prices and the synchronized tightening of policy in the industrialized countries seemed likely to make a stronger impact in 1980 and thus contribute to keeping the growth in production modest also in 1981.

The trend in the world economy in 1980 was in the main as expected. Thus, in the second quarter real GNP in the United States declined at an annual rate of 9 per cent. The recessionary tendencies gradually became more marked also in Western Europe, and in the second half of the year the setback in the Federal Republic of Germany, in particular, was stronger than anticipated. In addition to falling export demand, the tightening of economic policy contributed to a decline in private consumption and investment. In the United Kingdom, production started to fall off already in the autumn of 1979, and the level of activity declined further in 1980. Investment demand in particular was weak, but public and private consumption were also declining. In Japan, on the other hand, economic activity weakened only slightly, and export demand represented the most important growth factor. The lifting of the credit restrictions which had been introduced in March, and the subsequent decline in interest rates led to a recovery of consumer demand and building activity in the United States in the second half of the year. However, the steep rise in the U.S. interest rate level towards the end of 1980 suggested that the upswing in economic activity would level out in the beginning of 1981.

In the OECD area as a whole, GNP at constant prices rose at an annual rate of 1 per cent in the first half-year and fell at a rate of about ¾ per cent in the second half-year. Average growth in 1980 is estimated at 1 per cent, against 3.3 per cent in the preceding year. In the second half-year production fell off considerably also in Sweden and Denmark, and the GNP growth in our most important markets was only ¾ per cent, against 3.4 per cent in 1979. While the volume of imports to Norway's main trading partners rose by 5.5 per cent in the first half-year, it showed a 3 per cent decline in the second half-year. For 1980 as a whole, the market growth for Norwegian export goods was 4.3 per cent, against 10.5 per cent in the preceding year.

As a result of the world-wide low level of activity, unemployment in the majority of industrial countries rose in 1980. In the first half of 1980 the increase was largely confined to the United States and the United Kingdom whereas in the second half-year it spread to several more countries. By the end of 1980, average unemployment in the OECD area had reached 6½ per cent of the labour force, against 5.1 per cent in 1979. Even so, this increase is smaller than would seem to be indicated by the low GNP growth in the industrial countries. The post-1975 experience thus implies that a growth rate of only about 3 per cent is sufficient to keep unemployment unchanged, against an estimated 4–4½ per cent previously.

Even though the oil price hikes in 1973–74 and 1979–80 resulted in approximately the same real income loss relative to the industrial countries' gross national product, the impact on production and demand was substantially smaller in the latter period. Part of the reason for this is that the oil crisis in 1973 occurred at a time of far greater capacity utilization than in 1979, and this contributed to a stronger rise in international raw material prices. Furthermore, the industrial countries have since 1979 pursued a tighter and more consistent monetary and fiscal policy than in 1974–75, and this has in turn resulted in less instability in the foreign exchange markets. Another important factor is the greater moderation in wage settlements. While the real income of households remained unchanged or increased in 1974–75 in spite of the oil price rises, the wage growth in the OECD countries in 1979–80 has been lower than the price rise. Unit labour costs as well as import and export prices have thus shown a lower rate of increase than in 1974–75, while the consumer price rise has been approximately equally strong. This has helped sustain profitability and thereby the willingness of the business sector to invest. In addition, the strong price rise in many OECD countries in 1980 was brought about by increases in publicly administered energy prices and a shift towards lower income taxes and higher indirect taxes.

At the meeting of OECD ministers in June 1980, consensus generally prevailed that in the short term the principal target for economic policy should be to reduce the rate of inflation. It was feared that expansionary measures could have detrimental effects in the form of a further rise in oil prices and thereby an acceleration of inflation. It was therefore agreed that expansionary measures should only be taken by those countries which appeared to have overcome the oil price rise without too strong repercussions on wages and other costs. This would not, however, be the case until in 1981. For this reason, no general easing of the restrictive demand management policy or any co-ordinated stimulatory measures were implemented in 1980. It was pointed out that in order to ensure stronger growth and lower unemployment in the medium term, it was especially necessary to stimulate investments and reduce the industrial countries' dependence on imported oil. Even though agreement in principle was reached on the main aspects of such a common energy policy, the OECD countries did not succeed in arriving at a concrete formulation of such a policy in 1980. Nevertheless, in the past two years they have had considerable success in reducing their dependence on oil. In 1979 oil consumption in the industrial countries stagnated in spite of a GNP growth of 3.3 per cent, and in 1980 it fell by about 5 per cent in spite of a GNP growth of 1 per cent.

The rate of inflation in the OECD countries reached a peak of about 14 per cent in the second quarter of 1980, but dropped to around 10 per cent towards the end of the year. The consumer price rise in the OECD countries averaged 13 per cent in 1980, against almost 10 per cent the previous year. As shown in Table 1, the rate of inflation still differed substantially from country to country. While countries such as the Federal Republic of Germany, the Netherlands, Switzerland and Austria showed a consumer price rise of around 5–6 per cent, the rate of increase in the United Kingdom and Italy was 18–20 per cent. In the United States the increase in consumer prices is strongly influenced by fluctuations in interest rates. If, instead, the GNP consumption deflator is used as a yardstick, the average price rise in the United States is at 10estimated at 10½ per cent in 1980, against the 13½ per cent increase shown by the consumer price index.

In most countries the main weapon for combating inflation has been an overall demand management policy. Recent years' experiences in the United Kingdom, in particular, have demonstrated that a restrictive economic policy can become very costly in terms of production loss and unemployment. There is also a danger that persistent, high unemployment will rather result in greater social conflicts and entrenched attitudes than in moderation with regard to wage demands. It has therefore become increasingly clear that if the inflation is to be conquered, new policy instruments must be employed which will ensure greater consistency between increases in money incomes and changes in the real economy. However, the formulation of a policy which will produce a lower rise in prices without too high unemployment is just as much a political as an economic

*Table 1. Gross National Product, Consumer Prices and Unemployment in Selected Countries*

| | Gross national product at fixed prices | | | Consumer prices | | | Unemployment[1] | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1978 | 1979 | 1980 | 1978 | 1979 | 1980 | 1978 | 1979 | 1980[2] |
| | (Percentage change from preceding year) | | | | | | (Percentage of labour force) | | |
| U.S. | 4.4 | 2.3 | –¾ | 7.7 | 11.3 | 13.5 | 5.9 | 5.7 | 6.9 |
| Japan | 5.9 | 5.9 | 5 | 3.8 | 3.6 | 8.0 | 2.2 | 2.1 | 2.0 |
| Germany | 3.3 | 4.5 | 1¾ | 2.7 | 4.1 | 5.5 | 3.5 | 3.2 | 3.1 |
| U.K. | 3.6 | 1.5 | –2¼ | 8.3 | 13.4 | 18.0 | 6.1 | 5.8 | 6.9 |
| France | 3.6 | 3.3 | 1¾ | 9.1 | 10.8 | 13.3 | 5.1 | 5.9 | 6.1 |
| Italy | 2.6 | 5.0 | 3¾ | 12.1 | 14.8 | 21.2 | 7.1 | 7.5 | 7.5 |
| Netherlands | 2.5 | 2.3 | ¼ | 4.1 | 4.2 | 6.5 | (5.0) | (4.5) | (5.3) |
| Belgium | 3.1 | 2.4 | 1½ | 4.5 | 4.5 | 6.7 | (6.9) | (7.7) | (8.2) |
| Sweden | 2.8 | 3.8 | 2¼ | 10.0 | 7.2 | 13.7 | 2.2 | 2.1 | 1.9 |
| Denmark | 1.3 | 3.5 | –½ | 10.0 | 9.6 | 12.3 | (7.4) | (6.0) | (6.8) |
| Finland | 2.3 | 7.2 | 6 | 7.7 | 7.5 | 11.6 | 7.4 | 6.0 | 4.7 |
| Norway | 4.5 | 4.5 | 3.6 | 8.1 | 4.8 | 10.9 | 1.8 | 2.0 | 1.6 |
| OECD area | 3.9 | 3.3 | 1¼ | 7.9 | 9.8 | 13 | 5.2 | 5.1 | 5.7 |
| Norway's main export markets[3] | 3.0 | 3.4 | ¾ | 7.6 | 8.5 | 12¼ | – | – | – |

1) Figures in brackets are not directly comparable with the other figures since they have not been adjusted to international definitions.
2) Average for the first three quarters.
3) The above-mentioned eleven countries (which account for approximately 80% of Norway's merchandise exports) weighted on the basis of Norwegian merchandise exports.
Source: OECD, Economic Outlook, December 1980; Norges Bank.

problem. The Federal Republic of Germany, Japan, Austria and Switzerland are countries which in different ways have mastered this political problem better than most for quite a long time.

Following a strong expansion in the beginning of 1980, external trade of the industrial countries declined noticeably during the remainder of the year. The decline was particularly marked in the case of imports to the OECD countries, while import demand held up better in the OPEC countries and in the non-oil-producing developing countries. In volume terms the OECD countries' exports rose by 5 per cent in 1980, while imports fell by almost 1 per cent. The corresponding volume figures for the OPEC countries show a fall in exports of 15 per cent and a rise in imports of 20 per cent. The upswing in exports to the OPEC countries was not sufficient to offset the 18 per cent deterioration in the OECD countries' terms of trade with the rest of the world resulting from the rise in oil prices. For this reason the aggregate current account deficit of the OECD area increased from 35 billion dollars in 1979 to 73 billion dollars in 1980. However, the financing of the deficit did not to the same extent as in 1974–75 represent a problem for the industrial countries. As shown in

*Table 2. Current Account Balances in Selected Countries (billion dollars)*

| | 1978 | 1979 | 1980 |
|---|---|---|---|
| U.S. | −14.3 | −0.8 | 5½ |
| Japan | 16.5 | −8.8 | −13¼ |
| Germany | 8.7 | −5.5 | −17¼ |
| U.K. | 1.2 | −3.9 | 4½ |
| France | 3.7 | 1.2 | −7¾ |
| Italy | 6.2 | 5.1 | −5¼ |
| Netherlands | −1.4 | −2.3 | −3 |
| Belgium–Luxembourg | −0.9 | −3.8 | −6 |
| Sweden | −0.3 | −2.6 | −5 |
| Denmark | −1.5 | −3.0 | −3 |
| Finland | 0.6 | −¼ | −1¾ |
| Norway | −2.1 | −1¼ | ¾ |
| Total OECD area | 10.0 | −35 | −73 |
| OPEC countries | 4½ | 68 | 116 |
| Non-oil-producing developing countries | −22½ | −37 | −50 |

Source: OECD, Economic Outlook, December 1980.

Table 2, the deficit was this time more evenly distributed. So-called strong countries such as Japan and the Federal Republic of Germany both had large deficits, whereas the United States had a current account surplus for the first time since 1976. On the other hand, the current account position of the non-oil-producing developing countries deteriorated further in 1980.

## The Norwegian Economy

### *Economic policy*

The National Budget for 1980 was based on the assumption that growth in the Norwegian economy would continue. In the main, the plans were for a continuation of the stabilization policy of 1978 and 1979. Although the economic policy pursued during these two years had helped to rectify the imbalance in the Norwegian economy, it was emphasized that considerable problems remained to be solved. In particular, a further improvement in external competitiveness and a structural rationalization of industry were essential. In spite of the improvement in the relative competitiveness of the Norwegian manufacturing industry in 1978 and 1979, at the end of 1979 the increase in unit labour costs since 1970 was still 20 per cent stronger in Norway than in competitor countries, or 12 per cent stronger when compared with 1973. The aim was therefore a lower price and cost rise than in our most important markets, even after the lifting of the prices and incomes freeze. In order to achieve a lasting improvement in competitiveness, the authorities also attached importance to the elimination of factors hampering restructuring and productivity growth. The short-term support to individual branches and enterprises which was a feature of the latter half of the 1970s, was to be gradually replaced by stimulatory measures of a more general nature.

The attainment of these targets necessitated a tightening of economic policy. Credit policy was already relatively tight and, in view of the desire to stimulate business investments, a further tightening was not considered expedient. When oil tax revenue – which has little effect on domestic liquidity and demand – is disregarded, the government and social security budget showed a rising deficit, however. From 11.5 billion kroner in 1978 and 13.6 billion kroner in 1979, the budget deficit excluding oil tax revenue rose to 17.1 billion kroner in 1980. As a proportion of the gross domestic product (excluding the oil activity), the deficit showed a similar trend, amounting to 5.8, 6.4 and 7.3 per cent, respectively. Thus, the stronger than expected cost and price rise in 1980 was not surprising in view of the expansionary fiscal policy.

The trend in the real economy in 1980 was much as expected. However, export-competing industry and mining, in particular, were to an increasing extent affected by the world economic slowdown, and the growth in industrial output was therefore lower than expected. As forecast in the National Budget, gross fixed capital formation increased, and industrial investment activity was considerably strengthened. In addition, the balance of payments improved considerably in 1980, essentially as a consequence of the doubling of the export value of crude oil and gas. The current account of the balance of payments therefore showed a surplus of 4.3 billion kroner, an improvement on 1979 of almost 10 billion kroner. Norway's competitive position vis-à-vis foreign countries, measured by relative unit labour costs in manufacturing, showed little or no change over 1980 as a whole. The improvement in competitiveness achieved in the previous two years thus did not continue.

### *Total demand*

The Norwegian economy was marked by a moderate upturn in the first half of 1980. In the latter half-year the weaker external demand had a progressively negative impact. This was partly offset by the increase in domestic demand, but Norges Bank's

*Table 3. Norway: Gross Domestic Product by Use*

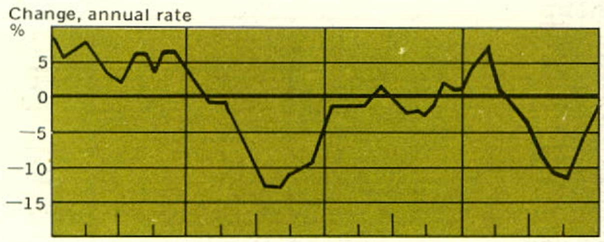
| | 1979 | | Percentage volume change from preceding year | | | |
|---|---|---|---|---|---|---|
| | Value, billion kroner | % of GDP | 1977 | 1978 | 1979[2)] | 1980[2)] |
| Private consumption | 118.9 | 50.2 | 6.9 | −1.6 | 2.3 | 1.4 |
| Public consumption | 46.7 | 19.7 | 4.9 | 5.5 | 3.9 | 3.8 |
| Gross fixed capital formation | 66.8 | 28.2 | −2.5 | −5.6 | −5.1 | 2.2 |
| Companies, total | 55.5 | 23.4 | −3.8 | −8.0 | −5.3 | 3.8 |
| Shipping | 3.6 | 1.5 | −42.7 | −62.3 | 36.0 | −24.7 |
| Oil sector | 7.0 | 3.0 | 11.9 | −34.3 | −34.1 | −11.7 |
| Housing | 12.5 | 5.3 | 2.9 | 9.6 | 2.5 | −0.5 |
| Other companies | 33.4 | 14.1 | 5.4 | 8.4 | −6.6 | 7.0 |
| Public administration | 10.3 | 4.4 | 5.4 | 8.4 | −6.5 | −5.6 |
| *Final domestic use of goods and services* | 232.5 | 98.2 | 3.4 | −1.6 | 0.3 | 2.1 |
| Investments in stocks[1)] | −1.0 | −0.4 | 0.1 | −4.3 | 2.8 | 2.8 |
| *Total domestic use of goods and services* | 231.5 | 97.8 | 3.5 | −5.6 | 3.2 | 5.0 |
| Of which excluding shipping and oil sectors | 220.8 | 93.3 | 5.3 | −1.8 | 4.7 | 5.3 |
| Exports of goods and services | 105.5 | 44.6 | 3.6 | 8.4 | 2.5 | 0.7 |
| Imports of goods and services | 99.2 | 41.9 | 3.4 | −13.5 | −0.7 | 3.7 |
| Export surplus[1)] | 6.3 | 2.7 | 0.2 | −4.2 | 1.4 | −1.2 |
| *Gross domestic product* | 236.7 | 100.0 | 3.6 | 4.5 | 4.5 | 3.6 |
| Excluding shipping and oil sectors | 204.0 | 86.2 | 3.2 | 2.0 | 4.0 | 1.6 |

1) Change as a percentage of GDP in preceding year.
2) Provisional figures.

diffusion index indicates that the overall level of activity declined somewhat between the first and the second half of the year. The economic situation at the end of 1980 was consequently marked by weak external demand and by a flatter trend in petroleum production than in the preceding years, although there were signs of continuing growth in domestic consumer and investment demand.

As shown in Table 3, domestic use of goods and services, excluding investments in stocks, showed a volume increase in 1980 of slightly over 2 per cent. This was a stronger rate of growth than in the preceding two years, although it was markedly lower than during the period of countercyclical policy in 1975–1977. Since gross investments in the oil sector have been declining since 1977, demand in "Mainland Norway" has in the last few years shown stronger growth than total domestic demand for goods and services. For 1980 the growth in domestic demand in "Mainland Norway" has been estimated at 5.3 per cent, while total output, excluding shipping and oil, increased by only 1.6 per cent. This means that, for the first time since 1977, the use of goods and services in "Mainland Norway" increased more strongly than total output when the shipping and the oil sectors are excluded. In contrast to the pattern during the period of countercyclical policy in 1975–1977, when private consumption in particular showed a sharp upswing, this was primarily due to a marked escalation of business investments. The higher level of domestic investment activity also contributed to a sharp rise in merchandise imports in 1980.

Chart 1. Retail trade volume



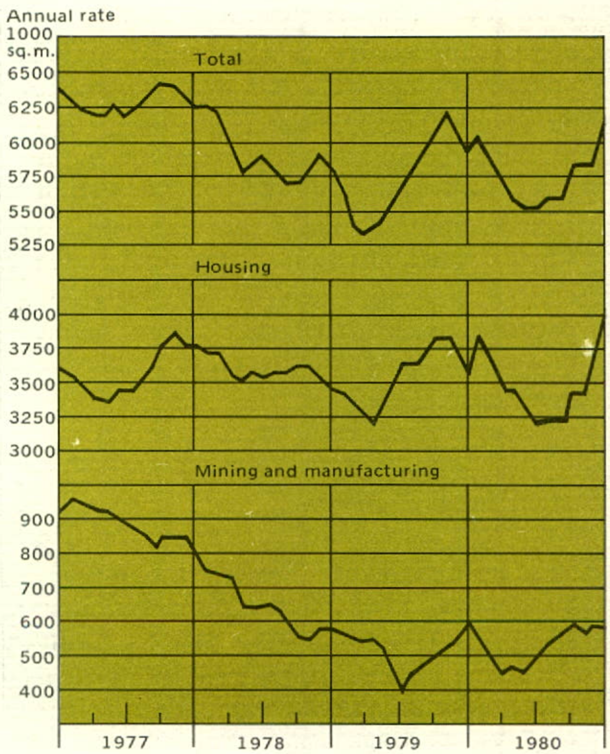

*Private consumption*

Private consumer demand has in recent years shown a markedly weaker trend. In the period 1978–80, the volume growth averaged a mere 0.7 per cent per year, compared with 6 per cent in the previous three-year period. In 1980 private consumption showed a volume growth of 1.4 per cent. The total domestic retail trade volume was, on the other hand, lower than in the previous year. The increase in private consumption was therefore due entirely to the growth in consumption of services, especially in categories such as health and housing. For the first time, less than half of the gross domestic product went to private consumption. The changes in the use of the gross domestic product were in particular attributable to the upswing in oil and gas production which has led to an increase in the proportion accounted for by total exports.

Public and private savings increased considerably in 1979 and 1980. The total savings ratio has been estimated at almost 19 per cent in 1980 as against the low of 7½ per cent in 1977. In the period 1962–1973, the savings ratio averaged 16 per cent. While the increase in public savings is related to the sharp rise in the government's oil revenues, the increase in private savings in 1979–1980 appears to be a result of the marked improvement in profitability in the business sector. On the other hand, household savings declined somewhat in both years.

Chart 2. Industrial investments, value


Chart 3. Building starts



*Investment demand*

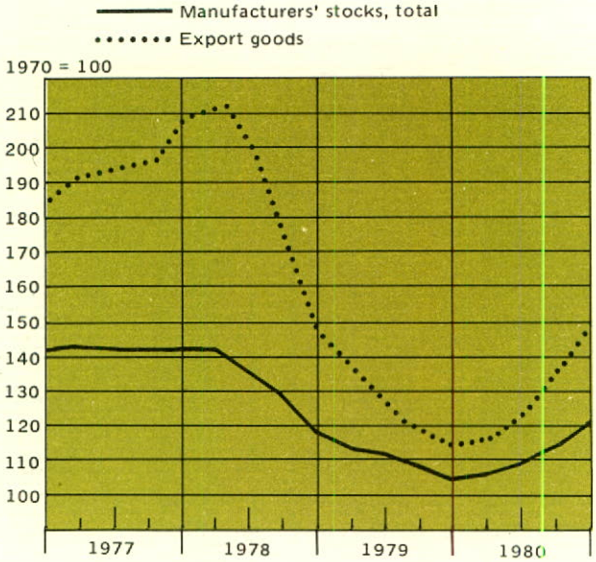
Gross fixed capital formation increased by about 2 per cent in 1980 following a sharp decline in the two previous years. For this reason, the volume of gross investments remains at a lower level than in 1975. The rise in 1980 was due especially to higher investment activity in traditional industry and in the shipping sector. The investment ratio in industry – i.e., gross investments as a proportion of total output – rose from 17 per cent in 1979 to almost 21 per cent in 1980. The major part of the growth in industrial investments took place in certain export-competing sectors and was related to the considerable improvement in profitability in parts of the export industry over the past two years.

The measures taken by the authorities around mid-year to increase housing construction led to a marked rise in building activity in the second half of 1980. The target figure of 36,000 housing starts was therefore reached. Even though this figure is 10 per cent lower than in 1979, housing investments showed a volume decline of only ½ per cent in 1980. This was partly attributable to an increase in the average dwelling size and to higher standards, but it was mainly due to the large number of housing starts towards the end of 1979 which contributed to keeping housing under construction at a relatively high level during most of 1980. The fall in public investment was due to lower municipal investment activity.

*Trend in production*

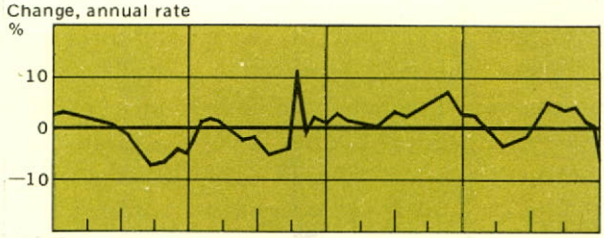
The gross domestic product at constant 1975 prices increased by 3.6 per cent in 1980. The growth impulses derived mainly from the oil activity, the gross product of which rose by almost 30 per cent. The majority of other sectors showed little or no growth in 1980. "Mainland Norway" thus experienced a production growth of only 1.6 per cent, against 4.0 per cent in 1979. Apart from oil and gas, agriculture showed the strongest production growth – 17.4 per cent in 1980. The industrial production index showed a rise of 1.1 per cent in 1980, but for the year as a whole it was nevertheless lower than in 1974. The weakening of the markets for Norwegian exports led to a fall in production in export-competing industry between the first and the second half of the year at the same time as stocks of export goods were clearly growing. Thus, in the second half-year total industrial output was sustained by domestic consumer and investment demand. Production in both import-competing and sheltered industries showed a volume growth of about 2 per cent in 1980.

Chart 4. Volume of stocks




The productivity trend in the Norwegian economy weakened in 1980. The GDP growth per man-year fell from 3.7 per cent in 1979 to 1.9 per cent. The importance of the oil activity in this picture is illustrated by the fact that if this sector is omitted, the productivity growth was only 2.5 per cent and 0.3 per cent, respectively. The growth in productivity per man-hour in manufacturing was only 2.5 per cent in 1980, half that in 1979, while in the period 1970–1978 it averaged 3.2 per cent. By international standards, the investment ratio in Norwegian industry was relatively high in the 1970s. Even so, the productivity growth was weaker than that of our most important trading partners.

Chart 5. Industrial production, total

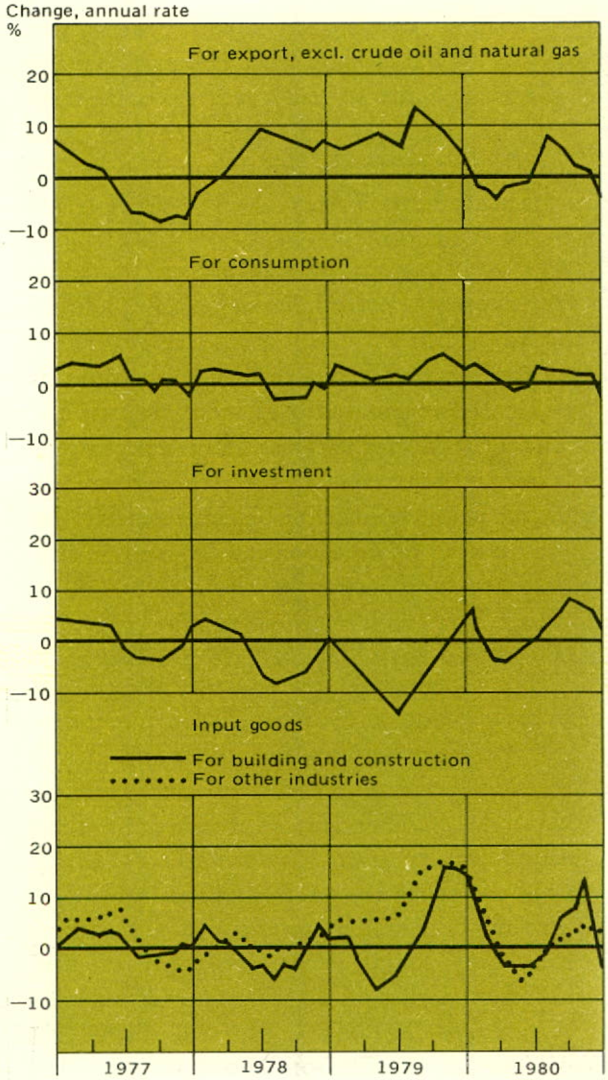



### *Labour market*

There has been a marked rise in the labour force in recent years, mainly because of a higher incidence of employment among women. The rise in employment has, however, absorbed most of the additional workers, so that registered unemployment has not risen substantially. In 1980, about 256,000 more persons were employed than in 1973, i.e., an average annual growth of 2.1 per cent. In terms of man-hours worked, the average annual growth over the same period was 0.7 per cent, reflecting the fact that the increase in employment largely resulted from a greater extent of part-time work. Over 60 per cent of the increase in employment took place in the education, health and social services sectors. According to the quarterly labour market surveys of the Central Bureau of Statistics, one in five workers was employed in these sectors in 1980, as against one in seven in 1973.

The labour market remained very tight in the first half-year, but unemployment showed signs of increasing in the second half of 1980. Even so, for the year as a whole, average registered unemployment was lower than in the previous year – 1.1 per cent of the labour force as against 1.3 per cent in 1979. The labour market surveys of the Central Bureau of Statistics, which are better suited for international

Chart 6. Industrial production, by use



comparisons, show that the number of job applicants without income from work averaged 1.7 per cent of the labour force in 1980 against 2.0 per cent in 1979. The number of persons employed through the special labour market measures averaged 15,400 against 14,000 in 1979. Again in 1980, limited geographical mobility of labour led to considerable regional differences in registered unemployment which was highest in the four northernmost counties and lowest in Oslo and Akershus.

*Price and cost trend*

According to the new consumer price index, which is based on the composition of consumption in 1977–79, the price level was on average 10.9 per cent higher in 1980 than in the previous year. The former consumer price index showed an increase of 10.2 per cent in 1980. The price rise in our most important markets in the same year amounted to 12¼ per cent. The rate of inflation accelerated in the course of 1980 in Norway, whereas the opposite was the case in most OECD countries. In the six-month period to the end of the year the consumer price index rose at an annual rate of 13 per cent. During 1980 the price rise impulses came more and more from domestically produced goods, while the trend in prices for imported goods was clearly a restraining factor in the second half-year.

The price and wage rise in 1980 proved to be somewhat stronger than projected in the National Budget, but the trend in real incomes was nevertheless relatively well in line with the forecasts. Moreover, the trend in incomes in 1980 represented a continuation of previous years' redistribution of income between economically active persons and social security recipients, and between high and low income groups. In the period 1977–80, the real disposable income of persons on minimum pensions

Chart 7. Labour market

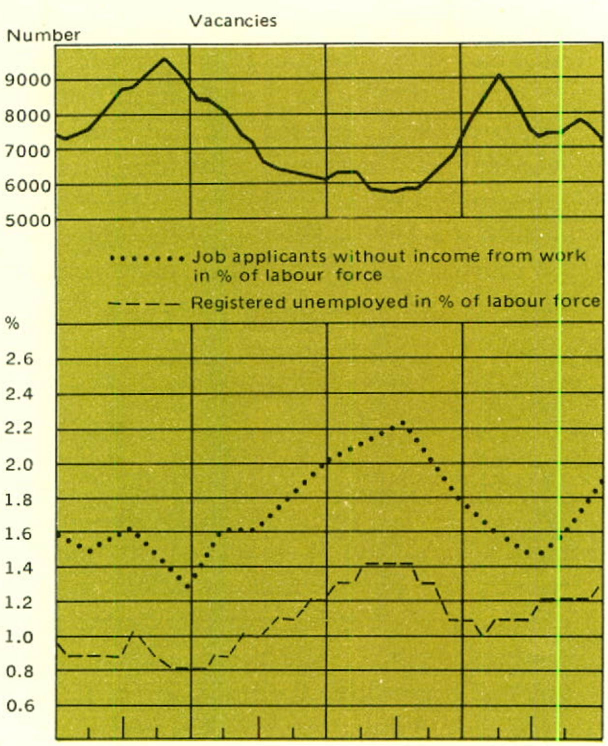
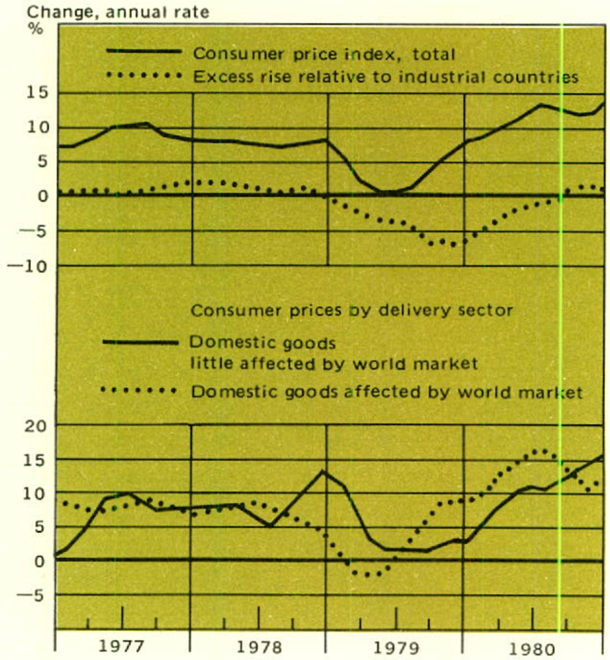



Chart 8. Consumer prices



increased by 11 per cent on average, while persons on average industrial wages experienced a decline of 2.2 per cent and farmers a decline of 2.5 per cent. The substantial redistribution of income in favour of agriculture in the period 1975–1977 has thus come to a halt in recent years. The trend in real disposable income for the high-income groups was even weaker, which is illustrated by the fact that senior civil servants experienced a decline in their real income of 9.5 per cent between 1977 and 1980.

The competitive position of Norwegian industry, measured by relative unit labour costs, improved by 10½ per cent in 1978–1979. In 1980, average hourly labour costs (including obligatory social outlay) in industry were about 10 per cent higher than in the previous year. In the same period, production per hour increased by 2½ per cent, so that unit labour costs rose by about 7½ per cent in 1980, approximately the same as in our main markets when measured in Norwegian kroner. Even though the competitive position thus did not show any material year-on-year deterioration in 1980, it tended to weaken in the course of the year. In the fourth quarter of 1980, relative unit labour costs in Norwegian industry were about 3 per cent higher than in the same quarter a year earlier. The nominal cost rise was again in 1980 lower in Norway than in competitor countries, but the effective appreciation of the Norwegian krone by 1.7 per cent rendered a modest improvement in the competitive position unattainable.

*Table 4. Indicators of Competitiveness of Norwegian exports*
*(Percentage change from preceding year)*

| | 1976 | 1977 | 1978 | 1979 | 1980[3] |
|---|---|---|---|---|---|
| *Unit labour costs*[1] | | | | | |
| Norway | 11.9 | 12.2 | 8.1 | −0.3 | 7.6 |
| Main markets | 3.9 | 6.8 | 15.2 | 5.3 | 7.5 |
| *Export prices*[1] | | | | | |
| Norway[2] | 1.8 | 6.7 | 2.2 | 15.6 | 12.7 |
| Main markets | 6.9 | 8.9 | 12.1 | 11.0 | 11.0 |
| Norway's export volume | 10.8 | −5.4 | 6.4 | 7.8 | – |
| Market growth | 9.3 | 1.7 | 3.9 | 10.5 | 4.3 |

1) In Norwegian kroner.
2) Exports excl. oil, gas, ships and oil platforms.
3) Estimate by Norges Bank.
Sources: Central Bureau of Statistics, IMF, and Norges Bank.

*External economy*

Throughout the 1970s Norway's external economy was marked by current account deficits, especially during the counter-cyclical policy in the period 1975–1977. The country's net external debt rose from 14 billion kroner at the end of 1973 to 104 billion kroner at the start of 1980, or from 13 per cent to 44 per cent of the gross domestic product. Since 1977 the current account deficit has declined steadily and in 1980 it was replaced by a surplus of 4.3 billion kroner. Apart from the fact that net freight earnings showed a clear rise concurrently with a decline in imports of ships, the improvement was due entirely to greater export earnings from the oil activity. Thus, in 1980 the export value of oil and gas rose by close to 90 per cent. The significance of this part of the external economy is illustrated by the fact that the oil earnings accounted for over 30 per cent of the country's total export earnings. On the other hand, the traditional trade balance showed a tendency towards larger deficits throughout 1980. For the year as a whole the deficit reached 35.4 billion kroner, or almost 8 billion kroner more than the previous record-high deficit in 1977.

The growth in Norway's export markets was well sustained early in 1980, but as from the second quarter the international recession had noticeable effects on Norwegian merchandise exports. Between the first and the second half-year the volume of traditional merchandise exports fell substantially, and for 1980 as a whole the export volume remained virtually unchanged compared with 1979. Norwegian exporters thus appear to have lost market shares both in 1979 and in 1980.

While the volume of traditional merchandise exports was not much higher in 1980 than in 1973, imports of traditional goods have risen strongly. Even though private consumption of goods as well as traditional merchandise exports showed a weak trend in 1980, the increase in investment activity and the build-up of stocks of import goods contributed to an average volume growth in traditional merchandise imports of about 10.7 per cent in 1980. As a result of the international recession, the rate of growth in both import and export prices for traditional goods was declining throughout 1980. The price level for traditional export goods increased by about 12.7 per cent in 1980, while import prices (excluding ships, platforms and oil) rose by 10.7 per cent. For 1980 as a whole, the terms of trade for traditional merchandise therefore improved by 2 per cent, against 5 per cent in 1979. If crude oil and gas are included, the terms of trade improved by more than 14 per cent, against 8 per cent the previous year.

The freight market was in 1980 marked by poor tanker rates and relatively good dry-cargo rates. There is a close interrelationship between the world-wide level of production and the need for sea-going transport. Whereas the weak demand for oil in the industrial countries led to a fall in tanker rates, increased demand, e.g., for grain and coal, helped to strengthen dry-cargo rates.

Chart 9. Export and import volume

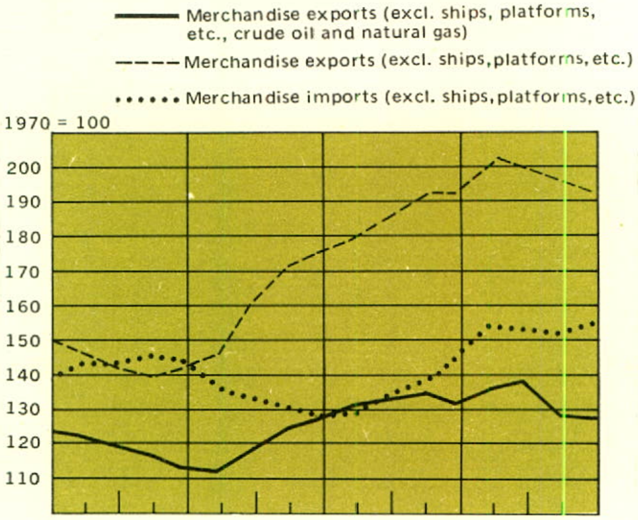



Chart 10. Export and import prices

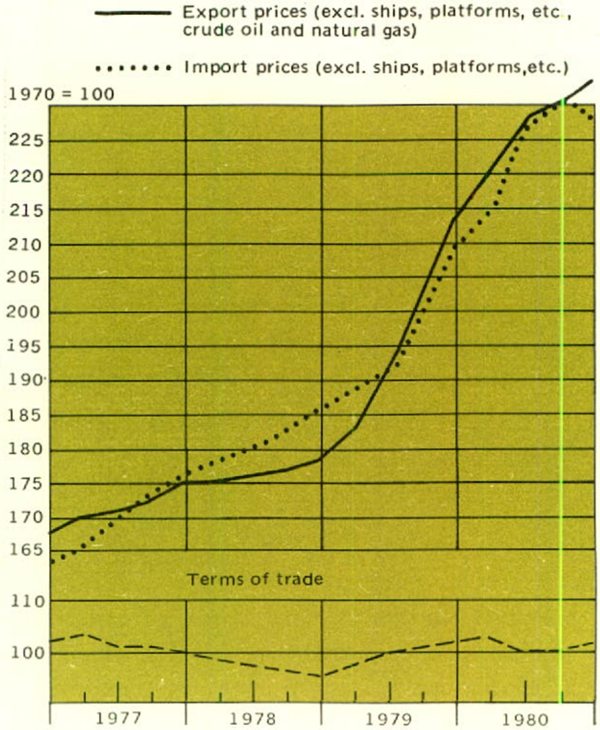


*Table 5. Norway's Balance of Payments (million kroner)*

| | 1976 | 1977 | 1978 | 1979[2] | 1980[2] |
|---|---|---|---|---|---|
| Exports of traditional goods | −30,707 | 31,103 | 33,560 | 42,518 | (46,343) |
| Imports of traditional goods | −51,488 | −59,706 | −56,457 | −65,828 | (−81,738) |
| Trade balance, traditional goods | −20,781 | −28,603 | −22,897 | −23,310 | (−35,395) |
| Exports of North Sea crude oil and natural gas | 6,600 | 8,111 | 13,598 | 21,993 | 41,000 |
| Exports of new ships | 2,326 | 3,506 | 2,004 | 1,467 | 1,400 |
| Exports of used ships | 2,579 | 3,440 | 3,535 | 3,418 | 1,600 |
| Imports of ships | −7,581 | −7,639 | −3,352 | −3,443 | −1,840 |
| Exports of oil platforms | 1,551 | 1,537 | 4,807 | 507 | – |
| Imports of oil platforms | −1,596 | −1,306 | −457 | −145 | – |
| Other exports and imports concerning oil sector | −4,081 | −2,301 | −1,354 | −960 | −420 |
| Trade balance | −20,860 | −23,255 | −4,116 | −473 | 7,000 |
| Net freight earnings | 8,430 | 7,975 | 8,245 | 9,525 | 11,500 |
| Travel, net | −1,290 | −2,053 | −2,643 | −2,814 | −2,800 |
| Net earnings from oil drilling and pipeline transport | −2,661 | −2,739 | −1,200 | 664 | 1,180 |
| Other services, net | 141 | −432 | −2,184 | −607 | −380 |
| Goods and services balance | −16,240 | −20,504 | −1,898 | 6,295 | 16,500 |
| Interest and unrequited transfers, net | −4,130 | −6,298 | −9,107 | −11,530 | −11,800 |
| Current account balance | −20,370 | −26,802 | −11,005 | −5,235 | 4,700 |
| Of which: | | | | | |
| Shipping[1] | 2,216 | 2,257 | 6,710 | 7,551 | 9,344 |
| Oil activities[1] | −1,928 | −722 | 7,275 | 18,326 | 37,446 |
| Other sectors | −20,658 | −28,337 | −24,990 | −31,112 | −42,090 |

[1] Norges Bank's estimates. [2] Provisional figures.
Sources: Central Bureau of Statistics and Norges Bank.

## Credit Policy

*Monetary and credit policy for 1980*

In the National Budget for 1980 the authorities emphasized the necessity of continuing the economic policy pursued in 1978–79 with a view to keeping the price and cost rise low. In view of the expected world economic development, this would be necessary in order to achieve a reasonable external balance and to maintain full employment in the longer term. Fiscal policy as well as monetary and credit policy would therefore have to be formulated with a view to curbing the domestic use of goods and services.

When oil taxes were excluded, the budget deficit of the central government sector was in the National Budget estimated to produce a money supply growth of 4.5 per cent in 1980, cf. Table 6. The reason for excluding the oil tax revenue is that – in contrast to other tax revenue – the effect on domestic demand is negligible. Thus, as shown by the table, the fiscal policy drawn up for 1980 did not represent any tightening compared with previous years. Yet again in 1980, a tight credit policy was therefore necessary to prevent too strong a supply of liquidity from domestic sources. Central government loan transactions – predominantly lending by the state banks – were expected to cause a money supply growth of 6.8 per cent in 1980, clearly less than in the period 1977–1979. In the original budget the supply of liquidity from the private banks was also expected to contribute less to the money supply growth in 1980 than previously. On the basis of the forecasts for the external current account deficit and the net capital inflow, the liquidity withdrawal resulting from the public's net foreign exchange purchases from the banks was estimated to reduce the money supply by 6.6 per cent in 1980, i.e., about the same as in 1979. The overall increase in the money supply in 1980 was thus estimated at 9.8 per cent, considerably less than in the preceding years. Given the estimated 2.5 per cent increase in real terms in domestic use of goods and services in 1980, the

*Table 6. Factors Behind the Growth in the Money Supply[1)] – Excluding Oil Taxes (in per cent)*

| | Account figures | | | Budget figures for 1980 | | |
|---|---|---|---|---|---|---|
| | 1977 | 1978 | 1979 | In National Budget for 1980 | In Revised National Budget for 1980 | In National Budget for 1981 |
| Liquidity supply from domestic sources, total | 26.5 | 19.6 | 20.4 | 16.4 | 18.3 | 17.5 |
| From central government | 14.2 | 14.2 | 13.1 | 11.3 | 12.1 | 12.2 |
| Revenue deficit | 3.0 | 4.2 | 4.7 | 4.5 | 5.9 | 5.7 |
| Loan transactions | 11.2 | 10.0 | 8.4 | 6.8 | 6.2 | 6.5 |
| From private banks, etc. | 12.3 | 5.4 | 7.3 | 5.1 | 6.2 | 5.3 |
| The public's net foreign currency sales to private banks (purchases –) | –10,8 | –8.2 | –6.2 | –6.6 | –7.9 | –8.5 |
| Money supply growth | 15.7 | 11.4 | 14.2 | 9.8 | 10.4 | 9.0 |

1) Comprises holding of notes and coin by the public, deposits with private and public banks (except saving with tax reduction) and unutilized overdrafts and building loans.

projected money supply growth was assumed to be compatible with the objective of a low cost and price rise.

Within the framework drawn up for monetary and credit policy in 1980, the aim was that the credit supply to the business sector should be to provide financing for an increase in investments, and that a moderate growth in housing investments should be possible. On the other hand, the supply of credit to the municipalities was to be strictly regulated in order to curb the real growth of this sector's use of goods and services, and the limitation on loans to households for the financing of consumer goods purchases should continue. Thus, financial saving by households would need to be high in 1980 to avoid too strong a rise in consumer demand.

In the National Budget the total supply of credit to the private sector and municipalities was set at 20.5 billion kroner (see Table 7). When the total credit supply is split up into domestic and foreign sources, importance is attached to how a possible current account deficit is to be financed. A clear improvement in the current account balance in 1980 was forecast in the National Budget. The improvement would essentially be due to an increase in the value of

*Table 7. Credit Budget 1980 (million kroner)*

| | 1979 | Budget figures for 1980 | | |
|---|---|---|---|---|
| | Accounts | In National Budget for 1980 | In Revised National Budget for 1980 | In National Budget for 1981 |
| Direct capital inflow from abroad | 1,477 | −2,500 | −3,000 | −2,607 |
| Of which: | | | | |
| To shipping sector and oil drilling | −991 | −500 | −1,000 | 450 |
| To oil production and pipeline sector | −1,515 | −6,100 | −6,500 | −8,600 |
| To other private sector and municipalities | 1,515 | 1,600 | 1,000 | 1,043 |
| Other short-term capital inflow and statistical errors | 2,468 | 2,500 | 3,500 | 4,500 |
| Ordinary domestic credit supply | 24,929 | 23,025 | 25,435 | 25,324 |
| Of which: | | | | |
| Commercial banks | 4,039 | 3,250 | 3,750 | 3,750 |
| Savings banks | 4,341 | 2,600 | 3,000 | 3,000 |
| Special quota | – | 250 | 300 | 300 |
| State banks[1] (incl. on-lending of loans raised abroad) | 11,261 | 11,650 | 10,450 | 10,683 |
| Private finance companies | 100 | 100 | 150 | 150 |
| Non life insurance | 191 | 175 | 225 | 225 |
| Life insurance, pension funds, etc. | 1,239 | 1,400 | 1,400 | 1,450 |
| Bond market | −541 | 1,550 | 3,700 | 3,326 |
| Loan associations, etc. | 2,168 | | | |
| Share market[2] | 825 | 1,100 | 1,150 | 1,200 |
| Supply of capital to Statoil from the State[3] | 500 | 400 | 210 | 210 |
| Other credit supply and statistical errors | 806 | 550 | 1,100 | 1,030 |

1) Including the Post Office Savings Bank.

2) Excluding share issues by Statoil.

3) Share capital and loans.

oil and gas exports. On the basis of the expected operating surplus of the oil sector and the assumption that the sector would not increase its domestic financial assets, a considerable net outflow of capital from this sector was foreseen for 1980, while in 1979 the outflow and inflow of capital was expected to be in approximate balance. For the shipping sector, some outflow of capital was expected in 1980, as was the case in 1978 and 1979, since imports of ships were assumed to decline, leading to less borrowing abroad, and since considerable repayments on earlier loans would take place. The figures for net capital inflow to both of these sectors are highly sensitive to changes in investments and earnings. The budget estimates are therefore often revised during the year, and this was the case in 1980 too, see Table 7.

Yet again in 1980, fairly large foreign borrowing by the Government and private sectors other than shipping and oil would be required. In order to reduce the foreign borrowing by the Government and the state banks, a capital inflow to other private sectors and municipalities of 1.6 billion kroner was projected, approximately the same as in 1979. Finally, the unregulated short-term capital inflow was expected to be relatively large, and the estimate was later raised, both because the weakening of the traditional trade balance could lead to a stronger increase in merchandise credits to Norwegian importers than in merchandise credits from Norwegian exporters, and because the tight domestic credit policy could result in greater short-term foreign borrowing. Altogether, the original credit budget showed a capital outflow from the private sector and municipalities totalling 2.5 billion kroner. The total domestic credit supply could thus be set at 23 billion kroner in 1980, somewhat less than budgeted for 1979.

The increase in state bank lending in 1980 was estimated at 11,650 million kroner, or 650 million kroner more than estimated in the 1979 budget. The increase in lending by the state banks is a result of loan commitments entered into in the preceding years. As part of the counter-cyclical policy, the commitment quotas of the state banks were almost doubled, from about 6 billion kroner in 1974 to about 11.5 billion kroner in 1977. Since 1977, however, the overall commitment quotas have remained almost unchanged in nominal terms. Because of the time lag between the granting of loans and the disbursements, and because repayments on earlier loans are low, the growth in state bank lending will continue to be strong. For 1980 it was expected to be about twice as strong as in the case of the private banks. In both 1978 and 1979, only 40 per cent of the original commitment quotas was, as a main rule, to be used in the first half-year so that the freedom of action in credit policy during the year would be retained. For 1980 the proportion was set at 45 per cent, and it was pointed out that the large credit supply from the state banks created considerable problems for the formulation and implementation of monetary and credit policy. Together with the liquidity supply resulting from the central government revenue deficits, a strong growth in lending by the state banks will, on the one hand, cause a strong deposit growth in the private banks. On the other hand, a strong growth in state bank lending will narrow the scope for an increase in lending by the private banks within the figure set for the total credit supply. Thus, in recent years the deposit growth in the banks had been greatly out of line with the budgeted lending growth, which had made credit policy management difficult. Furthermore, the favourable interest and repayment terms on loans from the state banks have entailed a considerable financing requirement for the Government. This was especially true as regards the state housing banks.

In the *Supplementary Budget Bill for 1980,* which was submitted in December, an account was given of the action taken by the Government in order to mitigate the above-mentioned problems. Agreement had been reached between the Ministry of Finance, the Norwegian Bankers' Association and the Association of Norwegian Savings Banks that the long-term financing of 6,000 dwellings would be transferred from the state housing banks to the commercial banks and savings banks. Loans (so-called PSV-loans) were to be granted at favourable interest rates and for a period of 25 years with no repayment during the first five years. The loan amount was to equal that which the borrower would have obtained in the State Housing Bank. Because of the time lag referred to earlier between the granting and the disbursement of loans by the state banks, the arrangement would not have any significance for the split-up of the credit supply between the state banks and the commercial and savings banks until in 1981. However, the arrangement represented an important step towards a more efficient credit market.

At the same time, it was decided that repayments on older loans from the state housing banks were to be increased by about 375 million kroner on an annual basis in 1980. The state banks' lending rates, apart from the interest rate on housing loans, were raised by 1 percentage point.

The guideline figure for the increase in commercial and savings bank lending in 1980 was in the National Budget set at 6,100 million kroner, an increase of 550 million kroner compared with the credit budget figure for 1979. A sum of 250 million kroner was earmarked for government-guaranteed loans for environmental and energy-saving measures. Of the remainder, 3,250 million kroner was allotted to the commercial banks and 2,600 million kroner to the savings banks. While in 1978 and 1979 the banks were asked to reduce their advances for consumer purposes by 2,000 million kroner and 500 million kroner, respectively, the aim was that such loans should show no increase in 1980. When the Revised National Budget was presented, the guideline figure for bank lending was raised by 950 million kroner, mainly because of an upward adjustment in the estimate for industrial and housing investments.

The increase in lending by life insurance companies, pension funds, etc., was estimated at 1,400 million kroner, against 1 billion kroner in the original credit budget for 1979. The growth in lending by these credit institutions depends on the increase in private sector insurance claims, which in turn determines the growth in the companies' total assets, and on the bond-investment obligation to which they are subject. For 1980, the ratio for the bond-investment obligation was assumed to remain unchanged at 60 per cent, the maximum statutory ratio.

The lending quota of the non-life insurance companies for 1980 was set at 175 million kroner, 25 million kroner more than in the credit budget for 1979. Up to and including the first half of 1979, the lending regulations for the non-life insurance companies entailed that all companies were allowed the same percentage increase in lending. In June 1979, the lending regulations were altered so as to make it possible to some extent to take into account the inflow of funds to the individual company when stipulating the permissible lending growth. For 1979, 80 per cent of the lending quota was distributed by allowing all companies the same percentage lending growth, while the remaining 20 per cent was distributed on the basis of the individual company's increase in premium income for own account. The plan was that if the arrangement functioned satisfactorily, greater importance should be attached to the inflow of funds when the permissible increase in lending in 1980 was stipulated.

The lending quota for private finance companies was reduced especially markedly both in 1978 and in 1979 with a view to reducing the extent of consumer credits. For 1980, the quota was set at 100 million kroner, and priority was to be given to loans to business enterprises.

The credit supply over the bond market, including private credit enterprises, was set at 1,550 million kroner in 1980, somewhat less than the final budget estimate for 1979. As in 1978 and 1979, the assumption was that municipalities and power plants would not be allowed access to the domestic bond market. This was, however, altered when the Revised National Budget for 1980 was presented, so that about 1,100 million kroner of the loans which the Municipal Bank was to have raised abroad for on-lending to municipalities could instead be issued on the domestic bond market. In addition, it was assumed that 700 million kroner in loans which enterprises and larger municipalities were expected to take up abroad, would instead be raised on the domestic bond market, and an upward adjustment was made in the figure for credit supply from the ship financing institutions. All in all, the estimate for the credit supply over the bond market was raised by 2,150 million kroner to 3,700 million kroner in the revised credit budget. In Table 7, the counter-items to this increase appear as a reduction in the regulated capital inflow to other private sectors and municipalities and as a smaller supply from the state banks. As will be dealt with in subsequent sections, the access to the domestic bond market was liberalized for important borrower categories when the National Budget for 1981 was presented.

The supply of funds over the stock market was estimated to be 1,100 million kroner in 1980. In the National Budget measures were listed aimed at stimulating the stock market in order to increase its importance as a source of capital for the business sector. Of special interest in a credit policy context was that credit institutions subject to the bond-investment obligation were allowed to fulfil their investment obligation by purchasing certain Norwegian shares and convertible bonds. In March 1980, the scope within which the bond-investment obligation could be fulfilled in this way was set at 5 per cent of the increase in total assets in the previous year which meant that shares and convertible bonds for up to 1 billion kroner could be counted towards fulfilment of the bond-investment obligation in 1980. Provisional figures for 1980 indicate that barely 100 million kroner of this potential was utilized.

Statoil's capital requirements were estimated at about 2,100 million kroner, of which 400 million kroner was to be met by capital supplied by the State, and the remainder was to be borrowed abroad by Statoil.

In recent years the Board of Directors of Norges Bank has stipulated a *limit for Norges Bank's holdings of treasury bills purchased direct from the Government.* For 1980 this limit was raised by 8 billion kroner. Since Norges Bank's holdings of such treasury bills amounted to 6,860 million kroner at the end of 1979, the holdings could consequently increase to nearly 15 billion kroner in 1980. The figure is stipulated on the basis of the fiscal and credit policy programme and estimates regarding the trend in the cash holdings of the Treasury during the year. In addition, certain assumptions are made regarding policy measures vis-à-vis the banks and their purchases of treasury bills and government bonds. It was pointed out that changes in these assumptions would necessarily have consequences for Norges Bank's actual purchases of treasury bills. It was also underscored that unless the increase in the state oil revenues in the years ahead was used in its entirety to reduce the net government borrowing requirement, neither an improvement in the external balance nor a reasonable price stability could be expected. Should taxes and royalties from the oil sector increase more strongly than assumed, the government borrowing requirement ought to be reduced more rapidly. Otherwise the money supply growth would become so large that it would scarcely be possible to contain the price and cost rise, and in the longer term the economy would become dependent on the oil revenues to an extent which it was imperative to avoid.

The use of policy instruments vis-à-vis the commercial banks and savings banks in 1979 had been based on the expectation that the trend in lending could be brought under control if the banks which increased their lending too strongly relative to the inflow of funds, found themselves in a situation where their automatic borrowing facility (A-loans) in Norges Bank proved insufficient. These banks would then have a choice either to raise funds in the money market, or to raise B-loans in Norges Bank and be subject to lending regulations for a certain period. In Norges Bank's letter to the Ministry of Finance about *the use of credit policy instruments in 1980*, it was pointed out that this strategy had proved difficult to implement. The deposit growth had, for instance, been far stronger than expected. Accordingly, it had become necessary to neutralize substantial amounts by means of Norges Bank's money market paper and primary reserve requirements. A large deposit growth was expected in 1980, too, and in order to keep the lending growth within the limits set in the credit budget the authorities would have to neutralize 44 per cent of the inflow of funds by means of money market paper, primary reserve requirements or government bonds.

Because of the necessity of a substantial permanent neutralization of the inflow of funds to the banks, the ratio for the bond-investment obligation of the banks in Southern Norway was increased from 35 per cent to 60 per cent in November 1979 at the same time as the bond rate was raised by two percentage points. The interest rate on treasury bills as well as Norges Bank's discount rate were correspondingly increased.

As mentioned above, the regulation of lending by the non-life insurance companies was altered as from the second half of 1979 so that some allowance could be made for the inflow of funds to the individual company when the permissible lending growth was calculated. However, since figures for premium income would not be available until further on in the year, the lending regulation for the first half of 1980 had to allow for the same relative growth in lending for all companies. The permissible increase in lending in the first half-year was therefore set at 3 per cent of the actual or the permissible level – whichever was lower – of outstanding loans at the end of 1979. This corresponded to half of the lending quota for the year. In the Revised National Budget, the lending quota for the non-life insurance companies was increased by 50 million kroner to 225 million kroner. In June it was then decided that 75 per cent of the lending quota should be distributed by allowing all the companies the same percentage growth in their lending (static component), while 25 per cent should be distributed on the basis of the increase in each company's premium income for own account (dynamic component). The dynamic component of the permissible increase in lending in 1980 should not, however, be greater than the static component, while in 1979 it should at most amount to half of the static component. According to these provisions, the permissible lending growth in the individual non-life insurance company could vary between 6 per cent and 12 per cent in 1980, against 4.5 per cent and 6.75 per cent in 1979.

In its letter concerning the use of the credit policy instruments in 1980 Norges Bank further pointed out that the system in force for the regulation of lending by the private finance companies left so much to be desired that a revision was urgently needed. It was assumed that such a revision would be considered in connection with the foreshadowed White Paper on the functioning of the monetary and credit market, which would be based, inter alia, on the study of the problems with respect to credit policy and structural changes in the credit market and on the recommendations of the Commission on Interest Rate Policy. Lending regulations were therefore drawn up for the first half of the year only. Since some companies had not fully utilized their lending quotas in earlier years, partly because of the restraints on consumer credit in 1978, Norges Bank recommended that the permissible increase in lending in the first half of 1980 be based on the average of the permissible and the actual level of outstanding loans either twelve months earlier or at the end of 1979. The Ministry of Finance did not follow this advice, but announced that the regulations would be reviewed in the forthcoming White Paper. The lending regulations were instead formulated in such a way that credits related to factoring – a type of credit used primarily by the business sector – would show a stronger growth than other regulated loans. For the private finance companies, too, the lending quota was increased by 50 million kroner in the revised budget, to 150 million kroner. With regard to the revision of the lending regulations, it was stated:

> "The question of a revision of the lending restrictions in force for the private finance companies must be considered in the light of the experiences to be gained from the change in interest rate policy for other sectors of the credit market, especially the bond market."

This entailed that the existing system of regulation remained in force also in the second half of 1980, and the priority given to loans related to factoring was retained.

*Monetary and credit policy in the course of the year*

At the end of 1979, banks accounting for about 90 per cent of the aggregate total assets of the commercial banks and 6 per cent of those of the savings banks had raised conditional loans (B-loans) in Norges Bank. This meant that the increase in commercial bank lending would largely be under control in the first half of 1980, but that savings bank liquidity would have to be kept tight. Against this background, Norges Bank decided in December that the suspension of the banks' automatic borrowing facilities which had been put into effect on November 1, 1979, should remain in force for the borrowing period January/February 1980.

As mentioned in the Annual Report for 1979, the commercial banks and savings banks were towards the end of 1979 given the opportunity to place substantial amounts in Norges Bank's money market paper as an alternative to higher primary reserve requirements. In December 1979, the proportion of total assets which was immobilized in the form of primary reserve requirements and holdings of money market paper was 11 per cent in commercial banks in Southern Norway, 10 per cent in savings banks in Southern Norway, 4 per cent in commercial banks in Northern Norway and 5 per cent in savings banks in Northern Norway. In Norges Bank's view, a more normal use of primary reserve requirements should be reverted to since the interest rates on treasury bills had been adjusted. The Ministry of Finance was therefore advised to maintain the prevailing liquidity tightness in the savings banks in Southern Norway by raising their primary reserve requirements from 3 per cent to 10 per cent (i.e., the statutory maximum) with effect from January 14, 1980, while, at the same time, Norges Bank would offer to repurchase outstanding money market paper. In the case of the savings banks in Northern Norway, which had shown an especially strong lending growth in the past few months, the introduction of a primary reserve requirement of 5 per cent was recommended. Since most of the commercial banks had raised B-loans and were thus subject to lending restrictions, Norges Bank was of the opinion that the squeeze on their liquidity could be eased. An increase from 3 per cent to 6 per cent with effect from January 14 in the primary reserve requirement for the commercial banks in Southern Norway was proposed, while it was not proposed to introduce any primary reserve requirement for the commercial banks in Northern Norway. The opportunity to resell money market paper would be offered the commercial banks too. The advice was followed with respect to the banks in Southern Norway, but not with regard to the banks in Northern Norway. For the savings banks in Southern Norway, the measures entailed a conversion of money market paper into treasury bills, but no further tightening of liquidity. For the commercial banks in Southern Norway and for the banks in Northern Norway, the measures led to an easier liquidity position. For commercial banks which had raised B-loans before the end of December, Norges Bank decided to suspend the rule that the permissible increase in lending should be reduced by 25 per cent of the B-loan granted. Since the B-loan regulation applied to banks accounting for 90 per cent of aggregate commercial bank lending, the rule would have meant a sharp decline in lending in the first quarter of 1980. Even after the suspension of the rule, commercial bank lending – seasonally adjusted – would have to be reduced in the first quarter of 1980. If the "25-per cent rule" had been retained the decline would have been very strong. Since the maximum statutory ratio for the primary reserve requirement was in force for the savings banks, it was no longer possible to mop up their inflow of liquidity by this means. In its letter of January 28, 1980, Norges Bank therefore proposed that the maximum ratio stipulated in the Monetary and Credit Policy Act for the savings banks should be raised to the same level as that for the commercial banks, viz., 15 per cent.

Both the commercial banks and the savings banks increased their advances relatively strongly in January. As from February, however, the commercial banks had to adapt their lending activity to the B-loan conditions. The authorities did not have equally good control of savings bank lending even though by the end of February the proportion of savings banks which had raised B-loans had risen to a good 20 per cent. For reasons of the trend in lending in this group of banks, liquidity therefore had to be kept tight. Another concern was that the B-loan restrictions on the commercial banks could easily lead to a growth of the "grey" credit market if interest rates in the money market fell. Moreover, if liquidity were easier, the banks would have less incentive for observing the B-loan restrictions.

As from March 1, the suspension of the A-loan facility was lifted, but the loan tranches for the period March–April were halved. At the same time, money market paper was offered at an interest rate of 12.5 per cent, i.e., one percentage point higher than previously. This meant that the interest rate on B-loans was raised to the same level, since the rules for B-loans specify that the interest rate on B-loans cannot be lower than that on the money market paper. The purpose behind the offer of money market paper was not so much to withdraw liquidity from the banks, but rather to bring about a rise in interest rates in the money market and thereby make it less profitable for the banks to expand their lending on the basis of funds obtained in the money market. The banks purchased money market paper for some 170 million kroner (see Table 8).

Savings bank advances showed a moderate rise in February and March, and at the end of the first quarter they were quite well in line with the credit budget set out in the National Budget for 1980. As a result of the B-loan regulation, commercial bank lending was below the guideline figure. However, the lending growth in commercial banks not subject to B-loan regulation remained strong.

Since both commercial and savings bank lending thus seemed to be under control, Norges Bank felt that it was no longer necessary to keep interest rates in the money market as high as in the second borrowing period when the interbank rate was 13–14 per cent. It was nevertheless considered desirable that the banking system as a whole should cover part of its liquidity needs by drawing on existing B-loans in Norges Bank.

The full A-loan facility was therefore restored for the third borrowing period (May–June). The liquidity forecast for May–June indicated that, in spite of this, liquidity would be so tight in the beginning of June that the banks might have to raise new B-loans. This was not considered desirable. Liquidity would therefore have to be supplied to the banks, but whether this should be done through a widening of the borrowing facility, by means of swaps, or through a reduction in the primary reserve requirements was not decided until the lending figures for April became available. These showed a moderate trend in both groups of banks. In addition, the figure for bank lending was raised from 6,100 million kroner to 7,050 million kroner in the Revised National Budget. Consequently, both commercial and savings bank advances

*Table 8. Sales and Repurchases of Money Market Paper in 1980 (million kroner)*

| | Commercial banks | Savings banks | Total | Amount outstanding |
|---|---|---|---|---|
| Holdings as at January 1, 1980 | | | | 6,376 |
| Maturity January 14 | | 3,056 | 3,056 | 3,320 |
| Repurchases January 14 | 2,740 | 414 | 3,154 | 166 |
| Maturity January 30 | 0 | 166 | 166 | 0 |
| Sales March 3 | 56 | 114 | 170 | 170 |
| Maturity June 2 | 56 | 114 | 170 | 0 |
| Sales June 26 | 1,604 | 148 | 1,752 | 1,752 |
| Sales July 23 | 2,357 | 239 | 2,596 | 4,348 |
| Sales July 31 | 723 | 252 | 975 | 5,323 |
| Repurchases September 1 | 4,684 | 558 | 5,242 | 81 |
| Maturity October 21 }<br>Maturity October 29 } | | 81 | 81 | 0 |
| Sales November 11 | 20 | 102 | 122 | 122 |
| Holdings as at December 31 | | | | 122 |

at end-April were below the guideline figures based on the new targets. Accordingly, it was decided to reduce the primary reserve requirement by one percentage point to 5 per cent for the commercial banks in Southern Norway and by two percentage points to 8 per cent for the savings banks in Southern Norway. The reduction was made effective on June 1. Moreover, so as to avoid a liquidity squeeze in the beginning of June – when large tax payments would fall due – the banks were granted one additional loan tranche.

Until the end of May, banks accounting for some 90 per cent of commercial bank lending were subject to lending regulations. In the course of June, July and August, the proportion declined to some 25 per cent. At the same time, the liquidity situation gradually eased as from mid-June as a result of large disbursements from the public sector. Moreover, on June 2 the money market paper yielding 12.5 per cent matured, which meant that the interest rate on B-loans fell back to 11.5 per cent. At the time of the reduction in the primary reserve requirements it was foreseen that liquidity would become easy in the summer months and that this, together with the fact that a substantial proportion of the commercial banks would be free from the B-loan regulation, could lead to a strong lending growth. Concurrently with the announcement of the reduction in the primary reserve requirements, it was therefore made clear that if bank advances should increase more strongly than targeted, Norges Bank would recommend a rapid and steep escalation in the primary reserve requirement.

In June and July, money market paper yielding 11.5 per cent was offered in an attempt to prop up interest rates in the money market. The banks purchased money market paper for a total of 5.3 billion kroner. The commercial banks accounted for nearly all of this figure. The savings banks purchased for only some 640 million kroner. The attempt at propping up money market rates was only partially successful: the overnight rate as well as the one-month and three-month krone interest rates based on the forward exchange rate dropped to some 10 per cent, about 2–3 percentage points lower than in the previous months.

In July – the first month in which the greater part of commercial bank lending was no longer restrained by the B-loan regulation – commercial bank advances increased very strongly, by some 900 million kroner more than the guideline figure. As a result, the accumulated lending growth in the period January–July exceeded the guideline figure by some 700 million kroner. Also savings bank lending exceeded the guideline figure at the end of July – by some 500 million kroner. The commercial banks and savings banks in Northern Norway showed a considerably stronger lending growth than the respective group of banks as a whole. If the prevailing rate of growth continued in the months ahead, it was obvious that the credit budget figure would be exceeded by substantial amounts. In order to get the trend in lending under control it was therefore deemed necessary to tighten liquidity so that more banks would have to raise B-loans. Accordingly, Norges Bank recommended that the primary reserve requirement be raised from 5 to 13 per cent for the commercial banks in Southern Norway and from 8 to 10 per cent for the savings banks in Southern Norway with effect from September 1. The maximum statutory ratio would then once again be in force for the latter group. In its letter proposing the new ratios, Norges Bank reiterated its previous suggestion that the Monetary and Credit Act be amended to allow a higher ratio for the savings banks.

Actually, the liquidity squeeze was not so severe as might be gathered from the increase in the primary reserve requirement because the commercial banks had large holdings of money market paper. In August, the proportion of total assets which was neutralized by way of primary reserve requirements and holdings of money market paper was some 11 per cent in the commercial banks in Southern Norway and some 9 per cent in the savings banks in Southern Norway. Concurrently with the increase in the primary reserve requirements the banks were given an opportunity to resell their money market paper to Norges Bank. Most of the banks availed themselves of this opportunity. Norges Bank also proposed a 5 per cent primary reserve requirement for the banks in Northern Norway. Neither on this occasion, however, did the Government follow the advice on this point. The banks' A-loan facility in the fifth borrowing period (September–October) was limited to the first tranche plus the buffer tranche.

The above-mentioned measures were sufficient to make it necessary for commercial banks accounting for some 60 per cent of aggregate outstanding loans to raise B-loans in September–October. The corresponding figure for the savings banks was 13 per cent.

The contractionary measures led to a substantial rise in the interest rate level in the money market. The one-month and three-month interest rates stood at some 10 per cent in the beginning of August, but after the announcement of the measures the interest rate level rose to about 13 per cent, and on some days in the first half of September it reached 15–16 per cent. These interest rates reflect the struggle among the banks to obtain funds from sources other than B-loans in Norges Bank. In the course of September, as the banks raised B-loans and liquidity was thus supplied to the banking system, the money market rate declined to 13–14 per cent.

The domestic liquidity squeeze coincided with changes in the rules for payment of oil taxes. Previously, the oil companies had paid taxes according to the same rules as other tax-payers not subject to advance payment. According to the new rules, oil taxes are to be paid in two instalments. The first instalment falls due on October 1 in the year in which the tax liability is incurred, and the final instalment on April 1 in the subsequent year. These changes led, inter alia, to much greater tax payments in the autumn of 1980 than under the old rules. Since the oil companies earn income in foreign currencies, while the taxes have to be paid in Norwegian kroner, the companies wish to obtain exchange rate cover for taxes accrued but not yet due. They do this by purchasing kroner forward from the banks for delivery when the tax payments fall due. The banks, in turn, must cover themselves by borrowing a corresponding amount abroad and selling it for Norwegian kroner.

This procedure leads to an upward pressure on the Norwegian krone. Moreover, the tightening of domestic liquidity made it advantageous to sell foreign currency forward in the period under review, and this increased the pressure on the krone. If Norges Bank had intervened in the spot market, the banks' krone liquidity would have increased. This would have reduced the possibilities for bringing bank lending under control by means of the B-loan regulation. Norges Bank therefore sought to influence the exchange rate by intervening in the forward market, whereby the liquidity effect would be postponed until the forward contracts fell due. The maturity date of the forward transactions entered into in August–September coincided with the date for tax payments. The resulting withdrawal of liquidity amounted to some 10 billion kroner. When the forward contracts fell due in the beginning of October, the banks received some 7.5 billion kroner.

This type of intervention policy thus helped smooth the fluctuations in bank liquidity which would otherwise have resulted from the oil tax payments.

The rapid growth in commercial bank advances continued in the third quarter, and at the end of September commercial bank lending exceeded the guideline figure by some 1 billion kroner. Savings bank lending showed a somewhat more moderate trend, but also for this group of banks a substantial overshooting of the guideline figure (some 500 million kroner) was registered. The rate of growth in lending by the banks in Northern Norway continued to be strong – almost twice as strong as in the banks in Southern Norway.

Since some 60 per cent of total commercial bank lending would be subject to B-loan regulation, it was nevertheless assumed that the lending growth would be under sufficient control. The first control date for B-loan banks was December 31.

The savings banks were not under similar control, since only 13 per cent of their total lending was subject to B-loan regulation. The maximum ratio for the primary reserve requirement was already in force for the savings banks in Southern Norway, and no further liquidity squeeze could therefore be directed specifically at this group of banks.

The use of the policy instruments in the last borrowing period (November–December) therefore aimed at keeping liquidity tight, but not so tight that additional banks had to raise B-loans. Since a separate liquidity withdrawal from the savings banks was not possible, it was assumed that general contractionary measures would primarily have the result that the banks which already were subject to B-loan regulation would have to increase their B-loans in Norges Bank, whereby their permissible lending growth in the control period would be unreasonably low. Only in the case of very extreme measures was it considered likely that a substantially greater proportion of the savings banks would have to raise B-loans. The strategy for the November–December period was therefore to make it necessary for the banks as a whole to cover part of their liquidity needs by drawing on existing B-loan facilities. Interest rates in the money market would thereby approximately match the interest rate on B-loans, which would render it unprofitable to the banks to increase their lending on the basis of funds obtained in the money market. However, in order to achieve this effect it was necessary to tighten liquidity. This was done by means of swap transactions with the banks. When Norges Bank wishes to withdraw krone liquidity from the banks in this way, it sells foreign currency to the banks against kroner on the understanding that the transaction is to be reversed on a specified future date. The banks involved have to acquire the krone amounts on the interbank market, and in this way the interest rate level in the entire money market will be influenced by the interest rate terms of the swap agreements. When liquidity became especially tight in the beginning of December, Norges Bank supplied liquidity to the banking system by means of swaps. Towards the end of the month, when liquidity once again had become easier, swaps were used to mop up excess liquidity.

In the fourth quarter, savings bank lending continued to increase more rapidly than was consistent with the credit budget, and for 1980 as a whole the lending growth in this group of banks amounted to some 4.2 billion kroner, or about 1.1 billion kroner more than targeted. As mentioned above, it was not possible to further tighten savings bank liquidity in 1980 since the proposal that the maximum statutory ratio for primary reserve requirement for this group of banks be raised had not been followed up. The increase in commercial bank lending in 1980 exceeded the 4 billion kroner guideline figure by some 300 million kroner. Commercial bank advances were reduced quite substantially in December prior to the first control date for banks which had raised B-loans in September. The decline referred primarily to utilized overdrafts.

In spite of the heavy-handed use of policy instruments vis-à-vis the banks in 1980 it thus proved impossible to keep the increase in bank lending within the stipulated figure of 7,050 million kroner. Bank advances rose by some 1.4 billion kroner more than that. What gave rise to even greater concern, however, was the fact that the supply of credit over the bond market was some 3.5 billion kroner larger than projected, of which the banks accounted for about 2.6 billion kroner. The reason was that the institutions subject to the bond-investment obligation bought scarcely any government and state bank bonds after the abolition of the issue control. A sufficient amount of private bonds was on offer for the bond-investment obligation to be fulfilled, and these bonds were preferred since they provided a higher yield than government and state bank bonds. In Norges Bank's letter to the Ministry of Finance about the use of credit policy instruments in 1981, the implications for credit policy management when the Government is unwilling to issue bonds at competitive terms were pointed out. In January 1981, the interest rate on government loans was was subsequently raised by one percentage point.

When the consumer loan agreement for 1978 between the Ministry of Finance and the banks was concluded, Norges Bank made the use of its automatic borrowing facility for the banks contingent on their adherence to the agreement. This rule was in force in 1979, too.

The general suspension of the banks' automatic borrowing facilities, which had been put into effect in November 1979, was lifted in March 1980. At the same time, the banks which had been denied access to A-loans because of too high lending for consumer purposes, regained their right to borrow in Norges Bank on the regular terms. Instead, each individual bank's adherence to the consumer loan agreement would be taken into consideration in questions of loans on special terms and deposits from Norges Bank.

In 1978 and 1979, compliance with the consumer loan agreement was monitored from Norges Bank's Head Office, while in 1980 this task was left to the regional branches.

At Norges Bank's suggestion, additional prizes were in December 1980 provided for the premium bond loan of 1979, raising the amount expended on prizes from 6 per cent to 8.9 per cent per annum. Only about one-fourth of the bonds in the 200 million kroner loan had been sold by the time it was decided to increase the number of prizes. The remainder of the bonds were offered for sale on December 10, 1980, and all were taken up in the course of a few days. The additional prizes are drawn by two-digit and three-digit combinations, ensuring a certain minimum yield for holders of complete series of bonds amounting to 10,000 kroner and 100,000 kroner. All prizes are free of state and local income tax.

In consultation with the authorities concerned and the banks, Norges Bank has devised a deposit arrangement to replace the conversion advances provided by the State Housing Bank to banks granting building loans. The arrangement sets out firm criteria for allotment of conversion advances and comprises also the so-called PSV-loans (housing loans on special terms). The main principle of the new arrangement is that the size of the deposits depends on what proportion of the banks' total loans to the public is accounted for by building loans at interest rates stipulated by the authorities. The arrangement entered into effect on February 1, 1981. Certain transitional rules will be in force for a period of two years. In addition, a special arrangement for deposits with the banks by Norges Bank was introduced in 1981. As from October 6, 1980, a bank which grants a PSV-loan against a certificate issued by the State Housing Bank before the end of 1980, will on application receive a 12-month deposit as from the date of conversion of the building loan. This deposit arrangement entails a compensation for certain transitional problems in connection with the increase in the interest rate on new PSV-loans as from January 1, 1981.

*Revision of interest rate policy and bond-market regulation*

On January 30, 1980, the Commission chaired by *Petter J. Bjerve,* Director of the Central Bureau of Statistics, presented its report on interest rate policy. The Commission had been appointed by Royal Decree of July 14, 1978, and its main mandate was to "present proposals for basic guidelines for interest rate policy in the coming years" after the termination in December 1977 of the stipulation of interest rates.

The main conclusion arrived at by the Commission was that a prerequisite for an optimal allocation of resources was that interest rates were flexible, i.e., that they were allowed to vary with the supply and demand conditions in the credit market. Market-determined interest rates would also make open market operations possible, which would in turn make it easier to control the liquidity of the public and the banks. The Commission found that the interest rate was not a suitable policy instrument for bringing about a redistribution of income and wealth.

The concrete recommendations of the Commission were that the interest rate on bonds should be determined by the market and that the issue control should not be used to limit the demand for bond loans. It was assumed that the bond-investment obligation would be retained in order to ensure a certain minimum amount of credit over the bond market. In its conclusions, the Commission stressed that its recommendations entailed that the Government, too, would have to pay the going market rate for its bond loans. The Commission further recommended that the Treasury's loans to the state banks should be granted on terms matching those which the Government had to meet in the bond market, and that the difference between these interest rates and the lending rates of the state banks should be covered by subsidies granted over the government budget.

The Commission on Interest Rate Policy pointed out that the lack of free competition between the individual banks and insurance companies as well as certain other factors (such as the difference in taxation of interest income and interest outlay which gives rise to varying degrees of interest rate sensitivity among households and enterprises) made some form of administratively stipulated interest rate level desirable in the private banks and in the insurance sector. The lending rates of the banks and the insurance companies should, however, be flexible, and the Commission recommended that the interest rates prevailing in a free bond market should serve as a guideline.

The Ministry of Finance sent the Commission's report to a series of institutions and organizations for comment. Norges Bank presented its views to the Ministry of Finance in a letter of March 10, 1980. Norges Bank concurred in the main conclusions drawn by the Commission and pointed to the need for conducting open-market operations in order to improve the control of the money supply growth. Norges Bank also attached great importance to the effects which the tax treatment of interest income and outlay have on the interest rate level and on the channelling of credit in a market-determined credit system. The ability of households to pay interest at substantially higher rates than enterprises (owing to different tax rules) necessitated some surveillance of interest rate formation in private credit institutions. Norges Bank felt that, for the same reasons, some control should be retained over the issue of bonds by institutions catering to the household sector, especially house mortgage institutions.

In the Revised National Budget for 1980, the Government outlined which of the proposals for a revision of interest rate policy it was inclined to implement. The Government found strong arguments for following up the recommendations regarding the bond market, pointing out in particular that under a freer bond market the authorities would have greater possibilities for influencing the level of liquidity in the community through open-market operations. If liquidity became too easy, the Government could tighten up by selling bonds providing a higher yield than that offered by the private sector, thereby preventing the financing of higher private consumption and investment. If, on the other hand, an increase in purhcasing power is desired in order to stimulate private demand, the authorities can offer to buy bonds on the market and set a price higher than the prevailing quotation. The Government saw little reason for retaining the issue control with respect to project loans to the business community, but there would still be a need for some limitation of the access to the bond market, especially with regard to loans to municipalities and municipal enterprises.

The Government advocated an administratively stipulated interest rate level for loans from commercial banks and savings banks. In the Revised National Budget for 1980, the reasoning behind this view was stated to be the lack of free competition between the banks and the distortions caused by the taxation system with regard to after-tax effective interest rates for households and enterprises. The Government stated, however, that the lending rates of the banks must be consistent with the interest rate level obtaining in a freer bond market.

During the debate in the Storting, the majority concurred in the Government's proposal for a liberalization of the bond market and for more market-determined lending rates in the banks.

The principles behind the new rules and regulations for the bond market and for the stipulation of the banks' lending rates were drawn up in close co-operation between the Ministry of Finance and Norges Bank. Two factors, in particular, called for the maintenance of a quota system for certain borrower groups' access to the bond market. Firstly, for administrative reasons, the continued use of quotas seemed appropriate for borrower groups which are part of, or closely related to, the public sector. This applied to local authorities at all levels, municipal enterprises and borrowers granted municipal guarantees. Secondly, the risk of a distortion of market conditions in favour of some borrower groups, as a result of the tax rules for instance, made it necessary to retain the quota regulation with respect to housing finance over the bond market.

Moreover, the ship financing institutions and the Financing and Export Credit Institute seemed to belong in a group by themselves since their lending activity involved subsidies and government guarantees. When limits were set for the subsidies and for the extent of new government guarantees, the institutions' lending growth would be under control, and thereby also their need for borrowing on the bond market.

Finally, strong arguments were adduced for continuing the practice of prohibiting the financing of ship imports, oil drilling, oil exploration and oil production over the domestic bond market. Otherwise, these borrowers would have completely dominated the market.

In principle, the above-mentioned considerations formed the basis for the new rules and regulations for the bond market which came into force upon the publication of the National Budget for 1981 on October 6, 1980. In November it was announced that the Ministry of Finance at a later date would amend the regulations, especially with regard to the minimum permissible loan issue. In the meantime, the provisional rule was stipulated that only bond loans floated for public subscriptions would be cleared automatically provided that other requirements were met. The minimum amount for the raising of bond loans was raised temporarily from 10 million kroner to 15 million kroner. In January 1981, new regulations were adopted, and the lower limit for bond loans was then raised to 35 million kroner.

With regard to bank lending rates, the Ministry of Finance decided that the Minister of Finance shall stipulate one interest rate level for short-term loans and another for medium-term and long-term loans. The interest rate level is in this context defined as permissible changes (after a specific date) in the average interest rate level for the individual bank's short-term or medium- and long-term loans. Within each main group the individual bank should be allowed to decide on its own interest rate structure. The short-term interest rate level was to be related to the prevailing monetary policy stance, whereas the long-term interest rate level was to be linked to interest rates in the bond market. In the regular meetings between the top management of Norges Bank and the Minister of Finance the trend in interest rates would be kept under constant review. The first interest rate declaration, which was issued on September 5, allowed the banks to raise their short-term and long-term interest rates by 0.5 and 1 percentage point, respectively. Some interest rates remain subject to stipulation by the authorities, e.g., on certain types of housing loan. Also these rates were raised in October, by 0.5 percentage point for housebuilding loans and by 1 percentage point for the more long-term loans. (The control of the interest rate trend is described in the section on the credit market.)

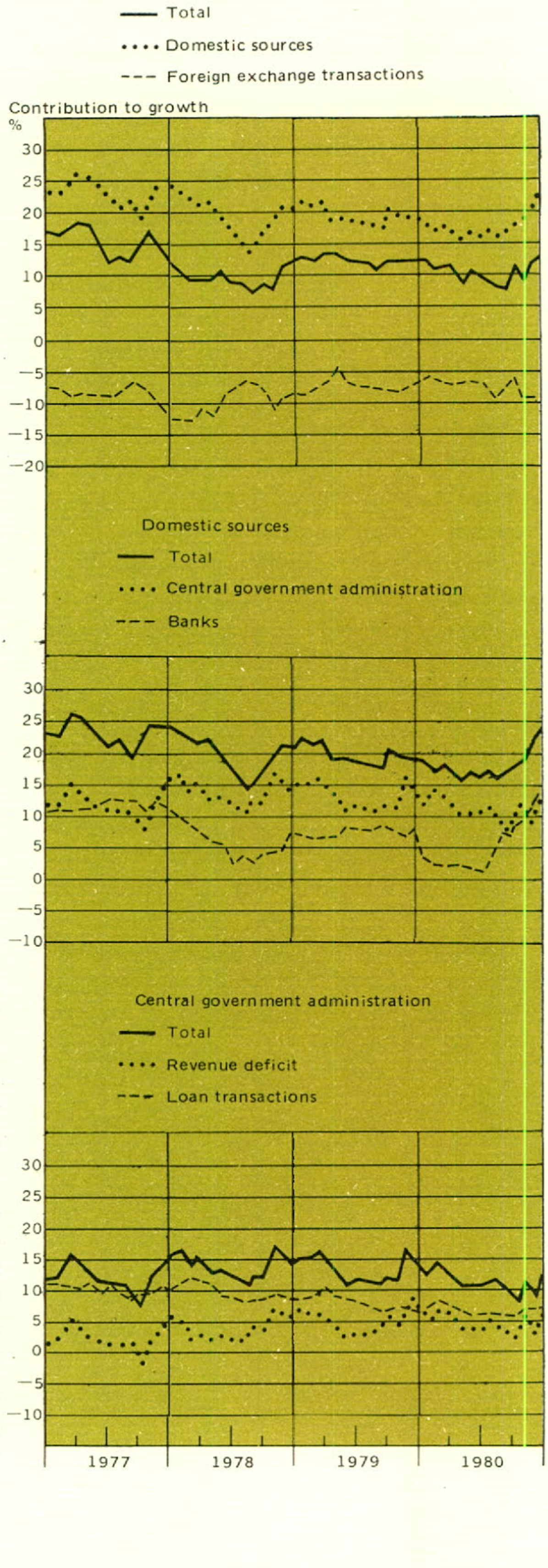
## Credit Market

The large *government borrowing requirement* and the way in which it has been financed have had a decisive influence on monetary and credit conditions in recent years. In the main, the requirement is related to the budget deficits and to the financing of the state banks. The borrowing requirement is only to a very small extent covered by loans from the public. The budget deficit of the government and social security administration and the increase in lending by the state banks have therefore contributed to a strong *money supply growth*. The strong money supply growth, partly resulting from government transactions, has led to a sharp rise in bank deposits. At the same time, the expansionary government budgets and the commitment quotas of the state banks have left little room for increases in lending by the private banks. The credit budget figure for bank lending has therefore been out of line with the inflow of funds to the banks through the growth of deposits. This imbalance has led to great problems in keeping the increase in bank lending within the figure set in the credit budget.

In this connection, reference is made to the Annual Report for 1979, in which the relationship between the government borrowing requirement and the situation in the money and credit markets is described in more detail.

The year 1980 was the first in which the tax revenue from the oil activities in the North Sea assumed substantial proportions. This was in part due to greater production and higher oil prices, and in part to a change in the payment of oil taxes. The length of the tax credits was, as previously mentioned, shortened from twelve to six months, so that the oil taxes paid in 1980 referred to more than one year's production. Mainly as a result of the higher tax revenue from the oil activity, the liquidity

Chart 11. Money supply (adjusted for oil taxes)



supply from the central government sector was reduced from 12 billion kroner in 1979 to nothing in 1980. The payment of oil taxes has little effect on domestic demand, however. In order to form a picture of the expansionary effect of fiscal policy and central government loan transactions on the domestic economy, the oil tax revenue should be excluded from the figures for the liquidity supply to the private sector from the central government sector. The figures then show that the supply amounted to nearly 19 billion kroner in 1980, approximately the same as in the preceding year. By itself, it contributed to a 12 per cent money supply growth in 1980.

The private banks represent the second main source of money supply growth. The liquidity supply from this source in 1980 was 14 billion kroner, equal to a money supply growth of 9 per cent. The figure for 1979 was 10 billion kroner. The banks' purchases of private and municipal bonds, in particular, increased more strongly than anticipated. The supply of credit over the bond market amounted to 4.7 billion kroner and was heavily concentrated on the last quarter of 1980, after the liberalization of the bond market. As previously mentioned, government bonds were not issued at terms which could compete with other bonds, and the banks therefore chose to purchase private and municipal bonds in order to meet their bond-investment obligation in October and December 1980. The liquidity supply to the private sector (excluding the oil sector) from *domestic sources* amounted thereby to 33 billion kroner in 1980. It thus contributed to a money supply growth of almost 21½ per cent. In 1979, the corresponding supply from domestic sources was 28½ billion kroner. When licensed foreign currency loans are excluded, the contribution to the money supply growth in 1980 was 20 per cent, or 2½ percentage points more than estimated in the budget.

The public's foreign exchange transactions with the banks represent the third main component of changes in the money supply. When the oil companies' sales of foreign exchange to the banks in connection with payment of oil taxes are excluded, the public's net foreign exchange purchases from the banks increased from 10 billion kroner in 1979 to 14 billion kroner in 1980. Such foreign exchange purchases have a contractionary effect on the money supply and, seen in isolation, they contributed to a 9 per cent reduction in 1980. The large foreign exchange deficit of the private sector (excluding the oil sector) is partly a consequence of the large liquidity supply from the government and the banking system. When this supply becomes as large as in recent years, there will inevitably be a substantial "leakage" to abroad. There is thus a close interrelationship between a large liquidity supply from domestic sources and the external payments deficit of the private sector (excluding the oil sector).

Against this background, the money supply growth in 1980 may be estimated at 19 billion kroner, or a good 12 per cent, against the 13½ billion kroner (9 per cent) forecast in the National Budget for 1981. In 1979 the growth was 14 per cent. Previous years' experiences indicate that the money supply growth cannot over any length of time exceed the real economic growth without generating pressure on prices. The strong price rise in 1980 should be viewed in this context, and this was pointed out in Norges Bank's letter of October 24, 1980, to the Ministry of Finance on the fiscal and credit policy in 1981 and the financing of the central government (see Economic Bulletin 1980/4, pp. 260–263).

As mentioned in the section on monetary and credit policy for 1980, the Board of Directors decided that *Norges Bank's* *holdings of treasury bills* purchased direct from the Government could increase by up to 8 billion kroner in 1980. The holdings could thus rise to nearly 15 billion kroner, but already at an early stage it was obvious that central bank financing of such proportions would not be necessary. For one thing, the bond-investment obligation of the banks had been raised in November 1979 which meant that the banks had to purchase substantially more government bonds. In addition, the increase in the primary reserve requirements in September 1980 led to a strong rise in the banks' holdings of treasury bills. Moreover, as mentioned earlier, higher oil prices and the change in the payment of oil taxes caused a substantial increase in the inflow of funds to the Treasury. The Government's dependence on central bank financing was therefore sharply reduced, and the entire holdings were redeemed in the first five months of the year. Norges Bank once again purchased treasury bills for some 3 billion kroner in July, but these were redeemed in October. At the end of 1980 Norges Bank therefore had no treasury bills purchased direct from the Government. In spite of the change early in the year in the assumptions behind the stipulation of the scope for treasury bill purchases, the scope was not altered. It was assumed that Norges Bank would purchase treasury bills only to the extent necessary to cover the current liquidity needs of the Treasury.

The control of the banks' credit supply to the public is primarily based on general monetary policy measures. The *liquidity position of the banks* will then depend on whether the credit supply from the banks is consistent with the target figures. Traditionally, attention has been focussed on the trend in bank lending, and as long as this is in line with the targets the authorities will normally ensure that bank liquidity does not become too tight. On the other hand, if lending increases too strongly, contractionary measures have to be taken. Following the liberalization of the bond market, the supply of credit in the form of private and municipal bond loans must also be taken into account when the use of policy instruments is decided on. In order to control bank liquidity, the authorities have traditionally relied on primary reserve requirements combined with active use of the banks' borrowing facilities in Norges Bank. Since 1978, Norges Bank's money market paper has been an important instrument, and as from the autumn of 1979 – and especially in 1980 – forward exchange transactions and currency swaps with the banks have been used to influence bank liquidity.

When liquidity is tightened, the banks will need to increase their borrowing from Norges Bank. As a result, they have to pay a higher rate of interest on their loans from Norges Bank and in the money market. When the credit supply to the public is once again more consistent with the credit budget, the squeeze on liquidity will be eased, e.g., through a reduction in the primary reserve requirement.

When the lending growth in the banks is particularly strong, it has often proved difficult to bring the trend under control by the use of general monetary policy measures alone. Instruments which ensure more direct control of lending must be employed. The borrowing arrangement in Norges Bank makes this possible. Liquidity can be tightened so much that the banks as a whole have to borrow in excess of their A-loan facilities. The banks must then raise B-loans, and when they do so they become subject to lending restrictions in the next six months. To keep liquidity – and thereby lending – under control in this way necessitates reasonably good projections for the banking system's need of loans from Norges Bank in each two-month borrowing period. The banks' borrowing in Norges Bank does not, however, depend solely on the neutralization of liquidity resulting from the measures taken. The factors affecting bank liquidity in the short term are shown in Table 9. In addition to obligatory primary reserves, holdings of money market paper and the banks' sales of foreign exchange to Norges Bank, the net disbursements from the public sector have a major impact on the trend in liquidity. Before Norges Bank presents its recommendations regarding policy measures, projections are therefore drawn up for the trend in the factors affecting liquidity. The projections are primarily based on the estimates in the national budgets and on the developments over the year which have been observed in previous years. On the basis of these projections, calculations are made to determine what changes are required to bring about a certain level of borrowing from Norges Bank, and thereby a certain interest rate level in the money market.

The liquidity supply from the public sector is essentially a result of the deficit on the government and social security budgets and the net disbursements from the state banks. Purchases of government and state bank bonds by the banks and other buyers have the effect of withdrawing liquidity. As shown in Table 9, government and other public sector transactions caused a net liquidity withdrawal of 2.3 billion kroner in 1980, against a substantial supply in previous years. The result in 1980 was primarily due to the rise in oil taxes compared with 1979.

The banks' net sales of foreign exchange to Norges Bank are primarily determined by the external payments deficit of the private sector, by the capital inflow to the private sector and the state banks, and by the banks' deposits and loans from abroad. If the demand for foreign currencies is smaller than the supply, the exchange rate for the Norwegian krone may rise so much that Norges Bank has to purchase foreign exchange to keep the rate within the margins set for its intervention policy. In addition, the banks' net foreign exchange sales may temporarily be influenced by Norges Bank's currency swaps with the banks, i.e., spot sale of foreign exchange against forward purchase, or vice versa. The liquidity supply through the banks' net sales of foreign exchange in 1980

*Table 9. Changes in the Banks' Free Primary Reserves – Explanatory Factors (Supply +, withdrawal –) (billion kroner)*

| | 1977 | 1978 | 1979 | 1980[1] |
|---|---|---|---|---|
| Transactions over the Government's and other public accounts | 7.8 | 5.3 | 2.2 | –2.3 |
| Changes in cash holdings of the public | –1.8 | –0.9 | –0.7 | –1.1 |
| The banks' sales of foreign exchange to Norges Bank | –7.2 | –1.7 | 3.8 | 13.0 |
| Changes in the banks' holdings of money market paper | – | –0.5 | –2.2 | 2.7 |
| Changes in the banks' cheque credits in Norges Bank | –0.2 | –0.1 | 0.3 | –0.2 |
| Norges Bank's 'other transactions'[2] | –1.8 | –0.7 | –0.9 | –1.2 |
| Changes in obligatory primary reserves | –3.6 | 5.4 | –2.2 | –12.4 |
| Changes in free primary reserves | –6.7 | 6.8 | 0.2 | –1.7 |
| Changes in disposable primary assets | –2.6 | 3.3 | –0.7 | –2.0 |
| Changes in liquidity loans from Norges Bank | 4.1 | –3.5 | –0.9 | –0.4 |

1) Provisional figures.

2) E.g., sales of bonds to the banks and sales of foreign exchange to others than authorized banks and the government.

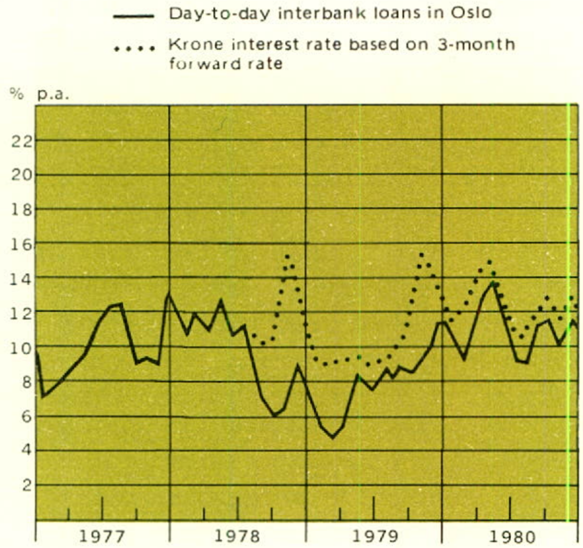
amounted to 13 billion kroner and was closely related to the large payments of oil taxes in October. Towards the end of the year, Norges Bank entered into swap agreements with a view to regulating bank liquidity. This is further described in the section above on monetary and credit policy in the course of the year.

As a result of the strong contractionary measures taken in September – with very high primary reserve requirements – obligatory primary reserves rose by 12.4 billion kroner in 1980. All in all, free primary reserves showed a moderate decline in the course of the year.

Chart 12 shows two indicators reflecting the trend in bank liquidity in 1980. In January–February, liquidity was relatively easy. In the next few months a tight monetary policy was pursued, and interest rates in the money market rose. In March, Norges Bank offered money market paper yielding 12.5 per cent per annum. The cut in the primary reserve requirements with effect from June 1 in connection with the large tax remittances due at the turn of the month May/June, coupled with a large supply from the public sector in June and July, led to easy liquidity in the summer months. Interest rates in the money market rose again in August as a result of the withdrawal of liquidity through the issue of money market paper in June and July. When it became clear that bank lending was showing a stronger trend than planned, contractionary measures were put into effect on September 1, and this led to a further rise in money market rates. A large proportion of the commercial banks soon had to raise B-loans in Norges Bank, however, and interest rates in the money market fell far short of the high level reached in October 1979 when the banks for the first time faced the choice whether or not to make use of the B-loan facility.

*Norges Bank's loans to banks* were on the whole higher in 1980 than in 1979. The daily average for the year as a whole was 2.5 billion kroner in 1980, against 1.3 billion kroner in 1979. The highest figure in 1980 was registered on September 4 when the loans reached 6.2 billion kroner, while the lowest was the 130 million kroner registered on October 21. The banks' automatic borrowing facilities were suspended in January–February, and the banks mainly drew on B-loans previously raised. In March–April, the banks were given back half their normal A-loan facility, and more than 90 per cent of this was utilized. In addition, the banks made substantial drawings on existing B-loans. The daily average of the borrowing requirement was 3.2 billion kroner. In May–June the full A-loan facility was restored. Because of undesirably tight liquidity in the first few days of June, the banks were allowed to draw one additional tranche in June. The utilization ratio for the extended A-loan facility in the third borrowing period was 60 per cent. In July–August, the banks largely relied on their A-loan facility which they utilized to the extent of 75 per cent. The tightening of monetary policy as from

Chart 12. Interest rates, monthly average



September 1 led to a large borrowing requirement in September. The A-loan facility was concurrently reduced to half the first tranche plus the buffer tranche. The banks – mainly the commercial banks – therefore had to raise new B-loans. The daily average of loans to banks in September–October totalled 3.2 billion kroner. The reduced A-loan facility was in effect also in the last borrowing period of 1980. The banks then covered their borrowing needs largely by drawing on existing B-loans. The daily average of loans in November–December was 2.9 billion kroner.

In addition to A-loans and B-loans, some banks have been able to draw on loans on special terms (S-loans). Such loans are granted by the Board of Directors to individual banks on application. The loans are usually granted in the form of overdraft facilities for up to one year and at an interest rate 1 percentage point above the discount rate, viz., at present 10 per cent per annum. In 1980, loans on special terms were granted to 18 banks, down from 23 banks in 1979 and 25 in 1978. At the end of each quarter of 1980, the amounts of loans on special terms granted and utilized were as follows:

| Million kroner | Granted | Utilized |
|---|---|---|
| 1st quarter 1980 | 448 | 355 |
| 2nd quarter 1980 | 624 | 56 |
| 3rd quarter 1980 | 610 | 118 |
| 4th quarter 1980 | 665 | 173 |

Under the arrangement for *deposits with banks* approved by the Supervisory Council in February 1975, the Board of Directors set a scope of 25 million kroner for such deposits in each half of 1980, the same as for 1979. The deposits made in 1980 totalled nearly 48 million kroner.

As at December 31, 1980, the geographical distribution of the deposits was as follows:

| Million kroner | Deposits in 1980 | Total deposits (1975–1980) |
|---|---|---|
| Northern Norway | 26 | 152 |
| Trøndelag | 16 | 35 |
| West Norway | 6 | 72 |
| South and East Norway | 0 | 21 |

The deposits were made for fixed terms of 18 months, and the interest rate was 8 per cent per annum throughout 1980.

By decision of the Board of Directors, twelve-month fixed-term deposits totalling 161 million kroner were on January 2, 1978, placed with 14 commercial banks. The deposits were regarded as a compensation for the effect on liquidity of the changeover to a new accounting system in Norges Bank. The intention was that the deposits should be scaled down over four twelve-month terms. In January 1980 they were reduced to 80 million kroner, and further to 40 million kroner on January 2, 1981. The interest rate on these deposits is 7.5 per cent per annum.

When looking at the credit supply to the public from the commercial banks and savings banks, the authorities previously paid most attention to whether the trend in bank lending was consistent with the target figures set in the National Budget. The credit supply to the public in the form of bond purchases was regulated by way of the issue control (Section-15 bonds).

The change in the regulation of the bond market as from October 6, 1980, entailed, however, that some types of bond loan were no longer subject to issue control. As a result, the banks are to a greater extent than previously able to grant credit to the public in the form of bond loans. For this reason, the banks' lending and bond purchases must now be considered in conjunction when their credit supply to the public is assessed.

The target figure for commercial and savings bank lending in 1980 was in the Revised National Budget for 1980 (presented in May) raised from 6,100 million kroner to 7,050 million kroner. Norges Bank assumed that the special 300 million kroner quota would be distributed in such a way that the guideline figure for the increase in lending would be 3,950 million kroner for the commercial banks and 3,100 million kroner for the savings banks. The banks' purchases of private[1] and municipal bonds in 1980 was estimated at 2,050 million kroner. The total credit supply in the form of bank lending and bond purchases was thus expected to be some 9.1 billion kroner.

*Commercial bank advances* rose by 4,300 million kroner in 1980 and *savings bank advances* by almost 4,200 million kroner, i.e., an overshooting totalling slightly more than 1.4 billion kroner. The commercial and savings banks' holdings of private and municipal bonds increased by some 4,650 million kroner in 1980, which was 2.6 billion kroner more than estimated in the Revised National Budget. The total credit supply in 1980 was thus some 13.1 billion kroner, or about 4 billion kroner more than expected. In addition, the banks' loans to residents against foreign exchange licences increased by 2.4 billion kroner in 1980, against an increase of 0.6 billion kroner in 1979. Such loans are regarded as an alternative to direct capital inflow from abroad and are thus considered in conjunction with the budgeted capital inflow.

1) Including bonds issued by credit enterprises. These will in turn lend the funds to the public.

Chart 13. Commercial bank advances

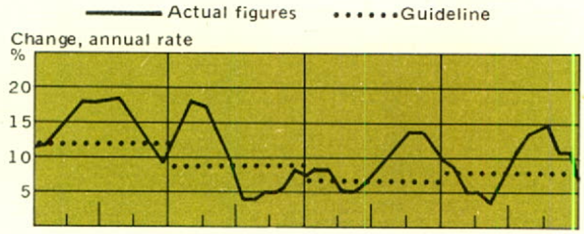
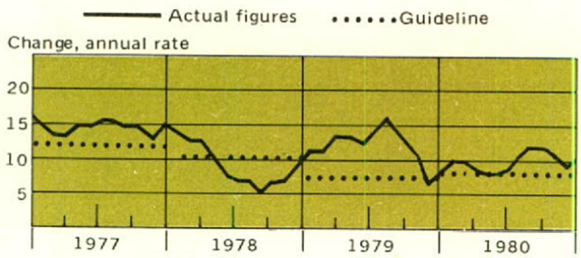



Chart 14. Savings bank advances




As already mentioned, the steep rise in the banks' holdings of private and municipal bonds in 1980 must be viewed against the background of the change in the bond market. As much as 70 per cent of the increase took place in the last three months of the year. Given the then prevailing interest rate terms, the banks preferred to meet their bond-investment obligation by purchasing private and municipal bonds rather than government and state bank bonds. In addition, a shift from bank loans to bearer bond loans for their clients would ease the situation for banks subject to lending restrictions in connection with conditional loans (B-loans) in Norges Bank.

The large increase in the banks' holdings of bonds should also, however, be viewed as a consequence of the sharp rise in their total assets in 1980. While aggregate total assets of the banks rose by 16.4 billion kroner in 1979, the increase in 1980 was 25.3 billion kroner. The much stronger growth in 1980 was in great measure related to the oil taxes.

*Table 10. Credit Supply from the Banks to the Public in 1980 (million kroner)*

| | | Loans | Bond purchases | Total credit supply |
|---|---|---|---|---|
| Change between Dec. 1979 | Commercial banks | 4,307 | 2,496 | 6,803 |
| | Savings banks | 4,182 | 2,161 | 6,343 |
| and Dec. 1980 | Total | 8,489 | 4,657 | 13,146 |
| Budget 1980 | | 7,050[1)] | 2,050[2)] | 9,100 |

1) The National Budget for 1981.
2) Estimated on the basis of the National Budget for 1981.

Tax payments by the oil companies showed a substantial rise in 1980. The companies earn their income in foreign currency, but must pay taxes in Norwegian kroner. In order to cover themselves against the exchange rate risk, the companies therefore purchase kroner forward from the banks. The banks will then acquire a forward claim in foreign currency. According to the exchange regulations in force the banks are, however, obliged to keep their total foreign exchange position – spot plus forward – in approximate balance. They can do this either by increasing their foreign currency debt abroad, which results in a net capital inflow from abroad to the banks, or – if Norges Bank intervenes in the forward market – they can sell the foreign currencies forward to Norges Bank. The net capital inflow to the banks from abroad will lead to a strong rise in their total assets. The banks' net foreign liabilities increased by 7.8 billion kroner in 1980, against 2.7 billion kroner in 1979. This additional growth in the banks' total assets is reflected in higher obligatory bond purchases. As long as government paper cannot compete with private and municipal bonds with regard to interest rate terms, the banks will purchase the latter in order to meet their bond-investment obligation, and this results in a greater supply of credit to the public via the bond market.

In the first few months of 1980, except in January, commercial bank lending showed a weak trend. This was due to the fact that commercial banks accounting for 90 per cent of outstanding loans were subject to lending restrictions since they had raised B-loans in Norges Bank.

Also savings bank lending showed a moderate trend as from February even though only a smallish proportion was in a B-loan position. After a somewhat more rapid lending growth in the period May–June, the increase in commercial and savings bank lending in the first half-year as a whole was quite well in line with the guideline figure.

As from July, the number of commercial banks in a B-loan position declined rapidly. In the same month, the increase in lending was very strong, especially in the commercial banks. The cumulated increase in the first seven months of 1980 reached 5.2 billion kroner for the two groups of banks as a whole, or 1.1 billion kroner more than the guideline figure for that period.

As a result of the contractionary measures implemented with effect from September 1, commercial banks accounting for 60 per cent of aggregate commercial bank lending raised new B-loans in September. They thereby became subject to direct lending regulation. For 1980 as a whole, the growth in commercial bank lending was therefore under relatively good control. The savings banks, on the other hand, were only to a small extent subject to such direct control of lending since only a few of them raised new B-loans.

There were several reasons why bank lending in 1980 clearly exceeded the credit budget figures. The demand for loans was greater than anticipated, especially from wage earners. This may in part be explained by the low real interest rate on their loans, even after the increase in interest rates in September, and expectations of an acceleration in inflation. The money supply growth was stronger than expected in 1980, which in turn led to a substantially stronger growth in bank deposits than foreseen in the credit budget. Even though the contractionary measures taken vis-à-vis the banks in September gave the authorities good control of the lending growth in the commercial banks by means of the B-loan rules, the desired control of savings bank lending was not obtained, partly because of the lower maximum primary reserve ratio for this group. About half of the overshooting of the credit budget figure was ascribable to the banks in Northern Norway which are not subject to primary reserve requirements and are therefore under less restraint.

Total advances rose by 9.4 per cent in the commercial banks and by 11.1 per cent in the savings banks in 1980. Instalment loans (i.e., all but building loans and overdrafts) – which make up nearly 70 per cent of total bank lending – increased by some 14 per cent in the commercial banks and by about 13 per cent in the savings banks and thus accounted for a substantial proportion of the total increase. Utilized overdrafts increased strongly in the savings banks (by some 20 per cent), but very little in the commercial banks (3.2 per cent). When looking at the strong rise in the savings banks, it should be kept in mind, however, that the overdraft system is in little use in this group of banks.

For the two groups of banks as a whole, a small growth was therefore registered in utilized overdrafts, while overdraft facilities granted increased somewhat more (by 6.7 per cent in the commercial banks and by 15 per cent in the savings banks). A possible explanation for this may be that operating results in manufacturing were good in 1980, as had been the case in 1979 too. A relatively strong rise in interest rates on overdrafts in the commercial banks as from the third quarter of 1980 may also have been a contributing factor. On the other hand, it would seem that the build-up of stocks in manufacturing and wholesale trade in 1980 should have had the opposite effect on the utilization of overdrafts. In addition, the high interest rates in the money market should, by themselves, have caused a rise in the utilization ratio towards the end of the year. Instead, the utilization ratio declined more steeply than usual at that time of the year. Utilized building loans showed a weaker trend than in 1979 in both groups of banks – an increase of 2 per cent in the commercial banks and a decline of 2.6 per cent in the savings banks – reflecting the decline in building activity between 1979 and 1980. In both groups of banks, building loans granted increased somewhat less than utilized building loans.

The commercial banks' loans to wage earners rose strongly in the course of 1980, and at the end of December they were almost 20 per cent higher than one year earlier. More than 80 per cent of the increase in commercial bank advances went to wage earners, while this sector accounts for only 39 per cent of total outstanding loans. This seems somewhat excessive in view of the consumer loan agreement. However, the increase in loans for housing purposes registered in the period to end-September may nevertheless indicate that the consumer loan agreement was observed. The underlying statistical data leave much to be desired, however, and do not seem very suitable for elucidating this problem. Commercial bank lending to the business sector showed a declining rate of growth in the autumn of 1980. While in March such loans were 7 per cent higher than one year earlier, the corresponding figures for June and December were 5 per cent and 3 per cent, respectively. There is reason to believe, however, that much of the heavy bond purchases made by the banks after the liberalization of the bond market reflected loans to the business sector. The commercial banks' loans to municipalities remain at a low level, but they increased quite strongly in the course of the year and were at end-December 18 per cent higher than one year earlier. The rate of growth in these loans declined somewhat towards the end of 1980.

In the savings banks, loans to wage earners also increased trongly. Such loans accounted for almost 60 per cent of the lending growth in 1980 while they account for some 53 per cent of outstanding loans. In addition, the rate of growth in such loans escalated in the course of the year since the increase over the preceding twelve months was 12.5 per cent at the end of December, while it was 9 per cent in March and 10 per cent in June. As was the case in the commercial banks, loans to the business sector were sharply reduced in 1980. While such loans rose by 16 per cent in 1979 they were only 9 per cent higher in December 1980 than one year earlier. The convergence of the customer structure in the two groups of banks which has been observable in recent years nevertheless seems to have continued, albeit at a slower pace in 1980. The savings banks' lending to municipalities showed a somewhat more moderate growth in 1980 than in 1979. In December such loans were some 14 per cent higher than one year earlier, while in 1979 they increased by as much as 24 per cent.

Deposits from customers increased in 1980 by 15.5 per cent in the commercial banks and by 13 per cent in the savings banks, while the estimate for the year in the latest National Budget was 11 per cent for both groups as a whole. As in 1979, there was a marked shift from deposits on three months' notice to deposits on twelve months' notice in both groups of banks. Long-term saving continued to increase strongly in 1980. The level of such deposits was at the end of December 50 per cent higher than one year earlier. Fixed-term deposits and deposits (other than savings deposits) for less than one year increased in the course of 1980 by 38 per cent in the savings banks and by 19 per cent in the commercial banks. This may indicate that the savings banks have become more active in the "money market", but also that they may have been more willing than the commercial banks to pay interest at a high rate on such deposits in order to avoid having to raise B-loans. However, the commercial banks remain much more dependent on such short-term deposits on special terms than the savings banks, since the proportion of total deposits was 32.5 per cent and 9 per cent, respectively.

Slightly more than half of the increase in deposits with the commercial banks and savings banks in 1980 came from wage earners. This corresponded to their share of total deposits which was approximately the same in December as one year earlier in both groups of banks. The increase in wage earners' net claims on the banks (increase in deposits less increase in loans) was slightly more than 3.0 billion kroner in 1980, against some 2.3 billion kroner in 1979 and 5.7 billion kroner in 1978. Both deposits and lending showed a stronger growth in 1980 than in 1979, so that the high increase in net claims was due to a higher rate of growth in deposits than in lending.

Deposits from the business sector rose by some 14 per cent in the two groups of banks as a whole in 1980. Also the business sector's share of the total increase in deposits equalled its share of the total volume of deposits, viz., about one-third. The business sector had a net increase in claims on the banks (defined as above) of 2.7 billion kroner in 1980, the same as in 1979, while in 1978 the sector increased its net liabilities to the banks by 0.7 billion kroner. Both deposits and lending showed a slower growth in 1980 than in 1979. The strong increase in the business sector's net claims on the banks in 1979 and 1980 indicates an improvement in profitability even though the business sector has presumably increased its bond loans more than previously in the period following the liberalization of the bond market.

The municipalities' share of total bank deposits was reduced in the twelve-month period to the end of December, and they increased their net liabilities to the banks by some 0.3 billion kroner in 1980. Also in 1979 and 1978 the municipalities increased their net debt to the banks, by some 150 million kroner in each of those years.

In the beginning of September 1980, the Minister of Finance issued an interest rate declaration which entailed that the banks could make a moderate upward adjustment in their lending rates and commissions. The lending rates had then been frozen for two years, since the general price freeze which was introduced in September 1978. The new arrangement meant a more flexible interest rate formation for the individual types of loan, but certain average interest rates will be administratively stipulated.

The interest rate declaration has been dealt with in further detail in the section on the revision of interest rate policy and the bond market.

The earliest information on the changes in the banks' interest rates following the Minister of Finance' declaration is based on the quarterly interest rate statistics submitted by the banks. The data are not very reliable since they are based on the *lowest and highest normal* interest rate and commission on new loans. Even though the quarterly data do not provide specific information on the average interest rate level, they nevertheless provide a clear indication of the trend.

The quarterly statistics as at the end of the third quarter of 1980 showed that the commercial banks as a whole had increased their normal lowest and highest interest rates by 1.0 and 0.7 percentage point, respectively, for short-term loans and by 0.6 and 0.9 percentage point, respectively, for medium-term and long-term loans. The savings banks had raised both their normal lowest and highest interest rates by 0.6 percentage point for short-term loans, while the corresponding rates for medium-term and long-term loans had been raised by 0.6 and 0.9 percentage point, respectively. Neither of the groups seen as a whole had materially altered their commission rates.

The increase in borrowing costs for medium-term and long-term loans thus seems to have been within the scope set by the interest rate declaration in both groups of banks. For short-term loans it seems, however, that the commercial banks as a group may have increased their interest rates somewhat more than permitted by the interest rate declaration. The interest rate on overdrafts, in particular, has increased strongly – by 1.2 and 1.0 percentage point for the normal lowest and highest, respectively, while the other short-term rates show smaller changes. For housebuilding loans there was little or no change. In the savings banks as a whole, the increase for short-term loans also seems to have been kept within the scope set in the interest rate declaration, although it was 0.6 percentage point. Several savings banks had previously charged rates below the level established on a nation-wide basis and could therefore adjust their rates upward to this level for each individual type of loan. The increase in short-term rates in the savings banks was evenly distributed between the various types of loan.

Norges Bank keeps interest rates in each individual bank under surveillance to ascertain whether the interest rate declaration is transgressed. On the basis of the information obtained from the quarterly statistics, nearly 100 banks were contacted. The answers received may indicate that some forty of these banks had not exceeded the scope set by the interest rate declaration. Whether the remaining banks had done so is difficult to bring to light before the annual interest rate statistics become available.

Because of the inaccuracies of the quarterly statistics they must be supplemented by data from the annual interest rate statistics. The latter will provide exact information both on the average level of interest rates and commissions in 1980 and on the level at the end of 1980. The end-year figures will provide the most reliable information on changes in interest rates and commissions in the autumn of 1980, i.e., after the interest rate declaration by the Minister of Finance.

The *state banks* have in recent years played a dominant role in the credit market, accounting for 33 per cent of the domestic credit supply in 1977, 48 per cent in 1978, and 45 per cent in 1979. The 1980 proportion has been estimated at a good 40 per cent. The authorities have indicated that the lending activity of the state banks ought to be reduced in relative terms, but that such a change will take time because loan disbursements are determined by commitments entered into in previous years. The reduction in the proportion of the domestic credit supply accounted for by the state banks by almost 5 percentage points in 1980 should therefore be taken as an indication that the expansion in state bank lending is slowing down. The relative share is expected to decline further to some 30 per cent in 1981.

The increase in state bank lending in 1980 was estimated at 10.7 billion kroner in the credit budget. Provisional figures show that the actual increase was relatively well in line with that estimate.

The total commitment quotas for 1980 were originally set at 10.8 billion kroner, but the figure was increased to 11.6 billion kroner in the course of the year. As a main rule, loan commitments in the first half-year were to be limited to 45 per cent of the quota for the year.

On the basis of the commitment quotas for 1980, state bank lending is estimated to increase by 11.5 per cent in 1981. The change in housing finance introduced in 1980 which entailed, inter alia, that the private banks should provide a greater share of such financing, has lowered the growth in state bank lending by one percentage point.

In connection with the interest rate adjustments towards the end of 1979, the interest rates on state bank loans – apart from housing loans – were raised by one percentage point to 8.5–9 per cent. The interest rate on housing loans from the State Housing Bank was kept unchanged at 6.5 per cent. The interest rates in the private banks then averaged 11–12 per cent.

After a further rise in interest rates in the private banks towards the end of 1980, the authorities found it necessary to raise the interest rate level in the state banks, too, so as to avoid an intensification of the loan pressure on these banks. The interest rates on state bank loans, including those of the State Housing Bank, were on the whole increased by one percentage point. This did not apply to the Municipal Bank and the State Bank for Industry since the assumption is that the trend in interest rates on new loans from these banks will be linked to the bond rates.

As from 1981, loans from the Treasury to the state banks are to be provided on interest rate terms matching those which the Government has to pay for its own bond loans. The reason for this is to show more clearly the interest rate subsidies enjoyed by borrowers from the state banks.

The quota for the increase in lending by the *private finance companies* in 1980 was set at 150 million kroner in the credit budget. This equalled a lending growth of

4.5 per cent, or somewhat more than in 1979. The companies are subject to direct control of lending, and the lending regulations for 1980 clearly favoured the factoring companies. Not only were they allowed a stronger than average lending growth, but they could also switch from other types of lending to factoring. In the first three quarters of 1980, loans from the finance companies increased by an estimated 150 million kroner, or by some 40 million kroner more than in 1979. Since the quotas were relatively ample when compared with the preceding year, they were nevertheless exceeded by only a few companies.

The direct control of lending does not apply to leasing. This type of financing showed very strong growth in 1979, but sufficient information is not yet available to judge the trend in 1980.

The lending activity of the *non-life insurance companies* is also subject to direct control. The lending regulations for 1980 were formulated in such a way that all companies could increase their lending by a fixed percentage, but, in addition, each company could increase its lending by a further amount calculated on the basis of the increase in its premium income. The permissible lending growth thus varied between 6 and 12 per cent.

In the original credit budget, the lending quota for the non-life insurance companies in 1980 was set at 175 million kroner, but the figure was later raised to 225 million kroner which provided room for a somewhat higher lending growth than in the preceding year.

In the first three quarters of the year, total outstanding loans increased by 70 million kroner, against 20 million kroner in the same period of 1979.

The figure for the credit supply from the *life insurance companies* in 1980 was in the autumn of 1980 raised by 50 million kroner to 1.45 billion kroner. Lending by these companies is indirectly regulated by way of the bond-investment obligation. The maximum ratio stipulated in the Monetary and Credit Policy Act for obligatory bond purchases is at present in force.

The upward adjustment in the figure for the lending growth was related to the higher than anticipated increase in the companies' total assets. Up to the end of September, total assets of the life insurance companies had thus risen by 9.8 per cent, against 9.5 per cent in the preceding year. The 760 million kroner increase in lending in the first three quarters of 1980 was, however, almost 100 million kroner smaller than the increase in the same period of 1979. On the other hand, the companies had purchased more bonds in 1980 than in the preceding year.

The life insurance companies have in recent years been strongly affected by the fact that private bonds have been in short supply. They have therefore had to purchase relatively low-yielding government bonds to a far greater extent than previously in order to fulfil their bond-investment obligation. Their holdings of government bonds amounted to about 5.5 billion kroner at the end of September 1980, or 4 billion kroner more than at the turn of the year 1977/78. Over the same period, the Government's total domestic bond debt rose by 15.5 billion kroner.

The life insurance companies' purchases of government bonds have a contractionary effect on money supply growth. Considered alone, they contributed to a decline in the money supply of 0.9 percentage point in 1978 and 1.2 percentage points in 1979. The effect in 1980 was probably smaller since the companies had greater access to private bonds, especially in the last quarter.

The estimate for the credit supply to the public over the *bond market* in 1980, including loans from the bond-issuing credit institutions, has been revised several times. The latest figure was the 3.3 billion kroner set at the time of the presentation of the National Budget for 1981. Provisional data indicate, however, that the actual supply was far greater. The net issues of private bonds in 1980 amounted to a good 7 billion kroner. True, the major part – 4.4 billion kroner – referred to bonds issued by private credit enterprises, and some of this amount may therefore have been placed temporarily as bank deposits or account loans to the Treasury. The remainder – about 2.8 billion kroner – can be regarded as direct supply over the ordinary bond market. In the last few years, permission has been granted for the issue of only a few new loans in this market, and the gross issues have not covered the repayments on old loans. In this way, the credit supply over the bond market was negative in both 1979 and 1978 – in both years the withdrawal of credit amounted to some 500 million kroner.

The *total domestic credit supply* to the private sector and municipalities was set at 23.0 billion kroner in the National Budget for 1980. The figure was raised to 25.4 billion kroner in the Revised National Budget, but was not subject to much further change in the National Budget for 1981. As already mentioned, the credit supply both from the banks and over the bond market proved to be substantially greater than expected. The total domestic credit supply was therefore probably closer to 30 billion kroner than to the 25.4 billion kroner stipulated in the credit budget.

According to the National Budget, a net capital outflow to abroad of 2.6 billion kroner was anticipated in 1980. In 1979 there was a capital inflow of 1.5 billion kroner. However, the figures are strongly influenced by the expectation of a substantial capital outflow from the oil sector which has no effect on the domestic credit situation.

The total direct net capital inflow from abroad, other than to the oil sector, was estimated at 6 billion kroner in the credit budget. In principle, this figure includes loans against foreign exchange licences from the private banks to residents. The figures for the first three quarters show a net capital inflow of 3.4 billion kroner, or 2.2 billion kroner more than in the same period of 1979. When licensed foreign currency loans from the banks are included, the figure is 4.6 billion kroner, or 3 billion kroner more than in the first three quarters of 1979.

The net capital inflow to "other private sector and muncipalities" in 1980 was in the budget stipulated at 1 billion kroner. This net inflow is the sum of the gross inflow of long-term loans to private and public enterprises, the gross inflow of long-term loans to municipalities and direct investments in Norway, less repayments on long-term loans, direct investments abroad and long-term loans to abroad as well as registered net short-term lending. *Long-term* loans against foreign exchange licences from the banks (to residents) are thus included in this budget figure.

The demand from "other private sector and municipalities" for loans from abroad and for loans against foreign exchange licences from Norwegian banks was comparatively strong in 1980. The total quota for gross long-term loans was set at some 2.1 billion kroner and was fully utilized. In contrast to the preceding year, the requests for permission to raise loans abroad could not be accommodated within the quota stipulated.

It was expected that the shipping sector, including oil drilling, would have a capital inflow of nearly 500 million kroner in 1980. Both in 1979 and in the first three quarters of 1980 the sector showed capital exports, however. The amount was about 900 million kroner in the first three quarters of both years.

## Foreign Exchange Policy

*Norwegian foreign exchange policy*

After the adoption of the new exchange rate regime in December 1978, the exchange rate of the krone has been kept stable within certain margins relative to a weighted average of the currencies of Norway's main trading partners. This currency "basket" is composed as follows:

| | |
|---|---|
| USD | 25% |
| SEK | 18% |
| DEM | 14% |
| GBP | 13% |
| DKK | 7% |
| YPY | 6% |
| FRF | 4% |
| NLG | 4% |
| FIM | 3% |
| BEF | 2% |
| ITL | 2% |
| CHF | 2% |

Norges Bank intervened in the market by purchasing and selling foreign exchange to the extent necessary to maintain such a stability in relation to the base level. The intervention currency was exclusively U.S. dollars.

Three factors exerted great influence on the trend in the exchange rate of the Norwegian krone in 1980:

- The current account of the balance of payments showed a surplus.
- Monetary and credit policy was at times very tight, involving almost maximal utilization of policy instruments.
- The oil companies' demand for Norwegian kroner in connection with their tax payments was at times large relative to the overall size of the exchange market.

Given the considerable balance of payments deficits on current account in recent years, the strategy has been that the State should cover part of the foreign exchange requirement by raising loans abroad. The proceeds of the loans were added to Norges Bank's foreign exchange holdings and then sold in the market as the need arose. Thus, until last year Norges Bank by and large supplied foreign exchange to the market through its interventions. With the swing into a current account surplus, the situation changed and the State discontinued its borrowing abroad early in 1980. The foreign exchange policy came to be marked by the fact that a moderate current account surplus was the result of a considerable surplus in the oil sector and a large deficit elsewhere in the private sector.

The foreign exchange surplus in the oil sector had special significance in the summer and autumn of 1980. The fact that this sector's transactions had a greater impact in the second half-year than in the first was due in part to the change in the payments schedule for oil taxes and in part to the increase in tax payments ensuing from the higher level of earnings in the oil sector. Because the foreign exchange surplus in the oil sector did not always coincide with the foreign exchange deficit elsewhere in the private sector, it was realized that interventions in both directions could become necessary in the course of the year. However, almost no need arose for supplying foreign exchange to the market. The inflow of foreign exchange resulting from the transactions of the oil sector was spread over the year, mainly in the form of forward deals (advance purchases of kroner against dollars) which the banks covered by raising foreign currency loans abroad. By and large, the foreign exchange inflow to the banks through these transactions covered the foreign exchange deficit of the remainder of the private sector throughout the year. The task of Norges Bank therefore came to be that of absorbing the foreign exchange surplus of the oil sector at times when it exceeded the foreign exchange requirement of other sectors.

The oil sector supplied foreign exchange to the Norwegian market and purchased Norwegian kroner mainly to cover the krone requirement in connection with oil tax payments. Even though the actual tax payments took place in a few instalments in the course of 1980 (as from autumn 1980 payments are due twice a year: on April 9 and October 9, including the day of grace), the oil companies purchased kroner in the forward market throughout the year.

Because of the heavy strain on the traditional monetary policy instruments in 1980 (referred to under "Credit Policy"), Norges Bank had to pay greater attention than previously to the liquidity effect of its interventions in the foreign exchange market. Whereas traditionally Norges Bank had intervened in the spot market, the interventions in 1980 were for the most part carried out in the forward market. When stipulating the length of the forward contracts, Norges Bank could ensure that they fell due on dates when the resulting effect on bank liquidity would be acceptable. In addition, currency swaps – i.e., spot purchase or sale of foreign exchange for kroner on the understanding that the transaction is to be reversed on a specified future date – were entered into with a view to influencing liquidity towards the end of the year. Such transactions are well suited for the short-term control of liquidity, in particular because of their flexibility as regards the period of maturity. More details are provided in the chapter on credit policy.

*Exchange rate movements between the major currencies*

In 1980 the international foreign exchange markets were strongly affected by short-term capital movements caused primarily by the divergent trends in interest rates in major centres and expectations of changes in relative interest rates. Among the main currencies, the U.S. dollar and pound sterling were, in particular, supported by high interest rate levels. Changes in the current account balances also had direct and indirect effects on exchange rates in 1980, while the rates of inflation seemed to exert less effect on exchange rate movements than in previous years.

Political events also caused market disturbances and exchange rate fluctuations. This applied to the presidential election in the United States, the hostage drama in Iran, the war between Iran and Iraq, and the situation in Poland. The exchange rate movements between the major currencies were greater in 1980 than in 1979. The trend in recent years, showing a constant weakening of the dollar against the EMS currencies, was broken.

A tight monetary policy and a steep rise in short-term interest rates in the United States led to a strong rise in the exchange rate of the U.S. dollar in February and March. In the second quarter, short-term interest rates declined in the United States while remaining stable, or showing a less marked fall, in other major industrial countries. This had an almost immediate effect on the dollar exchange rate, and by July the value of the dollar against most major currencies had declined to the level at the turn of the year 1979/80. As from mid-August, however, short-term interest rates in the United States once again showed a rising trend which largely continued until the end of the year and led to a new strengthening of the dollar against the EMS currencies and most other currencies. Among the major currencies, only the Japanese yen strengthened against the U.S. dollar in the second half of 1980. The dollar/sterling rate showed little change in this period.

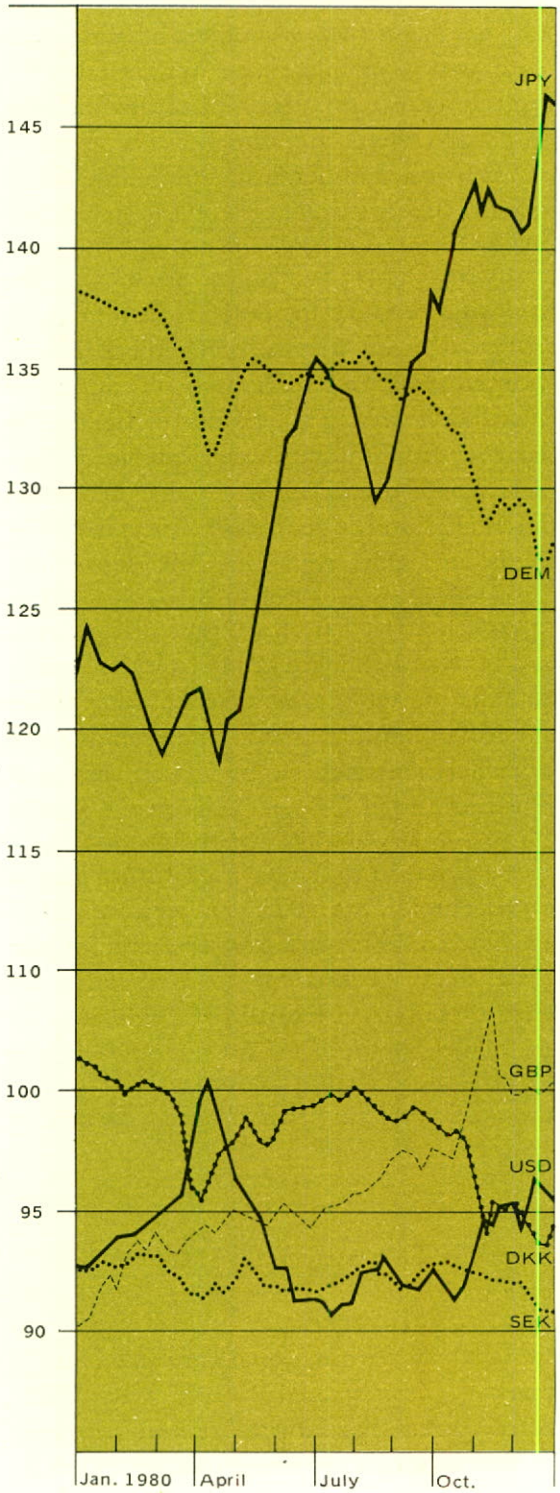
At the end of 1980, the exchange rate of the dollar was 12½ to 13 per cent higher than one year previously against the EMS currencies (with the exception of the Italian lira), while it was 7.3 per cent and 15.5 per cent lower against the pound sterling and the Japanese yen, respectively. The dollar rose by 10.6 per cent against the Swiss franc in 1980.

In periods of pressure on the exchange rates, the central banks intervened to counteract short-term fluctuations. Through a co-ordination of the interventions both within the EMS and between the United States, on the one hand, and the Federal Republic of Germany, Japan and Switzerland, on the other, a greater effect was achieved.

Chart 15 shows the movements in effective exchange rates of some important currencies in 1980, based on the International Monetary Fund's Multilateral Exchange Rate Model (MERM). When measured in this way, the effective value of the U.S. dollar and the pound sterling rose by 2.7 per cent and 11.8 per cent, respectively, in 1980. The deutsche mark weakened by 8 per cent. At the end of the year, the effective exchange rates of the dollar and the pound were 20 per cent and 21 per cent, respectively, below the level in May 1970, while that of the deutsche mark was all of 56 per cent above the May 1970 level.

As mentioned, the movements in exchange rates seem to have been stronger than warranted by the underlying price and cost trend, especially in the case of the pound sterling. In an attempt to curb the inflation and to bring about an improvement in the economy in the longer term, the United Kingdom has pursued a tight monetary and credit policy. This has led to a very high interest rate level and a considerable inflow of capital. A marked improvement in the current account balance – caused by increased oil production, a decline in economic activity and an improvement in the terms of trade – has also contributed to the upward pressure on the

*Chart 15. International value of certain currencies based on the MERM method of the IMF (1975 = 100) Weekly average*



pound sterling, which has been strengthened by the expectations of a further increase in the oil revenues. The rise in the exchange rate of the pound sterling, which began towards the end of 1978, thus continued throughout 1980.

In the United States, the central bank pursued a tight monetary policy for most of the year in order to curb the inflation. The result was record-high interest rates in March–April, and again in November–December, with consequent large movements of capital and exchange rate fluctuations. The increase in interest rates in March–April led to a strengthening of the dollar against the deutsche mark by 13–14 per cent. Following the culmination of the rise in dollar interest rates in April, when the prime rate reached 20 per cent, the value of the U.S. dollar declined rapidly in step with the fall in interest rates. Pessimism with regard to the trend in the U.S. economy steepened the decline. A relatively strong decline in economic activity was expected up to mid-1981. However, the underlying growth in the U.S. economy proved to be stronger than expected. After a steep fall in the second quarter, there was a slight increase in GNP in the third quarter, and the increase continued in the fourth quarter. Once again the inflation became the main problem, and a tight monetary policy and heavy demand for credit caused a renewed, steep rise in the U.S. interest rate level in the autumn months. At the turn of the year 1980/81, the interest rate level was even higher than in April. Increased confidence in the U.S. economy, a considerable improvement in the balance of payments on current account, and the result of the presidential election led to a further strengthening of the dollar towards the end of the year.

The Japanese yen also showed a steep rise in 1980, mainly because of greater capital inflow, especially from countries in the Middle East, but also because of an improvement in the current account balance. The capital inflow was stimulated by the slowing of the price and cost rise, by the improvement in the current account balance, and by the increased confidence in the Japanese economy. The Japanese central bank intervened in order to stem the rise of the yen. The interventions were particularly large at the turn of the month September/October when the exchange rate fell below 210 yen per dollar. The reason why the central bank lowered its discount rate from 8.25 per cent to 7.25 per cent in the beginning of November was in part the desire to curb the capital inflow and thereby check the upward pressure on the yen.

The French franc and the Netherlands guilder were the strongest currencies in the European Monetary System for the greater part of 1980. The Danish krone and the Irish pound occupied a mid-position, while the Belgian franc was on the whole the weakest currency, except for the Italian lira which fluctuates between substantially wider margins than the other currencies. The deutsche mark, which alongside the Swiss franc was the strongest European currency in the 1970s, was one of the weakest in 1980. The exchange rate for the deutsche mark will, naturally enough, show the opposite trend to that of the U.S. dollar since the value of either one of these major currencies is essentially measured in terms of the other.

However, at the time of the rise of the dollar in the first quarter of 1980, the deutsche mark declined against certain EMS currencies, too, and the Bundesbank had to intervene quite heavily in the foreign exchange market in order to support the mark. When the dollar strengthened in the second half-year, the deutsche mark again declined towards its lower fluctuation margin. In order to stem the fall against the dollar and to prevent the deutsche mark falling below the agreed

EMS margins, the German, U.S. and French central banks made large-scale interventions during the autumn months to support the deutsche mark. Within the EMS, the Belgian central bank also intervened by purchasing substantial amounts of Belgian francs which on several occasions threatened to fall to the lower intervention point. In order to ease the pressure within the EMS, the French central bank carried out a moderate interest rate reduction in November, at the same time as the French commercial banks were required to hold 5 per cent of their foreign deposits with the central bank.

As already mentioned, the weakness of the deutsche mark was in part due to the fact that for most of the year the interest rate level in the Federal Republic of Germany was lower than in the other leading industrial countries, and especially lower than in the United Kingdom and the United States. The deutsche mark was also affected by the German current account deficit, which reached DM 28.2 billion in 1980. Expectations of a large deficit in 1981, too – despite low economic growth in the Federal Republic of Germany – also weakened confidence in the deutsche mark.

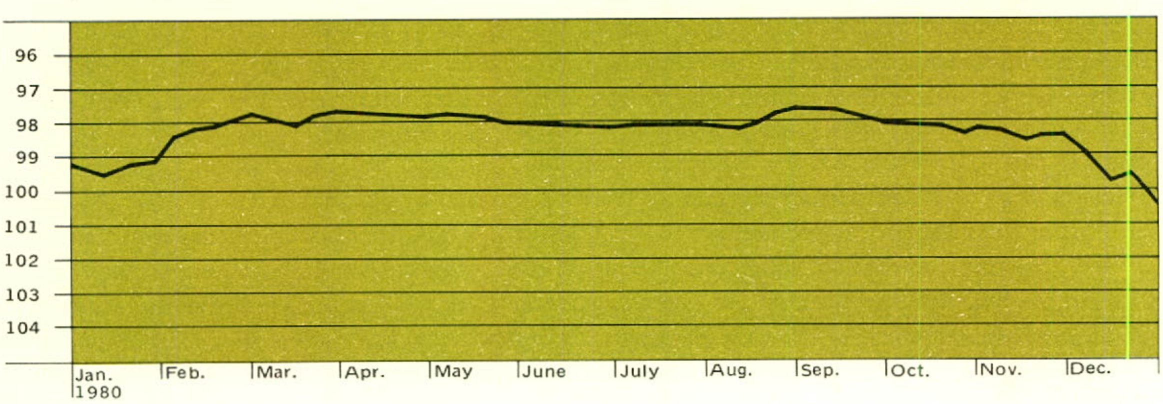
The Swiss franc fluctuated with the deutsche mark for most of 1980. Low interest rates and a current account deficit – the first since the mid-1970s – led to a weakening of the Swiss franc.

Heavy central bank intervention kept the international value of the Swedish krona -- measured in terms of the Swedish currency basket – relatively stable throughout 1980. Sveriges Riksbank's foreign exchange sales in 1980 corresponded approximately to the Swedish current account deficit. They were largely financed by government borrowing abroad, which totalled some 22½ billion Swedish kronor in 1980.

*Exchange rate development and interventions*

As mentioned earlier, there was a surplus of foreign exchange in the Norwegian market for much of 1980, and the international value of the krone was fairly high in relation to the base value for the basket index. The krone was for long periods some 2 per cent over the base value, and on average for the whole year it was 1.7 per cent higher. Only for a few days in December did the value of the krone fall below the base value – in other words, the basket index, which shows the weighted average of the basket currencies in terms of the Norwegian krone, exceeded 100. See Chart 16.

*Chart 16. International value of the Norwegian krone. Index of the "basket" vis-a-vis the krone Weekly average*

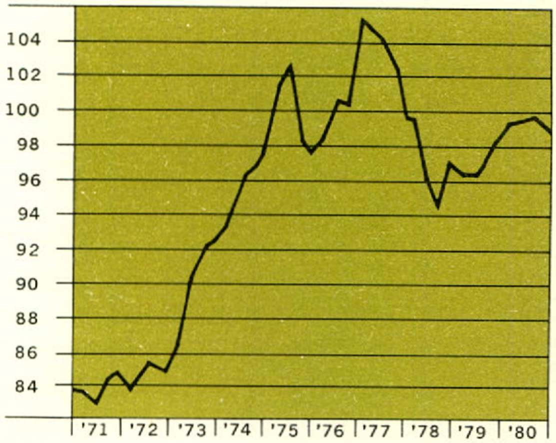


When computed on the basis of the Multilateral Exchange Rate Model (MERM) of the International Monetary Fund, the effective exchange rate of the Norwegian krone was on average 2.2 per cent higher in 1980 than in 1979. However, according to this method of calculation the krone fell by about 3 per cent during December, so that at end-1980 it was at about the same level as at the start of the year. See Chart 17.

The relatively great stability of the Norwegian krone when measured in terms of several currencies obscured, however, quite considerable, divergent movements vis-à-vis the individual currencies included in the currency basket to which the krone is linked. As long as the krone is tied to the average of several currencies, this must inevitably be the case. Thus, on the Oslo Stock Exchange the selling rate for the pound sterling and the Japanese yen rose by 12.9 per cent and 23.9 per cent, respectively, in 1980. The U.S. dollar rose by 5.1 per cent. On the other hand, the quotations in Oslo for all the EMS currencies as well as the Swiss franc declined in 1980. The exchange rate for the deutsche mark and the Swiss franc declined by 7.2 per cent and 4.9 per cent, respectively, while that of the Danish krone fell by 6 per cent. The Swedish krona, which like the Norwegian krone is linked to a basket of several currencies, showed only minor movements against the Norwegian krone. At the end of the year, the exchange rate for the Swedish krona on the Oslo Stock Exchange was 0.3 per cent lower than one year previously.

Some currencies showed quite wide fluctuations vis-à-vis the Norwegian krone in 1980. The selling rate for the U.S. dollar thus fluctuated between 4.8065, quoted on July 8, and 5.2645, quoted on December 11. On December 31, 1980, the selling rate for the dollar was 5.1910, as against 4.9370 one year previously. The Swedish krona fluctuated largely between 1.16 and 1.19 in

*Chart 17. International value of the krone based on the MERM method of the IMF (1975 = 100) Quarterly average*




Not completely comparable with the corresponding chart in the previous Annual Report because of a change in the weights used

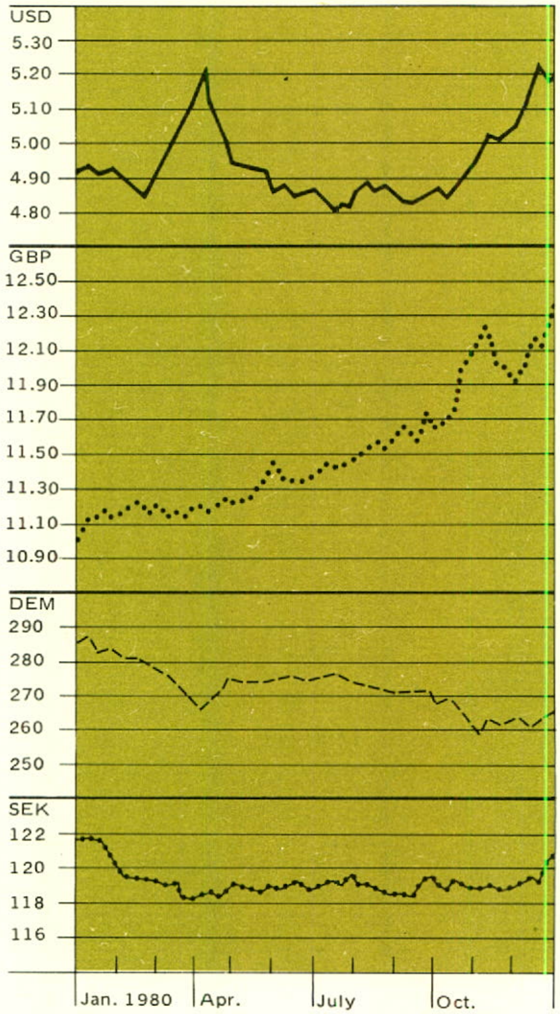
the course of the year, while the selling rate for the deutsche mark at the end of 1980 was 2.6490, or about 20 øre lower than one year previously. The exchange rate for the Swiss franc fell in the course of the year by about 15 øre to 2.9370. Pound sterling showed a rising trend vis-à-vis the Norwegian krone for most of 1980, and at the end of the year its selling rate was quoted at 12.395, against 10.975 one year previously. See also Chart 18.

At the start of 1980, Norges Bank had outstanding forward claims totalling 468 million dollars. These were settled in the course of the first few months of the year. In order to bring about a balance between supply and demand in the Norwegian foreign exchange market, Norges Bank purchased a further 2,092.5 million dollars in the forward market in 1980, of which 386 million kroner referred to contracts falling due in 1981. This means that in 1980 Norges Bank settled forward contracts totalling 2,174.5 million dollars, corresponding to some 10½ billion kroner. Especially large transactions fell due just before the oil companies' payment of taxes on October 9. Part of the dollar amount thus acquired by Norges Bank was sold in the market when the market situation so allowed and when there was a need for reducing the krone liquidity of the banks. A total of 323.5 million dollars was sold on the termination of the forward contracts, which means that 1,851 million dollars, net, was added to Norges Bank's foreign exchange reserves in connection with the settlement of forward contracts. Norges Bank purchased a further 796.55 million dollars, net, in connection with interventions in the spot market. Through Norges Bank's interventions with a view to influencing exchange rates, the banks thus received kroner for the counterpart of 2,647.55 million dollars, or about 13 billion kroner.

Towards the end of the year, Norges Bank also entered into swap deals for the purpose of regulating liquidity in the domestic market. Through these deals, Norges Bank lent more than 699 million dollars to the Norwegian foreign exchange banks, thus withdrawing krone liquidity for an amount of some 3.5 billion kroner from the banking system. At the end of 1980, Norges Bank had outstanding swap claims on the Norwegian authorized banks totalling 449 million dollars which would fall due by the middle of April 1981. Norges Bank's swap transactions with the banks are discussed in greater detail in the chapter on credit policy.

Through its interventions in the forward and spot markets and the swap transactions, Norges Bank purchased a net total of 2,198.55 million dollars in 1980, corresponding to some 10.8 billion kroner. In addition, Norges Bank purchased foreign currency for a net amount of about 2.3 billion kroner in order to cover the foreign exchange needs of public institutions. Norges Bank's total foreign exchange transactions with Norwegian banks thus entailed the net purchase of foreign exchange for about 13.1 billion kroner.

*Chart 18. Selling rates in Oslo for the U.S. dollar (USD), the pound sterling (GBP), the Deutsche mark (DEM) and the Swedish krona (SEK)*




*Foreign exchange reserves*

Norway's foreign exchange reserves increased by all of 50 per cent in 1980. As at December 31, 1980, Norges Bank's gross international reserves amounted to 31,315 million kroner, 10,428 million kroner more (after valuation adjustments) than one year earlier. Foreign banks' krone deposits with

Norges Bank decreased by 45 million kroner in 1980, and the net international reserves thus rose by 10,473 million kroner and amounted to 31,052 million kroner as at December 31, 1980.

Most of Norges Bank's international reserves are held as bank deposits abroad and in foreign securities. Over 90 per cent are short-term placements, falling due inside one year. The currency distribution shows an increased proportion of dollar holdings. A large part of the total reserves are placed as time deposits with foreign banks, while the most liquid reserves are placed in foreign bearer bonds, treasury bills, certificates of deposit issued by banks, as well as other short-term securities, primarily American.

While at the end of 1979 Norges Bank's international reserves equalled about 2½ months' imports of goods and services, they equalled between 3 and 3½ months' imports at the end of 1980. This is a relatively high level when compared with other industrial countries, but the reserves of several industrial countries were at that time substantially lower than was considered desirable.

The increase in the Bank's international reserves was closely related to the substantial improvement in the balance of payments on current account in 1980 and to the sharp rise in tax payments by the oil companies. In October alone, when tax payments took place, the reserves thus rose by almost 5.8 billion kroner.

Table 11 shows how the Bank's international reserves have been influenced by Norges Bank's interventions in dollars – purchases and sales separately – in 1980.

As shown by the table, the net effect of Norges Bank's interventions in the foreign exchange market was an addition of 2.2 billion dollars to the Bank's international reserves. When converted at the exchange rate used for accounting purposes in 1980 (4.926 kroner per dollar) this meant an increase in the reserves of 10,830 million kroner.

*Table 11. Effects on Norges Bank's International Reserves of Norges Bank's Interventions in the Foreign Exchange Market in 1980 (million U.S. dollars)*

| | | |
|---|---|---|
| *Purchases of U.S. dollars* | | |
| Spot purchases | | 825 |
| Forward purchases, | contract concluded in 1979 | 468 |
| Forward purchases, | contract concluded in 1980 and matured in 1980 | 1,707 |
| | | 3,000 |
| *Sales of U.S. dollars* | | |
| Spot sales | | 352 |
| Swap deals, | contracts concluded in 1980 and maturing in 1981 | 449 |
| | | 801 |
| *Net purchases of U.S. dollars* | | |
| equals | increase in Norges Bank's international reserves as a result of interventions | 2,199 |

Among other factors behind the change in Norges Bank's international reserves in 1980 may be mentioned dollar purchases from the banks amounting to 2.3 billion kroner on behalf of Norges Bank's customers, primarily the Government. Together with the interventions, Norges Bank thus purchased foreign exchange from the banks for a net amount of 13.1 billion kroner. In addition, the interest earnings on the reserves amounted to 2.5 billion kroner. The allocation of SDRs from the IMF equalled 199 million kroner in 1980, against 201 million kroner in 1979, while the proceeds of government loans raised abroad in 1980 amounted to barely 1 billion kroner, against the 5.7 billion kroner raised in 1979. On the other hand, the reserves were reduced by 6.8 billion kroner to cover the foreign exchange requirement of public institutions.

In addition to the international reserves of 31.3 billion kroner, Norges Bank had outstanding forward and swap transactions for 835 million dollars, or about 4.3 billion kroner, on January 1, 1981. These claims are not counted in the reserves until the contracts are settled.

The yield on the dollar holdings was very favourable in 1980, which contributed strongly to the high interest earnings abroad. The actual yield on Norges Bank's international reserves, apart from gold, as at December 31, 1980, averaged 11.7 per cent. The yield on the dollar holdings was particularly high, viz., 12.8 per cent.

In addition to the favourable interest earnings, Norges Bank registered a substantial exchange rate gain on its international reserves in 1980, in contrast to 1978 and 1979. As a result of the strengthening of the dollar against the Norwegian krone in the course of 1980, the dollar holdings were written up by 1,084 million kroner. The exchange rate for the deutsche mark was lower on December 31, 1980, than one year earlier, which resulted in an exchange rate loss of 296 million kroner on the deutsche mark holdings. All in all, the accounts for 1980 show an exchange rate gain of 855 million kroner on the holdings of foreign exchange including SDR claims.

The gold holdings remained unchanged at about 1.2 million ounces (some 37 tonnes) and are valued at the latest official gold price (SDR 35 per ounce), converted into Norwegian kroner at the central rate in 1973, i.e., 6.87145 kroner per SDR. The bookkeeping value of 285 million kroner corresponds to a gold price of 7,732 kroner per kilogramme. A majority of the IMF member countries still use the historical gold price of SDR 35 per ounce for the valuation of their official gold holdings. However, more than thirty countries are now using the market price of gold, which at the end of the year was quoted (in London) at 589.50 dollars per ounce, corresponding to 98,176 kroner per kilogramme.

When managing the reserves, Norges Bank attaches importance to the liquidity and the safe investment of the international reserves. In addition to the interventions to influence exchange rates, swap transactions have gained in importance as a means for short-term control of the banks' krone liquidity. Prior to the due dates for oil tax payments – April 9 and October 9 – the outstanding swap deals may reach quite substantial amounts. In the period ahead, it will therefore be necessary to hold a comparatively large proportion of the foreign exchange reserves in the form of very liquid securities, so as to make it possible to counteract fluctuations in domestic liquidity by selling foreign exchange against repurchase obligation.

In addition to the reserves which are placed in securities and as time deposits, a smaller part of Norges Bank's international reserves consists of claims on the International Monetary Fund, of long-term deposits and gold.

In the section on Norges Bank's accounts for 1980, further details are provided on the composition and investment of the international reserves at the end of 1980 as well as on the changes in the course of the year.

### *Norway's external debt*

At the end of 1979, Norway's total external debt was equivalent to 103.5 billion kroner. Preliminary figures for 1980 show a current account surplus on the balance of payments of 4.7 billion kroner, giving an estimated net external debt as of December 31, 1980, of 98.8 billion kroner. This corresponds to 34.9 per cent of the gross domestic product in 1980. Measured in terms of Norway's GDP, her external debt reached a peak of 46.6 per cent at the end of 1978. In absolute figures, the level of the external debt at that time was about the same as at the turn of the year 1980/81.

Table 12 shows the trend in Norway's net external debt in the period 1973–1980 and a break-down of the external debt by main sectors.

It will be seen from the table that the public sector, including Norges Bank, has in aggregate reduced its net external debt by considerably more than Norway's external current account surplus. The private sector's net external debt remained approximately unchanged in 1978 and 1979, but in 1980 it increased by almost 8 billion kroner. Preliminary figures indicate that the oil companies reduced their net external debt in 1980, while that of the sector "overseas shipping" showed little change. The sector "others" thus increased its net external debt by more than 8 billion kroner in 1980. Much of this increase referred to the foreign exchange banks and was closely related to the previously mentioned loans raised abroad in connection with the oil companies' forward exchange transactions prior to their payments of income tax.

*Government borrowing abroad*

The economic policy programme presented in the National Budget for 1980 was expected to necessitate considerable borrowing abroad by the Government in 1980, too.

The strong increase in crude oil prices and the amendments to the Petroleum Tax Act led, however, to a marked improvement in foreign exchange liquidity and to a reduction in the Government's financing requirement. In the spring, the Government therefore stopped borrowing abroad. By that time, the Government had taken up two loans abroad: 250 million deutsche marks at 7.5 per cent interest and 100 million Swiss francs at 5.5 per cent interest. Both loans carry a fixed rate of interest and are straight five-year loans.

In 1980 the Government repaid a total of 3.5 billion kroner on loans taken up previously. This means that the Government's net external debt was reduced by 2.5 billion kroner last year.

Table 13 shows that the Government's

*Table 12. Norway's Net External Debt (end-year figures in billions of kroner)[1]*

| | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | Change 1979–80 |
|---|---|---|---|---|---|---|---|---|---|
| Private sector | 19.1 | 25.5 | 38.3 | 51.2 | 67.4 | 71.3 | 72.7 | 80.5 | 7.8 |
| Of which: | | | | | | | | | |
| Oil companies | 5.2 | 10.0 | 14.4 | 20.5 | 27.8 | 29.5 | 28.1 | .. | .. |
| Overseas shipping | 7.6 | 7.1 | 9.5 | 13.1 | 19.5 | 19.3 | 18.5 | .. | .. |
| Others | 6.3 | 8.4 | 14.4 | 17.6 | 20.1 | 22.5 | 26.1 | .. | .. |
| Treasury | 0.4 | 0.2 | 4.5 | 8.4 | 15.0 | 25.4 | 28.4 | 25.9 | −2.5 |
| State banks | 0.8 | 0.8 | 1.3 | 2.2 | 5.9 | 11.1 | 16.4 | 16.6 | 0.2 |
| Municipalities | 2.8 | 3.0 | 3.5 | 4.1 | 4.8 | 5.8 | 6.9 | 7.4 | 0.5 |
| Norges Bank | −8.9 | −9.7 | −12.4 | −11.5 | −8.7 | −14.6 | −20.9 | −31.6 | −10.7 |
| Total | 14.2 | 19.8 | 35.2 | 54.4 | 84.4 | 99.0 | 103.5 | 98.8 | −4.7[2] |
| % of GDP | 12.7 | 15.3 | 23.7 | 31.9 | 44.1 | 46.6 | 44.2 | 34.9 | 1.7[3] |

[1] Source: Financial sector statistics. Figures for 1980 are based on provisional balance of payments data.

[2] Equal to the current account surplus.

[3] The current account surplus as a percentage of GDP in 1980.

repayment commitments will show a strong growth in the next three years. The amount required for the period 1981–1985 for servicing the Government's external debt exceeds Norges Bank's current international reserves.

In 1980 the Government paid slightly over 2 billion kroner in interest on the external debt. This corresponds to some 7 per cent of the average debt in 1980. The greater part of the Government's external debt carries interest at a clearly lower rate than the current market rate for similar loans, and the interest rate is lower than the average yield obtained by Norges Bank on its foreign exchange reserves.

*The International Monetary Fund*

The increasing payments imbalances resulting from the oil price hikes in 1979 and early 1980 make it desirable to enable the Fund to play a vital role in the recycling process. This was one of the main issues discussed by the Executive Board in 1980. Another important question which was taken up was a possible change in the Fund's practice with regard to the surveillance of the members' exchange rate policies, which would mean a strengthening of the Fund's role in this respect. Another item on the agenda was the establishment of a substitution account, intended to accept deposits in U.S. dollars from Fund members in exchange for an equivalent amount of SDR-denominated claims on the IMF. The need for new SDR allocations in the years ahead was likewise discussed and also whether a greater proportion of the allocations should go to the developing countries. The seventh revision of quota has now been ratified.

*The IMF's lending and borrowing policy. Utilization of the funds.* The oil price hikes in 1979 and in the beginning of 1980 led to a sharp rise in the current account surpluses of the oil-producing countries and to a corresponding increase in the deficits of

*Table 13. Repayment Schedule for Government Loans, by Currency Borrowed and in Norwegian Kroner Converted at the Middle Rates on the Oslo Stock Exchange on December 31, 1980 (figures in millions)*

| | Instalments | | | | | | | | | | Debt as at Dec.31 | Interest payments during the year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | U.S. dollars | Deutsche mark | Swiss francs | Netherlands guilders | Riyals | Yen | Belg. francs | French francs | Others (Norw. kroner) | Total (Norw. kroner) | Norw. kroner | Norw. kroner |
| 1980 | 267 | 325 | 300 | 100 | 90 | 0 | 0 | 0 | 33 | 3,536 | 29,084[1)] | 2,153 |
| 1981 | 352 | 600 | 500 | 75 | 0 | 0 | 0 | 0 | 32 | 5,087 | 23,997 | 1,905 |
| 1982 | 507 | 800 | 625 | 200 | 0 | 0 | 0 | 0 | 33 | 7,088 | 16,909 | 1,540 |
| 1983 | 657 | 400 | 800 | 200 | 175 | 80,000 | 1,450 | 0 | 35 | 9,876 | 7,033 | 1,057 |
| 1984 | 336 | 200 | 460 | 261 | 135 | 40,000 | 1,500 | 200 | 33 | 5,989 | 1,044 | 430 |
| 1985 | 3 | 250 | 100 | 0 | 0 | 0 | 0 | 0 | 24 | 994 | 50 | 71 |
| 1980–85 | 2,122 | 2,575 | 2,785 | 836 | 400 | 120,000 | 2,950 | 200 | 190 | 32,570 | | 7,156 |

1) Differs from table 12 which shows net debt.

other countries. This pattern is expected to continue in the years immediately ahead. The deficit countries will require substantial capital transfers to finance the deficits. The international capital markets will continue to play a very important role in recycling capital from the surplus countries to the deficit countries, but there are limits to what they can achieve in this respect because some countries are gradually being regarded as less creditworthy. There is broad agreement within the International Monetary Fund that the Fund ought to play a vital and growing role in this *recycling process.*

One of the tasks of the Fund is to promote balance of payments adjustments, and it helps finance payments deficits in the adjustment period. The use of the Fund's resources is contingent on the presentation of an economic policy plan aimed at bringing about a better balance in the economy of the borrower country. Since the Fund thus provides both financing and advice about necessary economic readjustments, it is well suited for a role in the recycling of the oil surpluses. Moreover, the payments problems are mainly concentrated on the developing countries since many of them are not very creditworthy and therefore find it difficult to obtain loans in the international capital markets. If the Fund played a greater role in the recycling process, a situation in which some developing countries get into payments crises with resulting problems in the international capital markets may be avoided. Against this background, the Nordic countries regard it as proper for the Fund to play an active and important role in the recycling prosess.

So as to enable the Fund to play such a role, the Executive Board has decided to allow the members enlarged access to the Fund's resources. To finance this enlarged access, the Fund is to borrow from the oil-producing countries. Borrowing from a wide circle of industrial countries will also take place. Moreover, the Fund may seek finance on international capital markets, something which it has never done before. Loan negotiations have commenced. The reason why the Fund now seeks to augment its resources through borrowing rather than through quota increases is partly to raise the necessary finance more quickly. In addition – given the prevailing pattern of deficits and surpluses – the channelling of funds from the surplus countries to the deficit countries will take place in a more direct manner and more effectively through borrowing than through a general increase in members' ordinary quotas. Norges Bank has announced its willingness to contribute to the financing of the enlarged access to the Fund's resources provided a wide circle of central banks do so.

In addition to increasing its lending capacity, the Fund has altered somewhat its policy with regard to the *stabilization programmes* drawn up in consultation with member countries facing payments problems. As a result of the increase in energy prices, the payments deficits are on the whole of a more structural nature than previously, and this will continue to be the case in the years immediately ahead. The adjustment process will therefore become a more protracted affair, and the stabilization programmes must be drawn up with this in mind. In addition to traditional demand management measures, measures stimulating the supply side must be included in such programmes. The stabilization programmes supported by the Fund will therefore become an important part of a more long-term strategy aimed at improving the investment climate and conditions for economic growth in the member countries.

The interest rates charged by the Fund have traditionally been low when compared with interest rates in the international capital markets. This will continue to be the case. The interest burden on the member countries will nevertheless rise, partly because of the general increase in interest rates in capital markets and partly because the Fund to a greater extent than previously must finance its activities by borrowing at market rates. A *subsidy account* has therefore been established which will reduce the cost to the poorest members of their drawings on the Fund which entail the use of borrowed funds. Initially, the subsidies will be granted in connection with drawings under the Fund's existing Supplementary Financing Facility. The financing of the subsidies has not yet been finalized, but the aim is that it will take place through voluntary donations from industrial countries and oil producing countries. Part of the funds which will become available on the repayment of Trust Fund loans (see next section) may also be used to finance the subsidy account. In all probability, interest subsidies will also be granted in connection with loans based on the new borrowing programme. The loans will then be made under an arrangement which will replace – and be similar to – the Supplementary Financing Facility. It has been decided that the Trust Fund is to be terminated. As already mentioned, part of these funds will be used for interest subsidies, and the remainder will be set aside for later use.

The Fund's *gold sales programme* has been completed, and the profits amounted to about 4.64 billion dollars. Of the total profits, 1.29 billion dollars was transferred directly to developing countries in proportion to their quotas, and the remainder was made available for loans by the Trust Fund. In connection with the completion of the gold sales programme, the question of the future use of the IMF's gold holdings has been discussed. For the time being, no further gold sales will be made. It is widely held that the present gold holdings constitute a necessary part of the Fund's capital base. This view has been expressed by the representative of Norway and the Nordic countries on the Executive Board.

*Special Drawing Rights.* As mentioned in previous annual reports, SDR 4 billion will be allocated to the member countries in proportion to their quotas in each of the years 1979, 1980 and 1981 (the third basic period). The final of these allocations took place in January 1981. In 1979 and 1980, Norway's share amounted to about SDR 30.7 million, equivalent to about 200 million kroner. In 1981, Norway's allotment was reduced to SDR 30.1 million because of the quota revision. The krone equivalent of the SDR allocation was, however, unchanged because of the rise in the krone value of the SDR.

The question of future SDR allocations (the fourth basic period) was discussed by the Executive Board in 1980, but no decision was reached. The Nordic countries were favourably disposed to new allocations, emphasizing that this would strengthen the role of the SDR in the international monetary system.

The "link" between SDR allocations and development finance – whether to divert more SDRs to the developing countries – has again been discussed, without any solution being found. The forms of "link" which have been discussed range from purely development criteria to balance of payments criteria. In the latter case, allocations could be tied to the developing countries' use of the Fund's resources.

The Nordic countries have been rather noncommittal with regard to the traditional forms of "link", being of the opinion that the role and acceptability of the SDR as a reserve asset may be weakened. On the other hand, they have not been averse to discussing new forms of "link" which would be more compatible with the tasks of the Fund and with an enhanced attractiveness of the SDR as a reserve asset.

During the past year, several changes were made in the SDR system, the most important being the introduction of a unified currency basket for the value of and interest rate on the SDR. As from January 1, 1981, both the value and the interest rate are to be determined on the basis of five currencies (the U.S. dollar 42 per cent, the deutsche mark 19 per cent, the yen, French franc and pound sterling each 13 per cent). The value of the SDR was previously determined on the basis of a basket of 16 currencies, including the Norwegian krone, while the interest rate was based on the five above-mentioned currencies.

In principle, the Executive Board of the Fund has decided to raise the interest rate on the SDR to the market level (from 80 per cent to 100 per cent of the weighted average of short-term interest rates on the five basket currencies). The change has not yet been carried out. Before this can be done, a decision must be taken about the charges for members' use of the Fund's resources. Unless the charges are raised, the financial position of the Fund will weaken.

As in 1979, action was taken to widen the use of the SDR. SDRs may now, for instance, be used in donations (grants) to developing countries. The number of private and official institutions authorized to deal in SDRs has also been increased. The Nordic Investment Bank is one of the new "other holders". These changes in the SDR system are regarded as important steps towards enhancing the attractiveness of the SDR as a reserve asset, and are greatly favoured by the Nordic countries.

*The Fund's surveillance policy.* During the annual review of the implementation of the surveillance over members' exchange rate policies, agreement was reached on certain moderate changes in the procedure. The changes may be summarized as follows:

– any member with an exceptionally large payments imbalance – deficit or surplus – shall submit an analysis showing how it proposes to deal with the imbalance,
– to a greater extent than previously, the Fund will assess the performance of individual members against an agreed global strategy for growth, price stability and adjustment (this will bring out more clearly the countries' global responsibilities and obligations),
– the Fund should make more active use of the possibility of holding supplemental ("ad hoc") consultations with members.

*Substitution account.* The plan for a substitution account which would accept voluntary deposits of U.S. dollars from members of the Fund in exchange for SDR-denominated claims was again discussed in 1980. Such an arrangement could contribute to greater stability in the international monetary system and could enhance the role of the SDR as a reserve asset. The interest shown by some countries in such an arrangement diminished in the course of 1980, partly because of the problems related to the liability for exchange rate guarantee to be assumed by individual countries at the time of a possible future liquidation of the arrangement. The further discussion of this issue has been postponed indefinitely. The Nordic countries are in principle in favour of the establishment of a substitution account.

*The voting power of the developing nations in the governing bodies of the Fund.* Both the Group of 24 and the Brandt Commission have raised the question whether the developing countries should be given greater influence in the decision-making bodies of the Fund and greater representation among the Fund staff. (The Brandt Commission was an independent group of prominent politicians and public figures, and chaired by *Willy Brandt.* The Commission was established at the suggestion of World Bank President *Robert S. McNamara,* and its task was to study, and to submit recommendations regarding, the economic problems of the developing countries.) There is broad agreement that the practical aspects of this question can best be taken up in connection with the forthcoming eighth review of quotas. The Nordic countries support this view.

*Financial support to members facing wide fluctuations in the cost of food imports.* The question of providing financial assistance to countries which experience a sharp rise in the cost of food imports has been discussed in the Fund at the suggestion of the United Nations through the FAO. Any assistance was to be linked exclusively to changes in imports of cereals, which is regarded as the most important commodity group in respect of both the payments aspect and the nutritional aspect. Agreement on such an arrangement has not been reached, but the possibility of widening the Compensatory Financing Facility to include such an arrangement is under consideration. The Nordic countries have accepted such a widening of the Compensatory Financing Facility. If implemented, the arrangement will be financed by use of the ordinary resources of the Fund.

*The seventh review of quotas and preliminary negotiations towards the eighth review.* By December 1, 1980, a sufficient number of members representing the necessary voting rights had consented to the seventh quota revision, which entailed a 50 per cent increase in the aggregate of Fund quotas, from about SDR 39.8 billion to about SDR 60 billion. The eighth general review will probably get under way in the first half of 1981, but is not expected to be completed until some time in 1985–1986.

*The liquidity of the Fund.* In spite of the quota increases, the liquidity position of the Fund has gradually weakened. The Fund is now in a situation in which it is dependent on borrowed funds, and this will be the case for many years to come. The reason is partly that the payments surpluses are concentrated on a few countries with small quotas. On the other hand, deficits are being incurred by many countries, including several with relatively large quotas. The liquidity of the Fund depends on whether the currencies of countries with large quotas can be used for lending. The deterioration in the Fund's liquidity is also related to the greater access to many of the loan facilities of the Fund.

*People's Republic of China new member of the Fund.* The Executive Board of the IMF decided in April 1980 that the People's Republic of China instead of Taiwan shall represent China in the Fund.

*Fund transactions in 1980.* Members' purchases under all facilities (excluding the reserve tranche but including loans under the Trust Fund) amounted to SDR 4.6 billion in 1980, against SDR 2.2 billion in 1979. Repurchases totalled SDR 3.3 billion in 1980, against SDR 4.2 billion in 1979. While in 1978 and 1979 repurchases exceeded drawings by SDR 2.9 billion and SDR 2.0 billion, respectively, drawings thus exceeded repurchases by SDR 1.3 billion in 1980.

The large repurchases in recent years are related to the large drawings made in the period 1974–1977, when industrial countries drew substantial amounts. In the last two years, all drawings were made by non-oil-producing developing countries. As a result of the new facilities, access to the Fund's resources has been widened. While ordinary drawings have traditionally been limited to 100 per cent of a member's quota, it is now possible to draw up to 600 per cent of quota. This has been reflected in a substantial rise in loan commitments. Commitments by the Fund in 1980 amounted to SDR 7.2 billion, all of them to non-oil developing countries, compared with SDR 2.2 billion in 1979. Of the total commitments at the end of 1980, SDR 6.3 billion was in undrawn balances.

On the drawings made under the oil facility, which was financed by loans from a number of members, SDR 0.9 billion was repaid in 1980. Of this, some SDR 15 million was repaid to Norges Bank, after which some SDR 51 million of the original SDR 100 million loan remained outstanding.

Norway's reserve position in the IMF rose by SDR 28 million in 1980, from SDR 122.1 million to SDR 150.1 million. The increase was due to the payment of SDR 36.9 million (25 per cent of the quota increase), while transactions with the Fund reduced the reserve position by SDR 8.9 million. Further information on Norges Bank's transactions with the Fund is provided under the comments on Norges Bank's accounts.

*Norway's and the Nordic countries' representatives on the governing bodies of the Fund.* The Governor of Norges Bank, *Knut Getz Wold,* continues to represent Norway on the Board of Governors of the IMF, and the Alternate Governor is the previous Minister of Commerce, *Reiulf Steen* (on March 20, 1981, he was replaced by *Eivind Erichsen,* Secretary General at the Ministry of Finance). As from November 1, 1980, *Jon Sigurdsson,* Managing Director of the National Economic Institute of Iceland, has been the Executive Director for the Nordic countries. The Alternate Executive Director was *Gisli Bløndal,* Budget Director at the Ministry of Finance in Iceland, until March 1, 1981, when he was replaced by *Leiv Vidvei,* Assistant Director at Norges Bank.

The Nordic central banks take turns in being responsible for co-ordinating the instructions from the Nordic countries to the Executive Director for the Nordic countries. As from November 1, 1980, Norges Bank has had this task.

The Nordic countries' representative on the Interim Committee is the Prime Minister of Finland, *Mauno Koivisto,* and his alternate is *Dr. Johannes Nordal,* Governor of Sedlabanki Islands. The Nordic representative on the Development Committee is the Norwegian Minister of Finance, *Ulf Sand.*

The 1980 Annual Meeting of the Fund was held in Washington, D.C., September 30–October 3. The Danish Economics Minister, *Ivar Nørgaard,* spoke on behalf of the Nordic countries.

*Nordic monetary co-operation*

The Nordic Committee on Financial Questions, which includes representatives from the central banks and the central administrations of the five Nordic countries, held four meetings in 1980. The topics of discussion at these meetings refer to monetary matters of an intra-Nordic nature and to the Nordic countries' relationship with international organizations. The discussion of questions under study by the Executive Board of the IMF is of special importance.

The Nordic Senior Officials' Committee for Monetary and Financial Questions held one meeting in 1980. The composition of this committee is the same as that of the Nordic Committee on Financial Questions. At the meeting, a report was presented to the Nordic Council of Ministers, covering mainly the actions of the Nordic countries in 1980 with a view to limiting exchange rate fluctuations between Nordic currencies. The report was based on Recommendation No. 2, 1979, concerning monetary policy co-operation among the Nordic countries and was thus a follow-up of the report submitted by the Senior Officials' Committee on this question towards the end of 1979. The Committee also prepared the section on fiscal and monetary policy in the Nordic Council of Ministers' Annual Report for 1980.

The annual meeting of the Nordic central bank governors was held in Bodø on June 24–27, 1980. The main topic for discussion was the liquidity effect of exchange market interventions.

*Credit agreements with other central banks*

The arrangement among the Nordic central banks for mutual short-term foreign exchange assistance, which entered into force on February 1, 1976, has not yet been used.

Since 1967, Norges Bank has been participating in the swap arrangements set up by the Federal Reserve Bank of New York with 14 central banks and the Bank for International Settlements. Norges Bank participates with a sum of 250 million dollars. No drawing has as yet been made on Norges Bank. The agreement has been renewed for one year until December 4, 1981. At the end of 1980, the Federal Reserve had swap agreements under this arrangement for a total of some 30 billion dollars.

*Exchange regulation*

The Currency Control Act of July 14, 1950, with subsequent amendments, forms the basis for the exchange restrictions. Pursuant to this Act, the Ministry of Commerce has issued regulations dated July 29, 1955.

In principle, specific permission is required for all payments between Norway and foreign countries. Such permission may be granted in the form of general provisions or individual licences.

By way of its regulations, the Ministry of Commerce delegated much of the administrative authority to Norges Bank. As from January 1, 1981, the Foreign Exchange Department of the Ministry of Commerce was, however, transferred to the Ministry of Finance. Henceforth, appeals referring to licence applications are therefore to be decided by the Ministry of Finance. The transfer also entails that the issue of bond loans abroad by residents is to be regulated by the Ministry of Finance. The Ministry of Commerce will, as previously, be responsible for the regulation of payments for exports and imports of merchandise and ships, loans abroad in connection with ship imports, establishment of shipping activities abroad, as well as foreign participation in Norwegian shipping companies. All other foreign exchange transactions will, as previously, be regulated by Norges Bank.

In accordance with rules agreed on in the OECD, current payments – i.e., payments for imports and exports of merchandise – are largely liberalized. Norway has also accepted the OECD's Code of Liberalisation of Capital Movements, but has lodged reservations against some of the detailed liberalization obligations, as have most of the other member countries.

In the field of exchange regulation which is administered by Norges Bank, the Bank has issued general provisions specifying a series of transactions which may be carried out without specific prior approval. These primarily refer to payments for imports and exports of services, as well as the authorized banks' transactions for own account. For other transactions, comprising mainly the raising of loans, direct investments, portfolio investments and the granting of guarantees, individual licences are required. Each individual licence application is processed separately, partly on the basis of general criteria referring to the attainment of politico-economic targets, and partly on the basis of specific requirements stipulated by the authorities. The degree of scrutiny given to the applications varies both with the field of regulation and with the prevailing situation with regard to foreign exchange and monetary policy.

*Implementation of the exchange regulations in 1980*

The regulation of loans from abroad to the business sector apart from oil activities and shipping was somewhat more restrictive in 1980 than in 1979. In contrast to the preceding year, the companies' loan requests exceeded the ceiling stipulated for 1980. The demand for loan licences was especially heavy in the second half of the year with the result that licences for large loans were granted on the condition that drawings on the loans in 1980 should be limited. Moreover, some licence applications were refused.

Loans from abroad are usually denominated in foreign currency. The borrowers therefore assume an exchange rate risk, and many Norwegian companies have in recent years sustained heavy losses on their foreign currency loans. Companies which do not earn any income in the currency borrowed are especially vulnerable to such losses. The forward exchange market provides possibilities for hedging against the exchange rate risk on short-term foreign currency loans, but it is more difficult to obtain exchange rate cover for long-term foreign currency debt.

In recent years, it has to a limited extent been possible to raise krone loans abroad. Five bond loans denominated in Norwegian kroner and totalling nearly 500 million kroner were issued on the international capital market in 1979 and 1980. A number of questions arise in connection with such an internationalization of the krone, partly for reasons of the domestic credit policy, and the foreign exchange authorities therefore wish to retain control of the issue of krone loans and to ensure orderly market conditions. The foreign exchange authorities will follow a relatively restrictive line also with regard to the raising of Eurokrone loans from banks and bank syndicates abroad.

Following a strong upswing in direct investments abroad by Norwegian industrial enterprises in 1979, such investments declined to a more normal level in 1980. The increase in 1979 was attributable to some large industrial investments by Norwegian companies. The extent of foreign establishments in Norway remained approximately the same in 1980 as in 1979.

Non-residents showed growing interest in Norwegian shares following the increase in October 1979 from 50,000 kroner to 1 million kroner in the ceiling on non-residents' purchases of quoted Norwegian securities (except shares in Norsk Hydro and shipping shares). This was especially true immediately following the increase in the autumn of 1979 and in the beginning of 1980.

A more detailed account of Norges Bank's implementation of exchange regulations in 1980 is provided below.

*Loans from abroad.* The licensing of the business sector's borrowing abroad represents a credit policy instrument aimed at regulating domestic demand for goods and services. In this connection, special importance is attached to loans to sectors other than oil and shipping.

Each year, a figure for the total gross inflow of long-term loans to "other private sector and municipalities" is stipulated in the National Budget. After deduction of the amount of loans to be raised by local authorities and municipal enterprises, this figure provides a guideline for the licensing of loans from abroad to private and public enterprises.

In the first half of 1980, the demand from the business sector, apart from oil and shipping companies, for licences for the raising of loans abroad was relatively moderate, and the applications were processed in accordance with the relatively liberal guidelines followed in 1979. However, a more restrictive stance had to be taken in the second half of 1980 because of a heavier demand for loan licences primarily in connection with some companies' need to strengthen their liquidity position in the face of the weakening of the market for some export products which are vulnerable to cyclical changes. The figure for total long-term loans abroad to the above-mentioned sector in 1980 was stipulated at some 2.1 billion kroner, or about 200 million kroner less than the corresponding figure for 1979. Since some larger borrowers were required to draw only limited amounts on their foreign loans in 1980 and some low-priority applications were refused, the inflow of external loans was kept within the stipulated ceiling, thus contributing to an underpinning of credit policy as presupposed in the National Budget. The applications which were refused referred mainly to loans for the financing of office and commercial buildings and loans for conversion of domestic loans.

Most of the foreign loans to the business sector are raised through banks and finance institutions abroad. Last year, however, licensed foreign currency loans by Norwegian banks to their Norwegian customers increased strongly. The total of such loans thus rose by some 2.4 billion kroner in 1980, to some 3.3 billion kroner. (The figures include loans to the oil and shipping sectors.) A substantial part of the increase refers to short-term loans. Following an amendment to the Monetary and Credit Policy Act in the summer of 1978, licensed foreign currency loans from Norwegian banks to residents and non-residents are exempt from the reserve requirement and the bond-investment obligation.

Industrial and commercial enterprises, except oil and shipping companies, requested permission to raise loans abroad for a total of some 9.3 billion kroner in 1980, against 5.6 billion kroner in 1979. Applications referring to loans totalling 264 million kroner were refused in 1980, compared with 161 million kroner in 1979. Licences were granted for long-term loans amounting to 3.5 billion kroner, of which about one-half referred to the financing of industrial investments. This amount substantially exceeded the figure of 2.1 billion kroner stipulated for long-term borrowing abroad by the above-mentioned sector in 1980. Drawings on some of the larger loans were, however, to be spaced out over a period of several years, and some of the loans were to be used for the financing of activities abroad. Licences for new short-term loans and for renewals of existing loan agreements amounted to some 5.6 billion kroner, or 2 billion kroner more than in 1979. The increase was partly attributable to a greater need for short-term liquidity loans abroad. The amount licensed in 1980 was also affected by some large ship-building loans. Such loans are often so large that the shipyards are compelled to turn to the international capital markets.

As in the preceding years, applications for the raising of loans abroad for the financing of investments in the North Sea oil sector were freely granted. Such investments are so capital-intensive that the companies have to seek finance on foreign capital markets. Licences granted in 1980 for loans to the oil sector amounted to 5.4 billion kroner, or 1.1 billion kroner less than in 1979. The need for long-term loans abroad was smaller in 1980 than in 1979, while investments in crude oil and natural gas production remained approximately unchanged between 1979 and 1980.

*Table 14. Applications for Loan Licences from Industrial and Commercial Enterprises and the Oil Sector – Loans from abroad*

| | Applications | | Refusals | | Approvals | | Of which | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | New loans | | Renewals | |
| | Million kroner | Number | Million kroner | Number | Million kroner | Number | Million kroner | Number | Million kroner | Number |
| 1979 | 12,192.9 | 350 | 236.8 | 33 | 11,956.1 | 317 | 8,757.9 | 268 | 3,198.2 | 49 |
| 1980 | 14,704.9 | 394 | 264.1 | 35 | 14,440.8 | 359 | 10,120.6 | 315 | 4,320.2 | 44 |

Table 14 provides a survey of applications received from industrial and commercial enterprises and oil companies for permission to raise loans abroad in 1980 as well as licences granted and refused.

*Loans to abroad.* In 1980, licences were granted for loans to abroad totalling 3.1 billion kroner, or 1.5 billion kroner more than in 1979. The increase was primarily attributable to export credits and loans to Norwegian companies' foreign subsidiaries.

The volume of loans granted by Norwegian banks to non-residents against licences was also somewhat greater in 1980 than in 1979. As mentioned above, such loans are exempt from the bond-investment obligation and reserve requirements. In 1980, these loans increased by some 280 million kroner, to 470 million kroner, while in 1979 the increase was 90 million kroner. Yet again in 1980, Norges Bank followed a liberal line with regard to giving the banks permission to grant foreign currency loans to non-residents.

Table 15 provides further details on the licensing of loans to abroad.

*Guarantees.* As in previous years, Norges Bank pursued a liberal policy with regard to guarantees, except in the case of guarantees from foreign companies for their subsidiaries' loans in Norway. The reason for this exception was primarily to avoid giving foreign-owned enterprises in Norway an advantage when competing with Norwegian companies for loans from Norwegian finance institutions at a comparatively low interest rate. Following the recent relaxation of Norwegian interest rate policy, this argument has become less valid. All requests referring to guarantees will therefore be liberally treated in 1981.

Licences for inward guarantees totalling nearly 1.3 billion kroner were granted in 1980, approximately the same as in 1979. Licences for outward guarantees amounted to 3.4 billion kroner, against 2.3 billion kroner in 1979.

Most of the nine licence applications

*Table 15. Applications for Loan Licences from Industrial and Commercial Enterprises and the Oil Sector – Loans to Abroad*

| | Applications | | Refusals | | Approvals | | Of which | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | New loans | | Renewals | |
| | Million kroner | Number | Million kroner | Number | Million kroner | Number | Million kroner | Number | Million kroner | Number |
| 1979 | 1,609.7 | 157 | 6.0 | 2 | 1,603.7 | 155 | 1,569.4 | 145 | 34.3 | 10 |
| 1980 | 3,132.0 | 215 | – | – | 3,132.0 | 215 | 2,556.0 | 204 | 576.0 | 11 |

*Table 16. Applications from Industrial and Commercial Enterprises and the Oil Sector for Permission to Grant or Receive Guarantees*

| | Applications | | Refusals | | Approvals | | Of which: | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | New guarantees | | Renewals | |
| | Million kroner | Number | Million kroner | Number | Million kroner | Number | Million kroner | Number | Million kroner | Number |
| *Guarantees from abroad* | | | | | | | | | | |
| 1979 | 1,362.5 | 287 | 44.3 | 14 | 1,318.2 | 273 | 802.7 | 114 | 515.5 | 159 |
| 1980 | 1,319.0 | 338 | 21.5 | 9 | 1,297.5 | 329 | 1,036.0 | 166 | 261.5 | 163 |
| *Guarantees to abroad* | | | | | | | | | | |
| 1979 | 2,343.0 | 414 | – | – | 2,343.0 | 414 | 1,834.7 | 252 | 508.3 | 162 |
| 1980 | 3,415.9 | 396 | – | – | 3,415.9 | 396 | 2,331.8 | 242 | 1,084.1 | 154 |

which were refused referred to guarantees from foreign companies for their subsidiaries' loans in Norway.

A survey of the licence applications and the result of their processing is provided in Table 16.

*Direct investments.* In many cases, foreign companies wishing to set up businesses in Norway must obtain concessions. When permission has been granted under the Concession Act or other legislation, a foreign exchange licence is issued almost automatically. When concession is not required, foreign exchange licences are usually granted in accordance with our obligations under the OECD rules.

According to the OECD rules, permission may be withheld if the investment can be expected to have exceptionally detrimental effects on the interests of Norway. No licence application referring to direct inward investment was refused in 1980.

Non-residents were in 1980 granted permission to make direct investments in business activities in Norway for a total of 302 million kroner. This does not include shipping companies, for which the licensing is administered by the Ministry of Commerce. The figure for 1979 was 376 million kroner. Most of the licences granted in 1980 referred to increases in the share capital of existing commercial companies or to the establishment of new ones. One-third of the amount was accounted for by Swedish investments.

Requests from Norwegian enterprises for permission to set up distribution companies or production units abroad are liberally treated, but as a condition for the granting of a licence Norges Bank stipulates that the profit on the investment is to be repatriated to Norway so that the accumulation of funds abroad is limited to what is required for the pursuit of business. The investor is also required to provide whatever information the foreign exchange authorities consider necessary for control purposes. In order to facilitate the control tasks, Norges Bank may make stipulations as to the organizational set-up or type of company to be used for foreign establishments.

Following an upsurge in direct investments abroad by Norwegian companies in 1979, the volume of such investments declined to a more normal level in 1980, when Norges Bank issued licences for an aggregate amount of 679 million kroner, against 1,286 million kroner in 1979 when some exceptionally large industrial investments were made by Norwegian companies. Investments in shipping companies are not included since the control of such invest-

*Table 17. Foreign Exchange Licences Granted by Norges Bank for Direct Investments in Stocks and Shares (shipping companies not included)*

| | Foreign investments in Norway | | | | Norwegian investments abroad | | | |
|---|---|---|---|---|---|---|---|---|
| | 1979 | | 1980 | | 1979 | | 1980 | |
| | Number of licences | Amount, million kroner | Number of licences | Amount, million kroner | Number of licences | Amount, million kroner | Number of licences | Amount, million kroner |
| Manufacturing | 30 | 123 | 47 | 61 | 60 | 1,095 | 57 | 404 |
| Commerce | 170 | 230 | 201 | 199 | 122 | 47 | 123 | 44 |
| Oil activity | 6 | 6 | 5 | 7 | 6 | 6 | 12 | 54 |
| Service industries | 37 | 17 | 52 | 35 | 56 | 138 | 80 | 177 |
| Total | 243 | 376 | 305 | 302 | 244 | 1,286 | 272 | 679 |

ments is administered by the Ministry of Commerce. The greatest number of licences referred to commercial companies, while in money terms investments in production activity predominated. Nearly one-third of the amount licensed in 1980 referred to investments in the United States. No licence application for direct investment abroad was refused in 1980.

Licences granted for inward and outward direct investments distributed by sector and by main countries are shown in Tables 17 and 18.

*Portfolio investments.* Residents are as a rule not permitted to hold deposits in finance institutions abroad or to purchase foreign securities for purely financial reasons. The exception is security purchases on the switch market. This market is in principle limited to the volume of quoted foreign securities in the hands of residents prior to October 1, 1966, estimated at some 600–800 million kroner. Trade in such foreign securities takes place in "security dollars", the exchange rate for which is affected both by the ordinary exchange rate quotation for the dollar and by the interest among residents for investments in foreign securities. The "security dollar" is usually at a premium relative to the ordinary dollar rate, a high premium reflecting

*Table 18. Foreign Exchange Licences Granted by Norges Bank for Direct Investments, by Main Countries (shipping companies excluded)*

| | Foreign investments in Norway | | | | Norwegian investments abroad | | | |
|---|---|---|---|---|---|---|---|---|
| | 1979 | | 1980 | | 1979 | | 1980 | |
| | Number of licences | Amount, million kroner | Number of licences | Amount, million kroner | Number of licences | Amount, million kroner | Number of licences | Amount, million kroner |
| Denmark | 39 | 25 | 33 | 19 | 11 | 29 | 17 | 5 |
| United Kingdom | 11 | 8 | 32 | 33 | 39 | 149 | 34 | 35 |
| Switzerland | 14 | 20 | 24 | 14 | 10 | 6 | 7 | 1 |
| Sweden | 89 | 101 | 116 | 106 | 57 | 23 | 49 | 27 |
| United States | 25 | 82 | 24 | 29 | 37 | 105 | 49 | 213 |
| Fed.Rep. of Germany | 21 | 19 | 15 | 6 | 15 | 3 | 11 | 9 |
| Other countries | 44 | 121 | 61 | 95 | 75 | 971 | 105 | 389 |
| Total | 243 | 376 | 305 | 302 | 244 | 1,286 | 272 | 679 |

a strong demand for foreign securities relative to the volume of the switch market. In 1980 the premium was low and averaged 3.5 per cent. By the end of January 1981 it had declined to 0.6 per cent.

Subsequent to the increase in October 1979 from 50,000 kroner to 1 million kroner per buyer in the ceiling on non-residents' purchases of quoted Norwegian securities (apart from shares in Norsk Hydro and shipping shares), non-residents were showing increasing interest in buying Norwegian securities. The interest was mainly concentrated on quoted Norwegian shares, and the decision about the increase in the ceiling was a main factor behind the rise in a series of share prices on the Oslo Stock Exchange in 1980. Industrial shares were in the greatest demand, but non-residents also showed quite marked interest in some insurance shares. Norges Bank granted licences for the sale to non-residents of Norwegian securities (apart from shares in Norsk Hydro and shipping shares) totalling 200 million kroner in 1980, against only 19.5 million kroner in 1979. The figure for 1980 was thus more than ten times that for 1979.

Sales to non-residents of other types of Norwegian securities are regulated restrictively and are usually not permitted.

*Purchase of vacation homes abroad.* On October 1, 1979, the Ministry of Commerce raised the maximum amount for which private residents may purchase vacation homes abroad from 150,000 kroner to 250,000 kroner per household.

In 1980, Norges Bank granted licences for a total amount of 50.4 million kroner for the purchase of recreational property abroad. This was 13.6 million kroner more than in 1979. Of the licensed amount, 28.1 million kroner, or over half, referred to property in Spain. A survey of the licences granted for the purchase of vacation homes is shown in Table 19.

*Table 19. Foreign Exchange Licences Granted for Acquisition of Vacation Homes Abroad*

| | Private individuals | | Companies, etc. | |
|---|---|---|---|---|
| | Number of licences | Amount, million kroner | Number of licences | Amount, million kroner |
| 1971 | 344 | 16.4 | 17 | 1.8 |
| 1972 | 332 | 18.6 | 21 | 3.2 |
| 1973 | 340 | 17.4 | 16 | 2.8 |
| 1974 | 306 | 20.3 | 15 | 3.1 |
| 1975 | 154 | 9.4 | 10 | 1.2 |
| 1976 | 139 | 10.2 | 3 | 0.8 |
| 1977 | 194 | 20.6 | 7 | 1.2 |
| 1978 | 190 | 22.9 | 5 | 0.8 |
| 1979 | 259 | 34.1 | 9 | 2.7 |
| 1980 | 252 | 45.4 | 10 | 5.0 |

*Foreign currency accounts.* Business enterprises having income as well as expenses in foreign currency may open foreign exchange accounts with their Norwegian banks without prior consent from Norges Bank. The opening of foreign exchange accounts with foreign banks is subject to approval by Norges Bank, except in the case of shipping companies, insurance companies and stock-brokers. Deposits on foreign exchange accounts shall not have a period of notice longer than 30 days.

In May 1979, business enterprises were given permission – on application – to invest parts of their foreign exchange assets on longer terms: as bank deposits for up to twelve months and in foreign securities quoted on a recognized stock exchange and having a residual period to maturity of up to twelve months. The purpose behind this relaxation was to make it possible for the companies to obtain a higher yield on their foreign exchange holdings. Up to now, permission has been granted to 42 companies, including 30 shipping companies, involving a total amount of 2.8 billion kroner. The companies involved have for the most part placed their foreign exchange holdings as time deposits with Norwegian and foreign banks. Hardly any interest has been shown in investment in short-term foreign bonds.

*Foreign exchange operations with foreign banks.* With effect from autumn 1979 it was decided that purchases and sales (spot as well as forward) by residents of foreign currencies against kroner should henceforth take place through a Norwegian authorized bank unless special permission is otherwise granted. Since that date, about 60 Norwegian companies, half of them shipping companies, have received permission to purchase and sell foreign currencies against kroner through foreign banks. Experience shows that the problems of exchange control arising from the increased number of customer transactions in kroner with foreign countries have been managable. However, the impression remaining is that relatively long forward deals with foreign banks have engendered a growing interest in longer term Eurokrone credits abroad.

*Regulation of the banks' foreign exchange activities.* Since November 1, 1978, the ten major authorized banks have, under a trial arrangement, been required to keep their total foreign exchange positions within stipulated margins, which entails that each day they must ensure that their forward and spot positions in foreign currency are in approximate balance. An important aim of this scheme has been to bring about a more market-oriented regulation system, under which the borrowing abroad by the individual bank to a greater extent than previously is determined by the price mechanism. Not least in order to ensure that the forward exchange market is functioning properly, the individual bank must have relatively free access to raising loans abroad.

The trial arrangement was in force until March 31, 1980. Since Norges Bank had found that the scheme had fulfilled its purpose, it decided, pursuant to the Currency Control Act, to replace the previous rules regarding the banks' loans and deposits from abroad with regulation of the banks' total foreign exchange positions. The new rules were put into force on April 1, 1980, and apply to all authorized banks.

## *Exchange control*

A general description of the exchange control regulations and the guidelines for surveillance has been provided in previous annual reports.

The routine, first-hand control of the majority of foreign exchange transactions is carried out in the authorized banks. Norges Bank subsequently makes spot checks on the basis of the reports submitted by the banks, which also form the basis for the statistical processing of the data.

Norges Bank is, however, considering changes in the way in which residents report and document their payments to and from abroad. The alternative provisionally focussed on is an arrangement under which residents making or receiving payment for liberalized transactions are responsible for providing all relevant information to their bank, or Norges Bank, in a standardized and precoded form which is machine-readable for further statistical processing.

In co-operation with a selection of major companies and one authorized bank, this arrangement has been put into effect for a trial period lasting at least until the end of the first quarter of 1981. On the basis of the experience gained, it will be decided whether the arrangement can be adopted for general and permanent use.

The adoption of this arrangement on a permanent basis presupposes some form of co-operation on the part of the auditors of the individual companies who will have to verify that payments to and from abroad are in accordance with the exchange control regulations at any time in force. The control of non-liberalized transactions is carried out in the same way as previously.

The arrangement now being tried out will, if it functions as intended, be very labour-saving when compared with the control tasks now carried out by the exchange control division.

## Means of Payment and Payments System

Being the issuer of notes and coin, the bankers' bank, and banker to the Government, Norges Bank plays a key role in the payments system. In addition, Norges Bank offers payments services to its customers, which are mainly public institutions, in the same way as other banks.

*Notes and coin*

The volume of notes and coin in circulation increased in 1980 by 1,194 million kroner to 19,814 million kroner, or by 6.2 per cent, compared with 4.7 per cent in 1979.

Notes and coin are distributed by Norges Bank's Head Office and its 20 branches. The greater part goes to the public via the Postal Service. The reason for this is that old-age pensions and other social security benefits, as well as tax refunds, are paid out in cash over the Postal Giro. The Postal Service also takes care of banknote deliveries to banks which are situated some distance from a branch of Norges Bank. When the notes are worn, or the banks and post offices have excess holdings, the notes are returned to Norges Bank. The bulk of this note return comes from the banks. In 1980, banks and post offices returned 231 million banknotes worth a total of 23.5 billion kroner – 2.7 per cent and 5.4 per cent, respectively, more than in 1979. Of the total number of notes returned to Norges Bank, 47.5 per cent were cancelled. Of the 10-krone notes, 90.3 per cent were cancelled.

Appendix table 8 shows the denominations of notes in circulation in 1980 compared with previous years. The average life of the various denominations of notes is shown in Appendix table 10. The life-span of the notes has been calculated by dividing the number of notes in circulation at the start of the year by the number of notes cancelled in the course of the year. This method produces too high figures for the life-span in periods when the note circulation is growing, a factor which especially affects the figures for the higher denominations of notes. A study carried out in 1977 indicates an average life-span of some seven years for 1,000-krone notes, of about six years for 500-krone notes, and of about three years for 100-krone notes. Appendix table 11 shows how many notes of each denomination were produced in 1980 compared with the corresponding figures for previous years.

Fully automatic note-sorting equipment was installed at Norges Bank's Head Office at the turn of the year 1980/81. Preparatory to this step, the notes were as from 1979 no longer arranged in layers, but rather in bundles of 100 notes each, with all notes facing the same way.

The new note-sorting machine counts and sorts the notes while at the same time controlling that the notes are genuine. The machine gathers and wraps the good notes in bundles of 100 notes, while worn notes can either be shunted to a special pocket for subsequent cancellation or destroyed directly. In the latter case, the notes are shredded into 1.6 mm strips. For the time being, only 100-krone notes are sorted by the machine. It can, however, be reprogrammed to sort other denominations.

Appendix table 12 shows the production of coin in 1980 distributed by the various denominations and compared with the corresponding figures for previous years.

All coins produced in the second half of 1980 were marked with a small asterisk after the sign "AB" to signify the appointment of a new director of the Royal Mint in 1980. Mint Director *Arne Bakken* retired on June 30, and was replaced by *Ole-Robert Kolberg* as from July 1, 1980.

In 1980, a 200-krone commemorative

silver coin (625/1000) was minted on the occasion of the 35th anniversary of Liberation Day, May 8, 1945. The obverse shows the Norwegian lion with axe and below – to the left – covering three lines: "Norges Frigjøring 8. mai 1945". The reverse shows Akershus Castle viewed from the sea, with the initials – ØH – of the Chief Engraver, *Øivind Hansen,* inserted in the lower part to the right. Below is found the text "200 kroner", below which "1980" is centred between the initials of the Mint Director, "AB", and the insignia of the Royal Mint – crossed pick and hammer. A total of 300,000 coins were produced, and by the turn of the year some 235,000 had been sold.

Changes in the coin series have been under consideration since 1977, when the Board of Directors decided in principle that a 10-krone coin was to be issued and that the 5-øre and 25-øre coins were to be discontinued as soon as possible. It was taken for granted that the 10-krone note would circulate side by side with the 10-krone coin in a transitional period. Progress has been somewhat slow for various reasons, one being that the question has been submitted to the Price Directorate and to the Ministry of Consumer Affairs and Government Administration. Information has also been obtained from other countries on their experiences regarding banknote and coin series. The Board of Directors has now come to a final decision in this matter and will report to the Ministry of Finance, so that the Ministry may possibly submit the necessary Bill during the second half of 1981.

A new feature in the distribution of cash to the public is the introduction of cash automats. The savings banks and Fellesbanken (the Union Bank of Norway) have now installed about 200 cash automats, or mini-banks. The commercial banks will start installing their cash automats in spring 1981 and plan to install about 100 such automats by April 1982. The two systems will be co-ordinated as from spring 1982 so that a commercial or savings bank client who is entitled to make withdrawals will be able to do so in any of the 300 automats by then in existence.

*Cheque clearing*

A total of some 77 million cheque transactions were carried out in 1980, i.e., about 2 per cent more than in 1979.

The major part of the clearing of cheques in Norway now takes place at the data processing centre IDA and at Fellesbanken (see Annual Report for 1978, page 93). In 1980, 41.7 million cheques were cleared through the IDA in Oslo (as against 40.4 million in 1979) and 8 million in Bergen (7.8 million in 1979). Fellesbanken cleared 20.5 million cheques in 1980, compared with 18.6 million in 1979. For the IDA this represents an increase of 3 per cent and for Fellesbanken 10 per cent.

Norges Bank's Head Office received some 1.9 million cheques in 1980, against some 2.0 million in 1979. Most of these cheques were sent to the IDA for clearing. In addition, all Norges Bank's branches submitted cheques for clearing to the IDA. Norges Bank receives cheques from various public bodies, primarily the Postal Service.

At present, the daily cheque clearing in Norges Bank by transfers to and from the individual banks' current accounts with Norges Bank comprises primarily cheques for large amounts and cheques, money orders, etc., which are not provided with magnetic coding. The turnover at Oslo Bankers' Clearing House (i.e., cheques cleared at Norges Bank) amounted to 111.8 billion kroner in 1980, compared with 93.8 billion kroner in 1979. The increase was primarily due to cheques received from the Postal Giro in connection with the banks' regulation of their postal giro accounts.

*Settlement over bank giro*

The bank giro system in Norway is based on electronic data processing and machine-readable coding on the bank giro forms and is handled by the banks' payments centre (Bankenes Betalingssentral – BBS) in Oslo. The number of transactions in 1980 was some 55 million, or about 16 per cent more than in 1979. The amount involved was 314 billion kroner, an increase of some 28 per cent on the previous year. Most account holders in Norges Bank are now using machine-readable bank giro forms. Some public institutions have also introduced direct transfers of wages and salaries via the BBS, and Norges Bank's Head Office is using this system for the payment of interest and redemption on land purchase bonds. Data from the BBS is received on magnetic tape, which can be fed straight into the computerized accounting system. The number of giro transfers from Norges Bank via the BBS in 1980 was about 284,500, and involved a total amount of some 16.5 billion kroner. In 1979 the number was 255,000 and the amount was some 13.5 billion kroner.

*Postal Giro*

The postal giro is one of the most important elements in the payments transmission system. Transactions in 1980 numbered some 112 million – 4 per cent more than in 1979. The turnover amounted to about 1,072 billion kroner – about 13 per cent more than in the previous year.

Norges Bank receives postal giro orders from customers and processes them according to rules stipulated by the Postal Service.

*Report of the Commission on the Payments System*

The report of the Commission on the Payments System, submitted in May 1979, is still being considered by the Ministry of Finance. In the National Budget for 1981 it was stated that the Ministry would return to the questions raised in the Commission's report either in a separate White Paper or in the White Paper on the Revised National Budget for 1981.

In recent years, there has been a strong growth in payment and credit card systems. The Commission on the Payments System proposed that operators of credit card systems should be required to obtain concessions. The Ministry of Finance has taken the matter up with the Inspectorate of Banks, and draft regulations for financial enterprises which issue credit cards have been submitted to the appropriate bodies for comment. Such regulations will in the event be stipulated pursuant to Section 17 of the Act on Financing Activity. A clarification of this question is expected in the spring of 1981.

*International payments transfers – SWIFT*

According to the latest reports from SWIFT, the total number of major banks connected to the payments system has now reached 750. The founder members were largely banks in Western Europe and North America. Membership continues to grow, and active participation is expected from banks in Japan and several countries in South America.

In December 1980, the system handled about 227,000 messages per day – some 57,000 more than one year previously. The capacity continues to stand at about 400,000. On average, Norwegian banks sent a total of some 6,500 messages per day.

Norges Bank made increasing use of SWIFT in 1980, and the Foreign Exchange Department is currently engaged in further developing its SWIFT apparatus with a view to a more sophisticated use of the potential offered by the system.

At present the SWIFT system is administered from three operations centres, viz., in Amsterdam, in Brussels, and in Virginia, U.S.A.

## Other Activities

*Norges Bank's loans direct to industry*

*Government-guaranteed loans to fisheries.* By the Storting's decision of June 1, 1978, the Government's guarantee for Norges Bank's loans for the processing and marketing of fish was set at 200 million kroner for the four-year period January 1, 1979 to December 31, 1982. Eight of Norges Bank's branches granted loans under this arrangement in 1980. These branches were given a total quota of 183.5 million kroner for 1980, up from 172.6 million kroner in 1979. Loans granted rose by 2.9 million kroner in 1980 and totalled 169.4 million kroner at the end of the year.

The monthly average of loans utilized was 119 million kroner in 1980, compared with 102 million kroner in 1979 – i.e., an increase of 17 per cent.

The industry distribution of such government-guaranteed loans granted as at the end of 1979 and 1980 was as follows (million kroner):

| | 1979 | 1980 |
|---|---|---|
| Freezing plants | 106.1 | 111.6 |
| Fish buyers | 22.4 | 26.7 |
| Fishery co-operatives | 20.8 | 14.5 |
| Marketing societies | 16.5 | 16.5 |
| Fishermen | 0.7 | 0.0 |
| Total | 166.5 | 169.3 |

*Other loans direct to the trade and industry sector* are in principle kept at a minimum. When applications for loans direct from Norges Bank are being processed, the possibilities for finance to be provided by the private banks are taken into account. At the end of 1980, loans granted amounted to 98.3 million kroner. In the course of two years, such loan commitments have been reduced by 138.7 million kroner.

The monthly average of the amounts utilized was 76 million kroner in 1980, or 27 million kroner lower than in 1979. The average utilization ratio was 68.1 per cent in 1980, against 52.8 per cent in 1979.

*Norges Bank's administration of extraordinary credit arrangements for the fishing industry, for which the funds have been appropriated over the government budget*

*Loans to freezing plants and/or their sales organizations for the financing of losses incurred on the sale from stocks of block-frozen, skinless fillets of cod and haddock on hand on April 24, 1967.* This financing arrangement had a loan limit of 12 million kroner and was fully utilized. The arrangement was originally assumed to be liquidated over 15 years. The first three years were free of interest and redemption payments. Because of liquidity difficulties in the fishing industry, moratoria on interest and redemption payments have repeatedly been granted. The final liquidation has thus been postponed until 1985. In the course of 1980, slightly less than 1 million kroner was repaid on these loans, so that the Government's claim as at December 31, 1980, amounted to some 4.2 million kroner.

*Extraordinary credit to the cod fisheries in 1975.* This credit arrangement was established in the first quarter of 1975 with a loan limit of 50 million kroner in order to help producers faced with liquidity and credit problems to continue to take in and process a reasonable quantity of codfish. The credits were granted in the form of interest-free loans against promissory notes for a maximum period of one year. For loans not repaid at maturity, interest has been charged at a rate of 7 per cent per annum.

The 50 million kroner appropriation was used in full for 198 loans against promissory notes. By the end of 1980, 196 loans had been repaid. On the two loans not settled at the end of 1980, an amount of 750,000 kroner remained outstanding. This credit arrangement is expected to be liquidated in the course of 1981.

*Extraordinary credit to the stockfish industry in 1977.* Because of the decline in stockfish exports to Nigeria, the Storting appropriated 150 million kroner for liquidity loans to the stockfish industry on June 10, 1977. Of these funds, 20 million kroner was available for interest-free loans, while the remainder was available for loans carrying interest at 7 per cent per annum. The credit arrangement which was originally to remain in force until December 31,1977, had to be extended to the end of 1979 because of the persistent, difficult marketing conditions for stockfish.

Under this credit arrangement for the stockfish industry, 171 loans for a total of some 135 million kroner were granted, of which 51 loans were interest-free. At the end of 1980, some 9.2 million kroner remained outstanding on eleven loans. Three borrowers have gone into bankruptcy, and the remainder are in a very weak financial position.

*Norges Bank's administration of the extraordinary guarantee arrangement of December 8, 1976, for stockfish exporters.* Within a ceiling of 50 million kroner, Norges Bank was authorized to provide guarantees on behalf of the Government for loans from the banks for the financing of stockfish exporters' purchases of stockfish.

The guarantee arrangement was established because of the halt in stockfish exports to Nigeria in the summer of 1976 and covered stockfish purchases made before July 5, 1976. Guarantees were provided in the form of simple sureties and were limited to 40 per cent of the amount of purchase. The guarantee arrangement was originally to remain in force until October 31, 1977, but it has been extended three times, most recently up to July 30, 1979.

Originally, 22 guarantees were provided, involving a total liability on the part of the Government of almost 33 million kroner. By the end of 1979, 21 guarantees for a total amount of 26.4 million kroner had been terminated.

On December 31, 1980, the Government's guarantee liability amounted to 6.2 million kroner. This guarantee refers to a loan granted to a company which has gone into bankruptcy. The arrangement is expected to be fully wound up in 1981.

*Co-operation with the Regional Development Fund*

The work done for the Regional Development Fund by Norges Bank continues to centre on general scrutiny of companies and routine accounts analyses. Co-operation in 1980 followed the same guidelines as in the two previous years.

Table 20 shows the number of reports and routine accounts analyses done in 1979 and 1980. The table shows a fall in the number of reports and an increase in the number of routine accounts analyses between 1979 and 1980. In all there was a slight reduction in the volume of work done by the Bank for the Fund.

– *General scrutiny of companies* is usually undertaken in connection with visits to the companies, and the reports are sent both to the company and to the Fund. The reports contain an analysis of the trend so far as well as prognoses for future operations and estimates re-

*Table 20. Assignments Carried Out for the Regional Development Fund in 1979 and 1980*

| Norges Bank's branch | Reports submitted | | Routine accounts analyses | |
|---|---|---|---|---|
| | 1979 | 1980 | 1979 | 1980 |
| Arendal | 15 | 4 | – | – |
| Bergen | 65 | 45 | 92 | 104 |
| Bodø | 16 | 36 | 401 | 308 |
| Drammen | 16 | 19 | 251 | 280 |
| Gjøvik | 6 | 4 | 11 | 31 |
| Hamar | 15 | 8 | 268 | 333 |
| Hammerfest | 12 | 11 | – | – |
| Haugesund | 7 | 9 | 34 | 42 |
| Kristiansand S | 28 | 28 | 69 | 98 |
| Kristiansund N | 24 | 29 | 351 | 359 |
| Lillehammer | 12 | 5 | 402 | 498 |
| Skien | 33 | 30 | 187 | 232 |
| Stavanger | 13 | 14 | 115 | 140 |
| Tromsø | 26 | 20 | 217 | 282 |
| Trondheim | 27 | 23 | 514 | 502 |
| Vardø | 26 | 19 | 13 | 89 |
| Ålesund | 10 | 11 | 254 | 314 |
| Head Office | 3 | – | – | – |
| Total | 354 | 315 | 3,179 | 3,612 |

garding capital requirements and financing possibilities for the coming years. As part of this work, professional assistance is at times provided in connection with accounting systems and budget routines.

– *Routine accounts analyses* are based on balance sheets and profit-and-loss accounts submitted. As a rule, the company's financial position is also briefly commented on.

Some of Norges Bank's branches also compile accounting statistics for comparative analyses of companies belonging to the same sector. In 1980 such statistics were prepared for hotels and boarding houses in four counties, for ski lifts and ski tows in two counties, and for camping sites, woodworking enterprises, engineering enterprises and bakeries in one county.

In the last few years, the Fund and Norges Bank have arranged brief seminars for business managers, during which the Bank has presented simple methods for drawing up budgets and estimating capital requirements in order to motivate the companies to employ budgeting routines in their day-to-day operations. Following the seminars, the participant companies are offered assistance by the Bank in adapting and implementing the methods. These measures are intended as help towards self-help, enabling the company to do the work on its own. In 1980, two seminars of this kind were arranged with, in all, 57 participants.

Changes in the organizational set-up of the Regional Development Fund are currently under way, affecting also its guidance and surveillance functions. The cooperation with Norges Bank is also being reviewed in this connection.

### *The State Bank for Fishermen*

According to an agreement with the State Bank for Fishermen, Norges Bank's branch in Bodø has since 1952 acted as local office for the Fishermen's Bank. In addition to an inspector appointed by the State Bank for Fishermen, seven of Norges Bank's employees work for the Fishermen's Bank. Salaries and office expenses are covered by the State Bank for Fishermen.

The Bodø branch prepares all loan applications for the local board of the Fishermen's Bank, disburses loans and collects interest and redemption payments, and generally looks after the interests of the Fishermen's Bank in connection with loans granted in the region comprising Nord-Trøndelag and Nordland counties.

In 1980, 580 loan applications were submitted to the board, against 779 in 1979. Loans totalling 50.8 million kroner were granted, compared with 73.7 million kroner in 1979. On behalf of the State Bank for Fishermen, the branch office administered 1,794 outstanding loans at the end of 1980.

*Norges Bank's recommendations regarding the banking structure, etc.*

*Bank mergers and the establishment of branches.* Norges Bank is consulted in all matters relating to commercial bank mergers. Three merger applications were discussed in 1980. They referred to the mergers between

- Den norske Creditbank and Oplandsbanken
- Christiania Bank og Kreditkasse and Vestfoldbanken
- Bøndernes Bank and Telemarksbanken.

The Board of Directors found no reason for opposing the three mergers, seeing that a working party – set up by the Ministry of Finance and comprising representatives of the Ministry of Finance, the Bank Inspectorate and Norges Bank – in its report submitted in June 1980 and entitled "The Commercial Bank Structure in Eastern Norway" had recommended these three mergers.

The Board of Directors of Norges Bank also gives advice in connection with applications from commercial banks for permission to set up branches outside their home municipality. The respective branches of Norges Bank present their views before the matters are dealt with by the Board of Directors.

The Board of Directors comments on saving bank mergers only when requested to do so by the Bank Inspectorate. In 1980, Norges Bank's opinion was not sought in any cases of this nature.

In 1980, the savings banks were granted permission to establish six branches outside their respective home municipality in addition to three bank bus routes. The commercial banks were granted permission to establish 13 branches. The decisions were, with a few exceptions, in accordance with Norges Bank's recommendation.

*Increases in the share capital of commercial banks and the raising of subordinated loan stock.* Applications from commercial banks wishing to increase their share capital, as well as applications from commercial banks and savings banks wishing to raise subordinated loan stock, are submitted to the Board of Directors of Norges Bank. Before such an application is dealt with by the Board of Directors it is submitted to Norges Bank's branch in the district where the bank is situated.

Two commercial banks increased their share capital in 1980. The approved amounts – a total of 26 million kroner – and the issue prices – par and 120 per cent, respectively – were in accordance with Norges Bank's recommendations.

Six commercial banks raised subordinated loan stock in 1980. Of these, three banks raised a total of 26 million kroner on the domestic market, and three raised a total of 50 million dollars, or approximately 265 million kroner, abroad.

*Public appointment of members to the committees of representatives of larger financial enterprises.* According to Section 11, fourth paragraph, of the Act of June 11, 1976, on Financing Activity, the King shall appoint one-fourth of the members of the committee of representatives in enterprises with total assets of 100 million kroner or more.

The public appointment of members to the committee of representatives may not take place until the enterprise has received permission pursuant to Section 24, cf. Section 4, of the Act to engage in financing activity and until its by-laws have been approved.

In accordance with the practice previously pursued as regards the commercial banks, the Bank Inspectorate has asked Norges Bank to submit proposals for such appointments. The Ministry has to some extent acted on these proposals, but has also chosen other candidates.

In 1978 and 1979 appointments were initially made in altogether 18 enterprises, and in 1980 members were appointed to the committees of representatives in a further six enterprises, viz.:

> Norges Skibshypotekforening, Handelsfinans A/S, Fides A/S, A/S Custos Finans, Norsk Finans A/S and A/S Låneinstituttet for Skibsbyggeriene.

The term of office for publicly appointed members and deputy members in financial enterprises is two years. In six enterprises, the second round of appointments took place in 1980. The majority of the members and deputy members were reappointed, but some were replaced.

*Safe custody and trust*

According to Section 19b of the Norges Bank Act of April 23, 1892, the Bank is obliged, free of charge or public expense, to receive for safekeeping and administration securities and objects of value belonging to the State and to the public funds.

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

Up to January 1, 1981, holders of commercial bank shares were entitled to request the State to redeem their shares in accordance with the provisions of Act No. 60 of June 10, 1977, and Royal Decree of March 17, 1978.

The responsibility for implementing the redemption of bank shares by the State was assigned to Norges Bank, which entailed, inter alia, that Norges Bank made the stipulated redemption payments to the shareholders and held the shares for safekeeping and administration on behalf of the State.

By Royal Decree of March 23, 1978, a separate fund was established for the redemption and resale of bank shares (the Bank-Share Fund). The accounts of this fund are kept by Norges Bank.

During the redemption period, requests were presented for redemption of a total of 1,254,028 shares. The redemption payments totalled 145.6 million kroner. Most of the shares were resold to the public before the end of the year, and the number of shares still in the hands of the State at the end of 1980 was only 3,857.

The value of securities administered by Norges Bank amounted at end-1980 to 33.2 billion kroner.

*Domestic government loans, etc.*

Norges Bank is the agent for the Government's domestic loan issues.

In 1980, the following government loans were raised (million kroner):

| | | |
|---|---|---|
| 10 % | 1980/90 | 757 |
| 9½% | 1980/85 | 960 |
| 9½% | 1980/85 II | 255 |
| 9½% | 1980/85 III | 800 |
| 9½% | 1980/81 | 2,250 |
| 9½% | 1980/81 II | 86 |
| 9½% | 1980/85 IV | 132 |
| 9½% | 1980/85 V | 128 |
| 9½% | 1980/85 VI | 207 |
| | | 5,575 |

The Ministry of Finance's authorization to raise government loans in 1980 for 13 billion kroner was thus far from fully utilized. This was in part due to the relaxation of the issue control, which led to reduced sales of government bonds. In the last quarter of the year, subscriptions to government loans amounted to only 467 million kroner.

The 10 per cent government loan 1980/90 was issued on tap and was open for subscription for the entire year. About 300 private individuals subscribed to the loan. For a good 90 per cent of the amount subscribed to this loan, the bonds are registered in Norges Bank. The other new loans are inscribed in their entirety, and no bond certificates were printed. Interest payments to bond-holders take place over bank giro.

Five straight government loans totalling 2,929 million kroner and two sinking fund loans on which 8.1 million kroner remained outstanding fell due for repayment in 1980.

In the 200 million kroner premium bond loan issued on October 1, 1979, bonds to a value of only 50 million kroner had been sold after one year. In mid-December 1980, additional prizes were announced for this loan, raising the overall yield from 6 per cent to 8.9 per cent per annum. The remainder of the bonds were sold in the course of a few days.

In the premium bond loan of 1973, totalling 100 million kroner, bonds for 7.4 million kroner were sold in 1980, after which the total sale of these bonds amounted to 86 million kroner. The premium bond loan of 1965, 75 million kroner, fell due for redemption.

The sale of savings bonds of Series V amounted to 11.5 million kroner in 1980, while redemptions of savings bonds of all series amounted to 24.4 million kroner.

According to Section 42, final paragraph, of the Tax Act of August 18, 1911, the profit on the sale of real estate is exempt from taxation to the extent the tax payer has accepted settlement in the Government's land purchase bonds and holds the bonds until maturity. Land purchase bonds are issued by Norges Bank on behalf of the Ministry of Finance.

There are three types of land purchase bonds:

| | |
|---|---|
| Series A | Repayable in equal semi-annual instalments over 20 years. |
| Series B | Repayable in fixed semi-annual payments (interest and principal combined) over 15 years |
| Series C | Repayable in full after 10 years. |

Land purchase bonds issued in 1980 carry interest at 8¾ per cent per annum.

Land purchase bonds for 99.5 million kroner were issued in 1980, and bonds for a total of 1,714.5 million kroner have been issued since the arrangement was established in 1965. Bonds for 16.5 million kroner were redeemed in 1980. Interest and instalment payments to 10,061 bond holders amounted to 131 million kroner.

Bonds outstanding as at December 31, 1980, amounted to 928 million kroner.

*National Insurance Fund*

The secretariats for the second, third, fourth and fifth district fund managements are attached to Norges Bank's branches in Skien, Bergen, Trondheim and Tromsø, respectively, where one of the staff members at the respective branch has been appointed secretary to the fund management concerned.

Norges Bank's Head Office in Oslo administers the security portfolio and keeps the accounts for all the district fund managements. For these services the Fund pays a remuneration which each year is agreed upon between Norges Bank and the National Insurance Fund.

*Information activity*

Section 36 of the Norges Bank Act stipulates that the Bank shall each year submit a report on its activities. The report is sent to the Ministry of Finance for submission to the King and presentation to the Storting. For further details on this procedure, reference is made to Annual Report for 1979.

Norges Bank's report may be said to fulfil two needs. One of these is to give the Storting an opportunity to judge whether Norges Bank's activities are being conducted in conformity with statutory provisions and the guidelines issued by the authorities. The other is to inform the Storting and the public about the economic developments in Norway and abroad in the preceding year. Special emphasis is put on the monetary, credit and foreign exchange situation.

*Norges Bank's report on the year 1979* was dated April 18, 1980. The accounts were approved by the Supervisory Council at its meeting on February 21, 1980. Report to the Storting No. 81 (1979–80) – "On Credit Policy and the Activities of Norges Bank and the Bank Inspectorate in 1979" – was presented and approved at the Cabinet meeting on May 16, 1980. The Finance Committee of the Storting discussed the report and proposed that it be added to the protocol (Innst. S.nr. 336), to which the Storting on June 13, 1980, unanimously agreed.

As in previous years, Norges Bank's report was also issued in an English edition.

Four issues of Norges Bank's publication *Penger og Kreditt* came out in 1980. It provides analyses of the business cycle development, of the trend in the money, credit and foreign exchange markets, as well as surveys of the credit policy regulations at any time in force. It also contains special articles on topics within the Bank's field of activities and a statistical annex.

Norges Bank also issues a quarterly publication in English, *Economic Bulletin* which provides surveys of the Norwegian economy and the economic measures taken by the authorities which may be of interest to readers abroad. Also this publication contains a statistical annex which provides data on the monetary, credit and foreign exchange situation in Norway.

As set out in Section 37 of the Norges Bank Act, the Bank shall at least twice a month publish a statement of accounts. In addition to these *bi-weekly returns,* Norges Bank informs the public about its activities and about the credit and foreign exchange situation through its *press releases.* In 1980, 19 press releases were issued.

In Norges Bank's *circulars* to the financial institutions, the measures taken by the authorities pursuant to the Monetary and Credit Policy Act, as well as other important measures in the monetary and credit policy field implemented by Norges Bank or other authorities, are announced. In 1980, 23 circulars were issued.

In its *Skriftserie,* Norges Bank publishes some research papers and reports which are thought might be of interest to readers outside the Bank. In 1980, Skriftserie No. 8, *Per Christiansen,* "Om valutalovens formål" (The purpose of the Currency Control Act) was issued in Norwegian only, and No. 9, *Leif Eide* and *Knut Holli,* "Det norske penge- og kredittsystem" – "The Norwegian Monetary and Credit System" was issued in both Norwegian and English. In addition to its printed publications, circulars and press releases, Norges Bank provides direct oral information, for instance at meetings with representatives of the banks.

*Work on economic models, etc.*

The work on constructing a short-term model continued. During 1980, a financial block was established which contains equations for bank lending and bank deposits. The aim is to have the financial block tested during the first half of 1981. Further work has also been carried out on endogenizing the foreign exchange estimates in the credit model KRØSUS, and a new TROLL programme has been developed which simplifies considerably the construction of KRØSUS tables. This programme will be put into use during the first half of 1981.

*Business cycle analyses*

Norges Bank's data bank in the programming system TROLL and data services from Data Resources, Inc. (DRI) are being used extensively for analyzing the short-term and medium-term economic outlook in Norway and abroad.

As from January 1, 1981, the section of the Research Division working on economic analyses has been set up as a separate division, the Economic Analysis Division.

*Norges Bank's Fund for Economic Research*

The board of directors of the foundation made 18 awards in 1980 for a total of 156,857 kroner. One of the awards referred to financial assistance for the arrangement of a conference, one to the printing of a special issue of a scientific journal, seven were for research projects, and nine were for attendance at conferences abroad. From Norges Bank's centenary donation to the Central Bureau of Statistics, which constitutes a separate part of the foundation, 255,260 kroner was paid out to cover salaries in connection with studies of problems in statistical methodology.

## The Bank's Management and Administration

*Governing bodies*

The highest authority in the Bank is vested in the Supervisory Council which consists of fifteen members elected by the Storting for six-year terms. Eight of the sitting members have been elected for the period January 1, 1981–December 31, 1986, and seven members for the period January 1, 1978–December 31, 1983.

The Board of Directors is responsible for the day-to-day management of the Bank. The Board has five members. The Chairman and the Deputy Chairman are appointed by the King for indefinite periods. The other three members are elected by the Storting for six-year terms. One is now serving for the period January 1, 1981–December 31, 1986, and two are serving for the period January 1, 1978–December 31, 1983.

The Bank's twenty regional branches each have a Board of Management consisting of three members elected by the Storting for six-year terms, and a Managing Director employed on a full-time basis. The directors are appointed by the Supervisory Council.

The Bank's employees are represented on its governing bodies. The employees' representatives participate, without being entitled to vote, in discussions of matters concerning the Bank's internal administration (personnel matters, organization, etc.). Three employee representatives chosen by Norges Bank's Staff Association attend meetings of the Supervisory Council, two attend meetings of the Board of Directors, and one representative accompanied by a deputy acting as observer attends meetings of each of the Boards of Management.

This representation arrangement supplements the previous arrangement under which the employees for several years have been represented on most of the various internal committees which prepare and report on matters concerning the internal administration before they are discussed by the governing bodies of the Bank.

*Delegation of authority to appoint personnel*

In December 1980, the Board of Directors was empowered by the Supervisory Council to decide all matters relating to staff appointments at the Bank, the Printing Works and the Royal Mint, except in the case of directors as well as heads of division and specialist positions at the Head Office.

The authority of the Board of Directors in personnel matters may be delegated to other bodies in the Bank, the Printing Works or the Royal Mint.

If unanimity has not been reached in the decision-making body, or there has been disagreement within or among the various bodies which have discussed the appointment, the matter may be brought before the Supervisory Council for final decision.

The Board of Directors shall each year submit to the Supervisory Council a report on the appointments and promotions effected during the report-year.

*Administration*

The central administration of the Bank is conducted from the Head Office in Oslo. The Head Office is divided into five departments, each of which is headed by a Director. The split-up into departments and divisions, as well as the names of the persons in charge as of January 1, 1981, may be seen in Appendix C.

The Royal Mint in Kongsberg belongs administratively under the Head Office. The Royal Mint is headed by a Director appointed by the Supervisory Council. The Supervisory Council designates a control committee of three members, which acts as a supervisory and advisory body for the activities of the Mint.

The Printing Works in Oslo is headed by a Director appointed by the Supervisory Council. The Board of Directors designates one of its members to supervise the activities of the Printing Works. With the approval of the Supervisory Council, the Board of Directors has also appointed a separate management board for the Printing Works. The management board reports to the Board of Directors. It consists of five members appointed for two-year terms. Two of the members and their deputies are appointed at the proposal of Norges Bank's Staff Association.

### *Staff*

At the end of 1980, Norges Bank employed a total of 1,344 persons (full-time and part-time employees on monthly salaries): 678 men and 666 women. The number of man-years worked in 1980 was 1,250, slightly more than in 1979 when the figure was 1,247. At the Head Office (including the Auditing Department), 593 man-years were worked in 1980, as against 589 in 1979. In addition, the Bank employs persons on hourly and daily wages as well as stand-ins during vacations and other periods of absence. In 1980, this group worked 82 man-years, as against 91 in 1979.

A survey of the Bank's staff in the period 1976–80 is provided in Appendix C.

### *The Bank's building plans*

In the Annual Report for 1979, an account is provided of the preliminary work in connection with a new headquarters building. As mentioned in the Report, one of the conditions for the building permission granted by the Ministry of Local Government and Labour on November 11, 1979, was that work should be started before the end of the year. Excavation and foundation work started in December 1979. Work has been under way throughout 1980 and will continue in 1981. Planning has proceeded uninterruptedly concurrently with the preliminary groundbreaking work.

According to the work schedule, the first stage of the new headquarters building will be completed in 1985.

The alterations and restoration of the old buildings at Rådhusgaten 10, 12 and 14, and Kirkegaten 6, reached completion in the first quarter of 1980. The work has been carried out in consultation with the State and Local Inspectorate of Historic Buildings. The buildings comprise a total area of 3,500 square metres and will ultimately form an integral part of the new complex. For the time being, the buildings are being used as offices for Norges Bank.

As mentioned in last year's Annual Report, the Ministry of Local Government and Labour stipulated that a condition for building permission to be granted was that Norges Bank in the course of 1981 submitted a concrete plan for the transfer of functions and tasks from the Head Office to locations outside the Oslo area. The objective is to reduce employment at the Head Office, including the Auditing Department, to 500 man-years in the course of 1984. The Bank has accepted this condition, subject to the proviso that "any problems which may arise in connection with the required transfer may be taken up with the Ministry under reference to the proper discharge of the Bank's duties". During 1980 thorough analyses were carried out of how such a transfer of tasks from the Head Office can take place and of the consequences of such a move. A working party headed by the Deputy Governor has prepared a report which is to be discussed by the Board of Directors before the matter is taken up with the Ministry of Local Government and Labour. The final decision will then be taken by the Supervisory Council.

Work has continued on building improvements at Norges Bank's regional branches. In Arendal and Halden, the restoration and construction work has been completed. At the Bergen branch, the plans for the use of the newly acquired neighbouring building have proceeded further. Alterations are expected to start in 1981. An architectural competition has been held in connection with the new building for the Bodø branch to be erected on the site purchased earlier. The jury's decision will be made known in the first quarter of 1981. Plans have been drawn up for modernization and restoration of the buildings housing the Kristiansund N. and Larvik branches. The work is expected to be started in 1981. At the Trondheim branch, preparations have been under way for a possible architectural competition with a view to alterations and new construction. The preparatory work comprises archeological investigations.

## Norges Bank's Accounts for 1980

Norges Bank's accounts were approved by the Supervisory Council at its meeting on February 23, 1981. The net surplus amounted to 2,968 million kroner, compared with 1,505 million kroner in 1979. The large increase in income was due to the fact that the foreign exchange holdings rose by 10 billion kroner in 1980.

It was resolved to allocate 2,100 million kroner to the Adjustment Fund and 320 million kroner to other internal funds.

New guidelines are being drawn up for the transfer to the State from Norges Bank's surplus. These guidelines will be put into force in 1981. For 1980, it was decided to increase the transfer to the State from 100 million kroner to 400 million kroner.

A dividend of 12 per cent was paid on the shares which are all held by public funds.

It was resolved to write off the Government's liability of 144.2 million kroner for coin put into circulation before 1962. This item represents the Government's guarantee for divisionary coin in circulation prior to the transfer of the Royal Mint to Norges Bank on January 1, 1962.

*Table 21. Changes in International Reserves (including exchange rate adjustments as of December 31) (million kroner)*

| | 1979 | 1980 |
|---|---|---|
| Gold | 12.3 | – |
| Reserve position in the IMF | –11.5 | 199.3 |
| Loan to the IMF | –114.1 | –89.3 |
| Special drawing rights in the IMF (SDRs) | 276.7 | 134.6 |
| Bank deposits abroad | 3,599.8 | 8,087.2 |
| Foreign treasury bills | –484.0 | 338,9 |
| Foreign bearer bonds | 3,154.3 | 1,756.8 |
| Total | 6,433.5 | 10,427.5 |

*Balance sheet*

*International reserves (item 10)* increased by 10 billion kroner in 1980, and at the

*Table 22. International Reserves and Valuation Adjustments as at December 31, 1980 (million kroner)*

| | Prior to adjustment | After adjustmen | Valuation adjustment |
|---|---|---|---|
| Gold | 284.4 | 284.4 | – |
| Reserve position in the IMF | 974.1 | 991.8 | 17.7 |
| Loan to the IMF | 332.7 | 338.7 | 6.0 |
| SDRs | 1,022.9 | 1,041.4 | 18.5 |
| Counterpart of SDR allocations | | | –16.2 |
| | 2,614.5 | 2,656.7 | 26.0 |
| Bank deposits abroad | 18,342.8 | 18,680.8 | 338.0 |
| Exchange rate adjustments in the course of the year | –168.9 | | 168.9 |
| Foreign securities | 9,645.7 | 9,977.1 | 331.4 |
| | 27,819.6 | 28,657.9 | 838.3 |
| International reserves | 30,434.1 | 31,314.6 | 864.3 |
| Valuation adjustments, Norwegian bearer bonds | | | –9.2 |
| Total valuation adjustments | | | 855.1 |

turn of the year they amounted to 31 billion kroner after exchange rate adjustments. The increase in the reserves is due to the foreign exchange inflow in connection with interventions for 10.8 billion kroner. Net purchases from banks amounted to 2.3 billion kroner and interest earnings to 2.5 billion kroner. Foreign exchange for an amount of 6.8 billion kroner was sold to meet the requirements of public institutions. The large inflow in connection with exchange market interventions was related to payments of oil taxes.

Norges Bank's holdings of foreign currencies were throughout 1980 valued at the middle rates based on the selling and buying rates quoted on the Oslo Stock Exchange on December 31, 1979.

In connection with the closing of the books for 1980, the holdings were valued at the middle rates on December 31, 1980, as shown in Table 23.

Norges Bank's accounts with the International Monetary Fund are stipulated in SDRs. As at December 31, 1980, the conversion took place at an exchange rate of 6.60662 kroner per SDR. In 1979 the rate was 6.48916 kroner per SDR.

As a result of the exchange rate adjustment on December 31, 1980, the value of the international reserves increased by 855 million kroner. The changes in the various main items are shown in Table 21.

The total valuation adjustments in the course of the year are shown in Table 22.

Norges Bank's bank deposits abroad – time deposits with American and European banks – increased in 1980 by 7,749.2 million kroner to 18,342.8 million kroner prior to exchange rate adjustments. The

*Table 22b. Currency Composition of Reserves*

| | Prior to exchange rate adjustment | After exchange rate adjustment | Exchange rate adjustment |
|---|---|---|---|
| U.S. dollars | 22,408.8 | 23,492.3 | 1,083.5 |
| Deutsche mark | 4,941.4 | 4,665.8 | –275.6 |
| Netherlands guilders | 235.4 | 221.6 | –13.8 |
| Japanese yen | 202.8 | 245.2 | 42.4 |
| Other currencies | 31.2 | 33.0 | 1.8 |
| | 27,819.6 | 28,657.9 | 838.3 |

*Table 23. Norges Bank's Bank Deposits Abroad and Foreign Securities*

| | Dec. 31, 1979 | | | Dec. 31, 1980 | | |
|---|---|---|---|---|---|---|
| | Million units | Exchange rate | Million kroner | Million units | Exchange rate | Million kroner |
| U.S. dollars | 2,999.6 | 4.926 | 14,776.0 | 7,535.2 | 5.18 | 23,492.3 |
| Deutsche mark | 1,149.6 | 284.95 | 3,275.8 | 1,764.7 | 264.40 | 4,665.0 |
| Netherlands guilders | 81.8 | 258.65 | 211.6 | 91.2 | 242.90 | 221.6 |
| Japanese yen | 9,404.2 | 2,06 | 193.7 | 9,595.0 | 2.556 | 245.3 |
| Other currencies | – | – | 17.9 | – | – | 33.0 |
| Total | | | 18,475.0 | | | 28,657.9 |

holdings of securities rose by 1,764.3 million kroner to 9,645.7 million kroner.

Table 22b shows the currency distribution of the foreign exchange holdings. The dollar holdings are placed in part in the United States and in part in Europe.

*Gold (item 10a).* The gold holdings remained unchanged in 1980. As in previous years, they were valued on the basis of the latest official gold price – SDR 35 per ounce – converted into Norwegian kroner at an exchange rate of 6.87145 kroner per SDR, the central rate in 1973. This corresponds to a price of 7,732 kroner per kilogram. The market price on the London Stock Exchange on December 31, 1980, was 589.50 U.S. dollars per ounce, corresponding to 98,176 kroner per kilogram.

*Special drawing rights in the International Monetary Fund (item 10b)* rose by 116.1 million kroner to 1,022.9 million kroner. In connection with the allocation over the three-year period 1979–1981 of SDR 4 billion per year to the member countries in proportion to their quotas, Norway received SDR 30.68 million, equivalent to 199.1 million kroner, on January 1, 1980. The account was credited for a further 156.4 million kroner in the course of 1980. Of that amount, 29.7 million kroner referred to the remuneration on our creditor position in the Fund, 16.9 million kroner to interest payments on holdings of SDRs in excess of allocations, and 28.9 million kroner to interest payments on our loan to the IMF. The remainder, 80.9 million kroner, referred to repayments on the above-mentioned loan and other transactions with the Fund. On the other hand, the holdings were reduced by 239.3 million kroner in connection with the payment in SDRs of 25 per cent of our quota increase. The krone value of the holdings rose by 18.5 million kroner as a result of exchange rate adjustment.

*Table 24. Reserve Position in the IMF (item 10c) (million kroner)*

| | 1979 | 1980 |
|---|---|---|
| Norway's quota in the IMF | 1,914.3 | 2,923.4 |
| The Fund's holdings of Norwegian kroner | 1,121.8 | 1,931.6 |
| Reserve position in the IMF | 792.5 | 991.8 |

*Reserve position in the IMF (item 10c)* is shown in Table 24.

The increase is primarily related to the increase in Norway's quota from SDR 295 million to SDR 442.5 million, i.e., by SDR 147.5 million. Of the quota increase, 75 per cent, corresponding to 717.9 million kroner, was credited to the IMF's krone account in Norges Bank, while 25 per cent (equivalent to 239.3 million kroner) was paid in SDRs, as mentioned under item 10b. The reserve position thus increased by this amount. In connection with other countries' use of Norwegian kroner in transactions with the IMF, the reserve position declined by 57.6 million kroner. As a result of the exchange rate adjustment on December 31, 1980, the reserve position increased by 17.6 million kroner. The net increase was thus 199.3 million kroner.

*Loan to the International Monetary Fund (item 10d).* This item was entered in Norges Bank's accounts in September 1975. The loan was granted in connection with the special loan arrangement (the so-called oil facility) established by the IMF in 1974 in order to assist countries encountering balance-of-payments problems as a result of the oil price rise.

Repurchase in respect of a purchase under this arrangement has to be completed after seven years, the first instalment falling due after three years. The interest rate on the loan is 7¼ per cent. According to the guidelines, full repayment of the loan may be requested if necessary for reasons of our balance of payments. The loan is therefore considered part of our international reserves. The IMF also includes such amounts in the various countries' official reserves.

When converted at the exchange rate for the SDR employed for book-keeping purposes on December 31, 1979, the amount outstanding was 428 million kroner. Repayments in the course of 1980 amounted to 95.4 million kroner. The amount which remained outstanding on December 31, 1980, was written up by 6 million kroner to 338.7 million kroner as a result of exchange rate adjustment.

*Norwegian treasury bills (item 12).* The scope for Norges Bank's purchases of treasury bills direct from the Government in 1980 was stipulated in October 1979. On the basis of the fiscal and credit policy programme set out in the National Budget for 1980, the Board of Directors decided that Norges Bank's holdings of treasury bills purchased direct from the Government could increase by up to 8 billion kroner from the level at the end of 1979. The holdings could thus rise to 14,860 million kroner in 1980.

However, the assumptions behind the calculations changed quite considerably. Higher oil revenues, the increase in the bond-investment obligation in November 1979, and larger than expected cash holdings by the Treasury at the beginning of 1980 reduced the need for central bank financing in 1980. In addition, the banks in Southern Norway were subject to very high primary reserve requirements in 1980, so that they had very large holdings of treasury bills.

Norges Bank's holdings of treasury bills purchased direct from the Government did not at any time in 1980 exceed the end-1979 figure of 6,860 million kroner. During the period January to May, the holdings fell to zero. In the period mid-July to mid-October, the holdings stood at some 3 billion kroner, while from the end of October to the end of the year they again stood at zero.

Norges Bank's holdings of treasury bills purchased from the banks amounted to some 3.8 billion kroner at the end of 1980.

*Norwegian bearer bonds (item 13).* No Norwegian bearer bonds were purchased in 1980, apart from an item of 600,000 kroner referring to the Premium Bond Loan of 1979. Bond sales amounted to 7 million kroner. Redemptions totalled 569 million kroner, of which 522 million kroner referred to the 6½% government loan 1975 IV. Together with a 9.2 million kroner downward valuation adjustment on December 31, 1980, the holdings thus declined by 585 million kroner during 1980, to 730.9 million kroner at the end of 1980.

*Domestic loans (item 14).* At the end of 1980, total loans by the Bank amounted to 814 million kroner, as against 1,188 million kroner at the end of 1979. Further details on Norges Bank's lending activity are provided in the section "Credit market".

*The Government's consolidated account (item 16a).* This account remains unchanged. It was set up as a counteritem to a similar item in the Government's accounts when the occupation account was taken out of Norges Bank's accounts in 1958 and entered as an item in the Government's accounts.

*The Government's liability for divisionary coin in circulation (item 16b)* has been written off in connection with the distribution of the surplus for 1980.

*Table 25. Changes in the Main Items in Norges Bank's Balance Sheet (million kroner)*

| Balance sheet item | | 1979 | 1980 |
|---|---|---|---|
| | *Assets* | | |
| 10. | International reserves | 6,433.5 | 10,427.5 |
| 11. | Deposits with Norwegian banks | 112.2 | −140.0 |
| 12. | Norwegian treasury bills | 2,215.5 | −4,394.0 |
| 13. | Norwegian bearer bonds | −515.6 | −584.5 |
| 14. | Domestic loans | −951.2 | −573.6 |
| 15. | Loans to borrowers abroad | – | – |
| 16. | Other domestic claims | 264.1 | −283.9 |
| 17. | Other foreign claims | −42.1 | 809.9 |
| 18. | Transitory items | 2.3 | −2.3 |
| | | 7,518.7 | 5,459.1 |
| | *Liabilities and capital* | | |
| 20. | Notes and coin in circulation | 863.5 | 1,194.0 |
| 21. | Domestic sight deposits | 3,216,1 | 2,467.3 |
| 22. | Norges Bank's money market paper | 2,238.7 | −2,650.8 |
| 23. | Tax-free allocations to funds | −25.0 | −4.5 |
| 25. | Foreign liabilities | 107.1 | 764.1 |
| 26. | Other domestic liabilities | −20.5 | 238.3 |
| 27. | Allocations of Special Drawing Rights | 194.9 | 215.3 |
| 28. | Share capital and reserves | 943.8 | 3,235.0 |
| 29. | Transitory items | 0.1 | 9.4 |
| | | 7,518.7 | 5,459.1 |

*Notes and coin in circulation (item 20)* increased by 1,194 million kroner in 1980 and totalled 19,814 million kroner at the end of the year. Further details on the production and distribution of notes and coin are given in the section "Means of payment and payments system".

*Domestic sight deposits* are specified in Table 26.

*Norges Bank's money market paper (item 22).* Norges Bank's money market paper was offered to the banks on altogether five occasions during 1980 – in February, June, July (twice) and November. The purpose of the sale of money market paper is to withdraw liquidity from the banking system and to influence interest rates in the money market. The rate of interest on the money market paper sold in February was 12.5 per cent per annum. At the time of the other sales the rate was set at 11.5 per cent per annum. In 1979 the interest rate was 9.9 per cent on money market paper sold in the first half-year and 10.4 per cent in the second half-year.

The banks purchased money market paper for 170 million kroner in February, 1,752 million kroner in June, 3,571 million kroner in July and 122 million kroner in November. The wide variations in purchases of money market paper reflect fluctuations in bank liquidity.

When the primary reserve requirements for banks in Southern Norway were raised as from September 1, Norges Bank repurchased money market paper for a total of

*Table 26. Domestic Sight Deposits in Norges Bank (item 21) (million kroner)*

| | Changes 1979 | Changes 1980 | Dec. 31, 1979 | Dec. 31, 1980 |
|---|---|---|---|---|
| Government accounts | 2,265.8 | 1,843.4 | 8,332.4 | 10,175.8 |
| Other public accounts | 704.4 | 402.8 | 1,876.3 | 2,279.1 |
| Norwegian commercial banks | 174.5 | 144.2 | 406.8 | 551.0 |
| Norwegian savings banks | 77.5 | 8.0 | 220.3 | 228.3 |
| Other Norwegian accounts | −6.1 | 69.0 | 69.1 | 138.1 |
| | 3,216.1 | 2,467.4 | 10,904.9 | 13,372.3 |

some 5.2 billion kroner. Thus, the banks' holdings of money market paper were modest during much of 1980.

*Tax-free allocations to funds (item 23)* declined by 4.5 million kroner to 94.2 million kroner.

Of the amount still blocked, viz., 75.1 million kroner, 8.1 million kroner refers to allocations to funds for environmental investments. The remainder of the blocked funds, 67 million kroner, refers to allocations for marketing promotion abroad and for research.

*Sight deposits from abroad (item 25).* This account refers to deposits from embassies and international organizations and shows little movement.

*Allocations of special drawing rights (item 27).* This item shows the krone equivalent of the total allocations of SDRs since the arrangement entered into effect on January 1, 1970.

In 1980 the account increased by 199.1 million kroner as a result of the allocation of SDR 30.7 million on January 1, 1980, and was written up by 16.2 million kroner as a result of exchange rate adjustment as of December 31, 1980. The balance in SDRs stands at 137,680,000.

*Share capital, reserves, etc. (item 28).* As shown in Table 22, the valuation adjustments in 1980 amounted to 855 million kroner which was credited the Adjustment Fund. In addition, 2,100 million kroner of the surplus for the year was transferred to the Adjustment Fund. As of January 1, 1981, the Fund totalled 7,103 million kroner, as against 4,148 million kroner on January 1, 1980.

*Profit and loss account*

*Foreign income.* The yield on Norges Bank's foreign exchange holdings amounted to 2,511 million kroner in 1980, or 1,059 million kroner more than in the previous year. The steep rise was due both to an increase in bank deposits abroad and holdings of foreign securities, and to a markedly higher interest rate level in 1980 than in 1979.

Remuneration on the creditor position in the IMF amounted to 29.7 million kroner, and interest payments on holdings of SDRs in excess of allocations amounted to 16.9 million kroner.

An amount of 28.9 million kroner was received in interest payments on the loan to the International Monetary Fund. The loan was originally for SDR 100 million, but is now reduced to SDR 51.3 million. An amount of SDR 14.7 million was repaid in 1980. Interest is paid quarterly at a rate of 7¼ per cent per annum.

In 1980, the dividend in the Bank for International Settlements (BIS) was paid at a rate of 16.2 per cent, i.e., 135 Swiss francs per share. On the occasion of its fiftieth anniversary the Bank had raised the dividend for 1980 by 25 Swiss francs per share.

*Domestic income.* Interest earnings on loans granted by Norges Bank rose by 161.5 million kroner, mainly because the banks made considerably greater use of their loan facilities in Norges Bank in 1980 than in 1979. The daily average of loans to banks in 1980 was 2,506 million kroner, as against 1,276 million kroner in 1979.

The interest earnings on Norwegian treasury bills remained virtually unchanged from 1979. Norges Bank's average holdings of treasury bills were lower in 1980 than in 1979. On the other hand, the interest rate was raised towards the end of 1979, and this made itself felt in 1980. See also item 12: Norwegian treasury bills.

Interest earnings on Norwegian bearer bonds were 5 million kroner higher than in 1979, despite a decline in the holdings from 1,316 million kroner to 731 million kroner. The reason is that the change in the holdings took place at the end of the year after the receipt of the yield.

Norges Bank sold considerably less money market paper in 1980 than in 1979.

*Table 27. Norges Bank's Profit and Loss Account (million kroner)*

| | 1979 | 1980 |
|---|---|---|
| Income: | | |
| *Domestic:* | | |
| Interest on loans | 139.3 | 300.8 |
| Other interest income | 495.9 | 507.0 |
| Interest earnings | 635.2 | 807.8 |
| Interest paid on money market paper | −364.3 | −93.8 |
| Total domestic income | 270.9 | 714.0 |
| *Foreign:* | | |
| Interest earnings | 1,451.8 | 2,511.0 |
| Exchange rate gain | 35.5 | 11.8 |
| Total foreign income | 1,487.3 | 2,522.8 |
| Gross income | 1,758.2 | 3,236.8 |
| Expenditures: | | |
| *Head office and branches* | | |
| Personnel costs | 133.8 | 148.2 |
| Other current expenditures | 36.4 | 43.1 |
| Major works, procurements, and internal transfers | 33.7 | 28.9 |
| | 203.9 | 220.2 |
| *The Printing Works* | | |
| Personnel costs | 14.7 | 16.0 |
| Other current expenditures | 11.5 | 11.0 |
| Major works, procurements, and internal transfers | 5.0 | 12.4 |
| | 31.2 | 39.4 |
| Less income | −5.0 | −5.6 |
| | 26.2 | 33.8 |
| *The Royal Mint* | | |
| Personnel costs | 9.0 | 10.0 |
| Other current expenditures | 12.5 | 10.4 |
| Major works, procurements, and internal transfers | 2.1 | 0 |
| | 23.6 | 20.4 |
| Less income | −1.3 | −5.6 |
| | 22.3 | 14.8 |
| Total expenditures | 252.4 | 268.8 |
| Surplus | 1,505.8 | 2,968.0 |
| Distribution of the surplus: | | |
| Transferred to the Government | 100.0 | 400.0 |
| Adjustment Fund | 1,231.6 | 2,099.6 |
| Building Fund | 150.0 | 300.0 |
| Housing Fund | 20.0 | 20.0 |
| Share dividend | 4.2 | 4.2 |
| Write-off of the Government's liability for divisionary coin in circulation | 0 | 144.2 |

As of December 31, 1980, the banks' holdings of money market paper amounted to 114 million kroner, as against 2,765 million kroner as of December 31, 1979. Payments of interest in 1980 totalled 95.1 million kroner, as against 364.3 million kroner in 1979. Interest not yet due at the end of the year amounted to 1.2 million kroner. A net amount of 93.9 million kroner in interest expenditure on money market paper was deducted from Norges Bank's interest earnings in 1980.

*Expenditures.* Administration expenses and the costs of banknote and coin production increased by 16.4 million kroner, or 6.5 per cent, between 1979 and 1980.

For the Head Office and the branches, the administration expenses rose by 8 per cent in 1980. For the Printing Works, the accounts show an increase of 28.7 per cent in 1980. The purchase and installation of a new rotary press account for considerable sums and render the figures unsuitable for comparison. At the Royal Mint, expenditure was reduced by about 7.5 million kroner between 1979 and 1980. Metal purchases were lower in 1980 than in 1979, and in 1980 the Royal Mint received a reimbursement of 3.5 million kroner for expenditure on wages and other production costs, etc., in connection with the production of the 200-krone commemorative silver coin on the occasion of the 35th anniversary of Liberation Day, May 8, 1945.

*This report is submitted in accordance with Section 36 of the Act on Norges Bank.*

Oslo, December 31, 1980/April 24, 1981

**Board of Directors of Norges Bank**

Knut Getz Wold
Juul Bjerke

Hermod Skånland
Kaare Petersen

Otto Totland

Jarle Bergo

# Accounts of Norges Bank for 1980

## *Profit and Loss Account for the Year 1980*

| | | |
|---|---|---|
| *Income* | | |
| Interest on Norwegian securities | kr. 477,843,192.54 | |
| Interest on domestic loans, etc. | » 330,012,555.27 | |
| | kr. 807,855,747.81 | |
| Less: Interest on money market paper | » 93,861,502.72 | kr. 713,994,245.09 |
| Interest on foreign securities | kr. 894,680,505.30 | |
| Interest on bank deposits abroad | » 1,616,309,810.46 | |
| | kr. 2,510,990,315.76 | |
| Agio gain on currency transactions | » 11,800,000.00 | » 2,522,790,315.76 |
| | | kr. 3,236,784,560.85 |
| *Expenditures* | | |
| Administration expenses | kr. 220,232,222.63 | |
| Costs of banknote production | » 33,786,578.58 | |
| Costs of coin production | » 14,771,512.82 | kr. 268,790,314.03 |
| Net profit | | » 2,967,994,246.82 |
| Distributed as follows: | | |
| Transferred to the Government | kr. 400,000,000.00 | |
| Adjustment fund | » 2,099,570,246.82 | |
| Building fund | » 300,000,000.00 | |
| Housing fund | » 20,000,000.00 | |
| Dividend | » 4,200,000.00 | |
| Write-off of the Government's liability for divisionary coin put into circulation before 1962 | » 144,224,000.00 | |
| | | kr. 3,236,784,560.85 |

*Comments and footnotes to the balance sheet (subsequent pages):*

*Specifications under assets:*
Total foreign assets according to balance sheet, 33,381,268,568.76 kroner.
Loans from the housing fund to the bank staff, 68,718,932.88 kroner.

*Specification under liabilities:*
Total foreign debt according to balance sheet, 2,194,625,587.85 kroner.

*Footnotes:*
1) Norway's quota in the International Monetary Fund equals 2,923,435,714.07 kroner, of which the reserve position in the IMF is shown in item 10c, while that part of the quota which the IMF at any time holds in Norwegian kroner (converted into SDRs) is included in item 17a and item 25c.

*Not included in the balance sheet:*
Foreign exchange bought forward, 4,144,306,900.00 kroner.
Foreign exchange sold forward, 135,000,000.00 kroner.
Creditors for documentary credits, 3,812,720.04 kroner.
Guarantees, 324,547,514.00 kroner.
Uncalled portion of share capital in B.I.S., 35,000,000.00 kroner.

*Balance Sheet as at December 31, 1980*

*Assets*

| | | | | |
|---|---|---|---|---|
| 10. International reserves | | | | |
| a. Gold | kr. | 284,788,409.10 | | |
| b. Special Drawing Rights in the International Monetary Fund | » | 1,041,454,701.61 | | |
| c. Reserve position in the International Monetary Fund[1)] | » | 991,778,494.42 | | |
| d. Loan to the International Monetary Fund | » | 338,670,411.26 | | |
| e. Bank deposits abroad | » | 18,680,804,189.38 | | |
| f. Foreign treasury bills | » | 4,201,651,946.10 | | |
| g. Foreign bearer bonds | » | 5,775,463,197.24 | kr. | 31,314,611,349.11 |
| 11. Deposits with Norwegian banks | | | | |
| a. Postal Giro | » | 77,113,403.47 | | |
| b. Commercial banks | » | 128,350,000.00 | | |
| c. Savings banks | » | 232,350,003.00 | » | 437,813,406.47 |
| 12. Norwegian treasury bills | | | » | 3,821,487,000.00 |
| 13. Norwegian bearer bonds | | | | |
| a. Central government | » | 581,630,544.14 | | |
| b. Local governments | » | 16,843,215.15 | | |
| c. State banks | » | 44,911,163.40 | | |
| d. Private credit enterprises | » | 66,243,562.50 | | |
| e. Other Norwegian sectors | » | 21,352,472.50 | » | 730,980,957.69 |
| 14. Domestic loans | | | | |
| a. Commercial banks | » | 316,300,000.00 | | |
| b. Savings banks | » | 212,602,000.00 | | |
| c. Private finance companies | » | 45,978,453.07 | | |
| d. Other Norwegian sectors | » | 239,497,984.62 | » | 814,378,437.69 |
| 15. Loans to borrowers abroad | | | | 0 |
| 16. Other domestic claims | | | | |
| a. Government's consolidated account | » | 5,429,964,992.25 | | |
| b. The Government's liability for divisionary coin in circulation | » | 144,224,000.00 | | |
| c. Interest paid, not yet due, on money market paper | » | 1,234,345.05 | | |
| d. Discounted bank drafts | » | 498,114,230.42 | | |
| e. In account with Head Office or branches | | – | | |
| f. Other debtors | » | 72,833,252.01 | » | 6,146,370,819.73 |
| 17. Other foreign claims | | | | |
| a. The International Monetary Fund[1)] | » | 1,931,657,219.65 | | |
| b. Accrued interest | | – | | |
| c. Other debtors | » | 135,000,000.00 | » | 2,066,657,219.65 |
| 18. Transitory items | | | | |
| a. Domestic | » | – | | |
| b. Foreign | | – | » | – |

| | |
|---|---|
| Total assets | kr. 45,332,299,190.34 |

Comments and footnotes on preceding page.

Oslo, December 31, 1980/February 23, 1981

K. Romdahl, Chief Auditor

The accounts were discussed and approved
at the meeting of the Supervisory Council on February 23, 1981.

| | | |
|---|---|---|
| 20. Notes and coin in circulation | | |
| a. Notes in circulation | kr. 19,012,364,892.50 | |
| b. Divisionary notes and coin in circulation | » 801,335,974.07 | kr. 19,813,700,866.57 |
| 21. Domestic sight deposits | | |
| a. Treasury | » 8,051,185,408.31 | |
| b. The government's accounts for interest and redemption | » 84,688,162.52 | |
| c. Public treasurers | » 2,023,577,437.09 | |
| d. Central government trust funds | » 16,346,657.49 | |
| e. Social security administration | » 3,391,008.18 | |
| f. Local government administration | » 1,894,583.72 | |
| g. Postal Giro | » 1,161,907,005.30 | |
| h. Post Office Savings Bank | – | |
| i. Commercial banks | » 550,963,279.26 | |
| j. Savings banks | » 228,328,228.56 | |
| k. State banks | » 216,299,613.14 | |
| l. Life insurance companies, etc. | » 7,975,915.29 | |
| m. Non-life insurance companies | – | |
| n. Postal service | » 269,272,371.95 | |
| o. Other state enterprises | » 626,374,342.94 | |
| p. Private credit enterprises | – | |
| q. Other private finance companies | » 43,099,653.11 | |
| r. Other Norwegian sectors | » 86,973,558.47 | » 13,372,277,225.33 |
| 22. Norges Bank's money market paper | | » 114,000,000.00 |
| 23. Tax-free allocations to funds | | |
| a. Blocked | » 75,093,680.21 | |
| b. Released | » 19,085,977.88 | » 94,179,658.09 |
| 25. Foreign liabilities | | |
| a. Foreign banks | » 73,871,804.82 | |
| b. Non-bank sight deposits from abroad | » 188,862,929.75 | |
| c. The International Monetary Fund | » 1,931,657,219.65 | |
| d. Other foreign liabilities | » 233,633.63 | » 2,194,625,587.85 |
| 26. Other domestic liabilities | | |
| a. Domestic cheques | » 1,310,780.40 | |
| b. Unearned interest | » 10,507,834.54 | |
| c. Other domestic creditors | » 70,768,847.92 | » 82,587,462.86 |
| 27. Allocations of Special Drawing Rights in the IMF | | » 909,601,421.75 |
| 28. Share capital and reserves | | |
| a. Share capital | » 35,000,000.00 | |
| b. Reserve Fund | » 35,000,000.00 | |
| c. Contingency fund | » 35,000,000.00 | |
| d. Adjustment fund | » 5,003,441,984.35 | |
| e. Other funds, etc. | » 674,444,723.68 | » 5,782,886,708.03 |
| 29. Transitory items | | |
| a. Domestic | | » 446,013.04 |
| b. Foreign | | » – |
| 30. Profit and loss account | | » 2,967,994,246.82 |
| Total liabilities | | kr. 45,332,299,190.34 |

## Board of Directors of Norges Bank

Knut Getz Wold
Juul Bjerke

Hermod Skånland
Kaare Petersen

Otto Totland

H. Torjuul, Chief Accountant

# Appendices

A. The economic situation.
Address by Governor Knut Getz Wold
at the meeting of the Supervisory Council
of Norges Bank on February 23, 1981

B. Tables

C. Norges Bank's management and personnel
as at January 1, 1981

# Appendix A

# The Economic Situation

*Address by Governor Knut Getz Wold at the meeting of the Supervisory Council of Norges Bank on February 23, 1981*

*Opening remarks*

The world economy is in a marked recession which will probably reach a trough this year. It will be replaced by renewed growth, but the rate of growth will be slower than we have previously been accustomed to.

As usual, Norway lags behind somewhat, mainly because of the structure of our foreign trade. The favourable development in 1979 continued through the first half of last year, but in the course of the summer and autumn months the international recession made itself felt in Norway, too. The immediate prospects for the great majority of the traditional branches of industry are not encouraging. The outlook seems somewhat better in the longer term, but we can hardly expect such a rapid rate of growth as that prior to the beginning of the 1970s.

It is obvious, however, that the increasing importance of oil and gas production entails significant economic advantages for our country if only we make the best use of the opportunities thus provided. The oil revenues were absorbed into the economy in advance which contributed strongly to the sharp rise in our external debt in the latter half of the 1970s. Today, the situation is that most of the current oil revenue has already been absorbed into the economy. Of the total taxes and levies on oil and gas production last year, which amounted to a good 25 billion kroner, barely 5 billion kroner was reflected in a current account surplus on the balance of payments.

Norway has been able to continue the growth and welfare policy to which we became accustomed in the golden 1960s and the beginning of the 1970s. Were it not for the oil, this would not have been possible without continued and quite unacceptably large borrowing abroad. And loans must be repaid sooner or later.

Nevertheless, the fact is that the so-called traditional sectors still account for more than 85 per cent of the gross domestic product. The international business cycle prospects are therefore of great importance also for the Norwegian economy.

*The world economy*

1980 was a bleak year for the world economy, showing a growth of only 1 per cent in the industrial countries as a whole. In the second half-year output even declined by three-fourths of one per cent on an annual basis. In the United States the economy passed a trough in the summer of 1980, however, and has since shown growth. In other large industrial nations the recession will presumably bottom out in the current half-year. For 1981 as a whole, the growth will hardly be any greater than last year. In the second half-year it should, however, be possible to reach an annual rate of growth of 2 per cent, and 3 per cent in the first half of next year.

Some improvement is thus within sight. Nevertheless, the figures are rather on the low side, and unemployment will indeed increase further. The OECD estimates that unemployment will rise from 23 million at the end of last year to 25½ million, or 7½ per cent, by the middle of next year in spite of a certain fall in the United States.

The main reason for this disquieting trend is that all the OECD countries are pursuing very tight economic policies in order to reduce their rate of inflation and their current account deficits. The oil price rise has, of course, provided a strong motivation in this respect.

Since the beginning of 1979 the price rise on oil has exceeded 150 per cent. The OECD has estimated that the combined effect of the oil price increases after 1978 and the ensuing tightening of fiscal policy will be a level of production in the member countries at the end of this year that is as much as 6½ per cent lower than it otherwise would have been. The higher oil price accounts for 4½ per cent of this shortfall and the economic policy for the remainder. This means that GNP in the OECD area is 550 billion dollars lower than it might have been were it not for the latest oil price shock.

This amount is more than twice as large as the total GNP in the poorest developing countries where the population exceeds 1.1 billion. Thus, a mere fraction of this amount would have sufficed to radically improve the situation in the developing countries, if we envisaged its being used for such a purpose.

Several countries have succeeded in slowing down the rate of inflation somewhat. Moderate wage increases have helped. But the OECD area still shows an average consumer price rise of 10 per cent, with a similar rise in hourly earnings in industry. The countries showing the lowest inflation rates – the Federal Republic of Germany, Switzerland, Austria, Belgium and the Netherlands – also show the lowest wage rises.

The latest oil price shock further exacerbated the international *payments problems.* The current account surplus of the OPEC countries increased from 5 billion dollars in 1978 to 116 billion dollars last year. This year, the surplus is expected to decline to 82 billion dollars since some of the OPEC countries are using more of their earnings for large industrial investments.

Other countries *must* necessarily show corresponding current account deficits. All industrial countries except the United States, the United Kingdom and Norway, all of which produce oil, showed deficits last year, most of them quite substantial deficits. For these countries, the financing of the deficits is not causing problems because sound borrowers are in short supply at present. The problems refer to the non-oil-producing developing countries. Their combined deficit rose from 26 billion dollars in 1978 to 50 billion dollars last year, and a further increase is expected this year. Only a negligible amount of the increase is covered by greater development aid. Also some small industrial countries are facing large balance-of-payments problems.

The private credit markets still play a major part in what is usually called the recycling of the oil money. Their accomplishment in this respect has been impressive. But more and more developing countries are now getting so deep into debt, and the exposure of the banks and other financial institutions is gradually becoming so precarious, that the process is slowing down.

Over the past year international foreign exchange markets have been marked by almost dramatic gyrations, especially in the case of the dollar. The fluctuations are primarily related to wide interest rate movements. In recent months, the interest rate level in the United States has been record high, with commercial bank interest rates exceeding 20 per cent. A tight economic policy has concurrently resulted in a lower inflation rate and turned the balance of payments deficit into a large surplus, which is forecast to reach 20 billion dollars this year. These factors have caused a marked rise in the international value of the dollar.

The pound sterling has also risen strongly, largely for the same reasons as in the United States. The very tight monetary and fiscal policy combined with the upward pressure on the exchange rate has caused record-high unemployment and an estimated fall in output of some 2 per cent both last year and this year.

Concurrently, the Deutsche mark, in particular, has weakened materially. Low interest rates and a large current account deficit provide some of the explanation. Political aspects have also contributed. The Deutsche mark has been the weakest of the EMS currencies, while the guilder and the French franc have alternated as the strongest one.

Germany has largely pursued a relatively expansionary economic policy, which has represented a positive feature for the world economy. The same applies to Japan.

The oil price rise makes the industrial nations poorer, and we have once again witnessed how difficult it is to *distribute* such losses given our modern, open and democratic market economies. Economic policy was a much simpler undertaking in the long period when production and real disposable income increased by 3–4 per cent annually.

In the present situation, the OECD recommends that economic policy be directed towards control of the wage–price rise. Incomes policy should aim at inducing wage earners to accept a certain decline in real wages. If this is not possible, monetary policy ought to be tightened and the automatically stabilizing elements in the taxation system should be allowed free play. But the risk also exists that the deflationary factors may become too strong, and that a need for an expansionary fiscal policy may arise.

Finally, one important factor may in the somewhat longer term provide a ray of hope for the world economy: The high oil prices render extensive investments in energy production and energy saving profitable. Above all, this applies to production of coal, of which especially the United States and Australia, but also several other countries, have enormous reserves. Environmental aspects may nevertheless represent an obstacle. A sharp rise in coal production will also provide a boost to shipping.

The world economy is on the whole very resilient in the face of economic and technical changes. What has made the effects of the oil crisis so critical is not only the great importance of oil and the magnitude of the price increases, but mostly, perhaps, that the price rise has come as two tremendous shocks in 1973 and 1979. When the effects of the first price shock had at last largely worn off, the next one occurred. The current level of oil prices ought to gradually provide so strong an impetus to investments in energy production and energy saving as to have positive effects on the prospects for world economic growth.

### *Norwegian economic growth*

For 1980 as a whole, economic growth in Norway – at 3.6 per cent – clearly exceeded the OECD average of only 1 per cent. But the international recession gradually had repercussions also here in Norway. Industrial production – seasonally adjusted – was thus 3½ per cent lower in the fourth quarter than in the third quarter. All main sectors registered a decline.

For the current year, Norway's gross domestic product is expected to increase by only 1 per cent, approximately in line with the average. The poor prospects for the world economy are of course a key factor in this respect. It is essential to keep in mind that several of Norway's traditional export goods are very sensitive to cyclical changes, e.g., ores, ferro alloys, wood-processing products. That the growth prospects for several of Norway's most important trading partners are weaker than the average is another negative factor. For two of these countries – the United Kingdom and the Federal Republic of Germany – a downright decline in GNP is anticipated.

Against this background, no increase is expected this year in the volume of industrial exports. A slight decline seems more probable.

A factor which has contributed strongly to sustaining the level of activity is the *investments* in traditional industry. Last year they increased by almost 25 per cent in volume terms, and a further increase of 2 per cent or so is forecast for this year in the National Budget. Too much confidence should not be placed in this forecast, however, in view of the gloomy prospects for the world economy. But in the longer term the high level of investments represents a positive feature and will contribute to greater production and productivity.

*Private consumption* is now showing only sluggish growth – barely 1½ per cent last year. A slightly stronger rise is expected this year – about 2 per cent. The expansionary fiscal budget has a stimulating effect, but the great uncertainty both at home and abroad pulls in the opposite direction.

*Public consumption* shows a markedly stronger growth – nearly 4 per cent last year and a good 4 per cent this year.

The real disposable national income rose by more than 11 per cent last year, clearly reflecting the increase in oil and gas production. A fall of about ½ per cent is expected this year because of the weak cyclical prospects for traditional industry. We must therefore face the fact that the resources available will not be any greater this year than last year.

This year and in the years immediately ahead, the growth in the oil sector will be moderate. The prospects for the Norwegian economy will therefore essentially depend on two main factors, viz., the international business cycle and Norway's competitive position.

The slowdown in world economic activity has hitherto had only a limited impact on the domestic level of activity. The effects of the decline in external demand have been counteracted by an increase in domestic consumer and investment demand. This year, however, the signs of a moderate recession are expected to be more prevalent.

*Unemployment* in Norway is still record low by international standards. But also in this country the labour market has become somewhat less tight. This is particularly true in certain regions, although a lack of labour is felt in several branches and trades.

In this respect we are facing a problem which is common to most modern industrial countries: a sharp *reduction in labour mobility.* Even in countries with very high unemployment, a great scarcity of labour may well exist in important sectors.

This is understandable. It will, however, be impossible to maintain full employment in Norway without greater labour mobility. The importance of this will be further underlined by the cut in state subsidies to sectors in difficulties. The prospects are more promising for growth industries with higher productivity and profitability.

The way in which Norwegian industries have seized the greater opportunities for deliveries of equipment and know-how to the offshore activity in the North Sea and for exports is an encouraging example of what can be achieved. In other industrial sectors, investments in new and capital-intensive technology can provide the basis for greater productivity and competitiveness.

In a country such as Norway, regional policy considerations will always, however, represent a constraint with respect to labour mobility. In a democracy such as ours, a certain standard will have to be maintained for public services and infrastructure also in the smaller communities. Therefore, it may be proper – also from a purely economic point of view – to support local enterprises.

*Cost development and competitiveness*

After the termination of the prices and incomes freeze, the price and cost trend in Norway has been approximately in line with that in other countries. Consumer prices were on average 11 per cent higher last year than in the preceding year both in Norway and in the OECD area as a whole. But as a result of higher indirect taxes, lower subsidies, abolition of price control measures, etc., the price level in Norway was in January a good 15 per cent higher than twelve months earlier.

Hourly earnings rose by a good 9 per cent last year, against 10½ per cent in the OECD area as a whole. The wage settlement was kept within acceptable limits, but the tendencies in the subsequent period for the trend in North Sea wages to spread through to the mainland economy were more disturbing.

The most usual, comprehensive measure for competitiveness is relative unit labour costs. The wages explosion following the union-by-union wage settlement in 1974 and the steep rise in the subsequent years, partly as a result of the countercyclical policy, combined with a very weak trend in productivity led to a sharp deterioration in competitiveness. Thus, relative unit labour costs in Norway, adjusted for exchange rate changes, rose by 35 per cent between 1970 and 1977.

Over the next two years, a strong improvement took place as a result of both the prices and incomes freeze and the devaluation in February 1978. Last year, too, brought a slight improvement measured in Norwegian kroner. Unit labour costs rose by about 8 per cent, against 9 per cent in competitor countries, but exchange rate changes led to a relative deterioration of 1 per cent.

A further, small deterioration – probably about 1 per cent – is likely to take place this year because of a stronger cost rise in Norway (some 10 per cent) than in our markets. This means that relative unit labour costs adjusted for exchange rate changes will be 23 per cent higher than in 1970. Much further ground therefore has to be regained before the favourable competitive position which we enjoyed in the beginning of the 1970s is restored.

But it is also important to bear in mind that a main reason for the relative deterioration in Norway's competitive position is the trend in productivity. The wage costs adjusted for changes in exchange rates are barely 5 per cent higher than in 1970.

The cost problem is thus essentially a productivity problem. This problem is most prevalent in import-competing and sheltered industries. The productivity growth was very low last year – some 1 per cent.

The explanation for the weak trend in productivity is in large measure that Norwegian companies retain workers which are not fully employed. Public support measures have often made this possible. This may at times be justifiable, e.g., in the case of a temporary cyclical setback for a company's products. In such a case, a productivity reserve will be on hand when demand once again picks up and activity and capacity utilization reach previous levels. Two thirds of our industrial enterprises had idle capacity around the turn of the year. One third of these reported that full capacity utilization would not require additional workers. In other cases, regional policy considerations are decisive.

Nevertheless, we cannot ignore the fact that in a growing and open economy such as ours, substantial labour mobility is a prerequisite for economic growth. Labour market policy should aim at easing the adjustment process and reducing the burdens for the individual.

The improvement in Norway's relative competitiveness in 1978 and 1979 was thus replaced by approximate standstill last year. The prospects for this year are rather bleak. Given the weak world economic growth, there is not much room for any substantial increase in real wages.

Fiscal and credit policy should be formulated with a view to supporting a moderate trend in incomes, which in turn is a prerequisite for slowing down the rate of inflation and for safeguarding employment in the longer term. Fiscal and credit policy measures are necessary parts of such a policy, but they alone cannot ensure a favourable result. Active co-operation between the authorities and the major labour market and industry organizations, control of restrictive trading practices and price agreements, etc., are equally important.

At a time when aggregate economic resources are increasing very slowly, such a policy is difficult. No country has completely succeeded. The countries which have obtained the best results have relied on a tight monetary policy, but they have also enjoyed the advantage of a moderate and realistic stance on the part of the labour market organizations.

### *External economy*

The declining level of activity and weaker growth in the export markets have – with the usual lag – been increasingly reflected in our exports of traditional goods. The weaker competitive position has led to loss of market shares. The volume growth of exports was negligible last year, while imports of traditional goods increased by some 7 per cent in volume terms.

For traditional goods, both export and import prices rose by approximately 13 per cent, and the terms of trade remained virtually unchanged.

This year, only modest growth seems likely in the volume of exports and imports of traditional goods, the probability being that foreign trade prices will increase by approximately 7 per cent.

As a result of this development, Norway's imports of traditional goods are estimated to reach 90 billion kroner this year, while exports may amount to some 50 billion kroner. The difference corresponds to 16 per cent of the gross domestic product.

The net freight earnings of the shipping sector – some 11 billion kroner – cover about one-fourth of the trade deficit in traditional goods. In this respect, the trend has been positive in recent years. Except for large tankers, the freight market has improved. The Norwegian shipping industry has shown an impressive ability to go in for the types of ships and freight services for which demand has shown a favourable development. The strengthening of the dollar has also represented an advantage.

The increase in exports of oil and gas has been so strong that last year the current account of the balance of payments showed a surplus for the first time since 1969 – 4.7 billion kroner. Oil and gas exports rose from 22 billion to 41 billion kroner and are expected to increase by a further 5 billion kroner this year, to 31 per cent of total exports.

Even so, because of the trend in traditional merchandise trade, a current account deficit of some 3 billion kroner is forecast for this year in the National Budget. A small surplus seems more likely in view of the fact that the volume of investments and thereby imports will hardly be as high as forecast if the world economic picture should prove as bleak as expected. Moreover, a safety margin has been built into the official estimates for exports of oil products and the price forecasts.

Great uncertainty is, of course, attached to the estimates for oil and gas exports. This refers to both prices and quantity. The volume of such exports will not show material growth until around the mid-1980s.

However, the problem for the Norwegian economy and for economic policy will in itself be much the same whether we have a current account surplus of 3 billion kroner or a deficit of the same order.

Even after the repayments last year, we still have a net external debt of nearly 100 billion kroner. This debt entails large interest payments – a total of nearly 8 billion kroner, net. The government debt alone amounts to 26 billion kroner. A reasonable target also for the years immediately ahead should be to pay off this debt and to finance Norwegian industry's direct investments abroad out of a current account surplus.

*Fiscal policy – Savings*

The marked weakening of *fiscal policy* as from the mid-1970s is one of the greatest problems in the Norwegian economy. A traditional surplus before loan transactions on the government and social security budget was replaced by a deficit, which in 1978 exceeded 8 billion kroner. But then a turnaround occurred, essentially because of the growing oil revenues. Last year there was an estimated surplus before loan transactions of 300 million kroner, and this year a surplus of 10 billion kroner is expected.

But this is only after inclusion of the markedly higher tax revenue from the activities in the North Sea, and this tax revenue has a much smaller contractive effect on domestic demand than other taxes. When oil taxes are excluded, the government budget shows a deficit of around 18 billion kroner both last year and this year.

The total central government borrowing requirement, which also comprises government loan transactions and the financing of the state banks, was reduced from 17 billion kroner to 15 billion kroner last year. A further reduction to 4 billion kroner is expected this year. Both the higher oil prices and the new taxation rules have led to an increase in oil taxes, which will probably exceed 28 billion kroner this year.

Thus, the oil revenue has been absorbed into the Norwegian economy by way of the government budget and used to finance a strong increase in the standard of living through higher public investment and consumption and greatly increased transfers. The effects on the Norwegian economy have been the same as those of a general expansionary policy because the oil taxes have only a very limited effect on demand.

But the oil taxes have made it possible to turn the previous, large current account deficits into approximate balance. Herein lies the great difference between our country and Sweden, for instance, which pursued a countercyclical policy similar to that of Norway and raised the standard of public services even more strongly as from the mid-1970s, but last year had a current account deficit of more than 20 billion Swedish kronor and is facing an even larger deficit this year.

One of the best indicators of the development in the real economy is the trend in the *savings ratio*. It tells how large a share of the disposable national income is saved. Traditionally, the savings ratio has been relatively high in Norway. In the period 1962–1973 it averaged 16 per cent, net. One-sixth of disposable resources was thus devoted to building up capital equipment. The investment ratio (on a net basis, i.e., after depreciation) was somewhat higher, or 18 per cent on average, and the difference was covered by imports of capital.

In the period 1974–77, the very large investments in the oil sector caused the investment ratio to reach 25 per cent, while the savings ratio dropped to 13 per cent. Heavy demand, also for Norwegian resources, financed by large borrowing exacerbated the price and cost pressure.

The investment ratio declined to a more normal level in 1978 and 1979, and the savings ratio was very low – barely 11 per cent.

Last year, however, the savings ratio picked up considerably – to nearly 19 per cent. The investment ratio has been estimated at about 17 per cent. The increase in savings was to a large extent attributable to the public sector and was due to the revenue from oil taxes. However, since the oil taxes do not contribute to containing private demand to the same extent as other taxes, the figures do not reflect a correspondingly lower domestic demand pressure.

Given the much greater resources available now than in the beginning of the 1970s, it would be reasonable and proper for the savings ratio to be higher than it was before we entered the oil age.

Another way of measuring is to look at the trend in the real disposable national income excluding the state oil revenue. The increase between 1973 and last year was 16 per cent. But the increase in the domestic use of goods and services excluding investments in the oil sector was almost twice as large – over 29 per cent. When the oil revenue is included, the real disposable national income rose by 31 per cent. Here too, the figures show that most of the oil revenue is being absorbed into the domestic economy.

Indications are that this year the savings ratio will decline more strongly than the investment ratio. The reason for the drop in the savings ratio is that the increase in the real disposable national income is expected to be very modest – only three-fourths of one per cent – while consumption is expected to show a 2¾ per cent rise.

*Credit policy*

In Norway as in many other countries, the weakening of fiscal policy puts much greater burdens on credit policy. Fiscal policy stimulates demand and inflates the money supply. When the state uses the revenue from oil taxes to increase its expenditures in Norway, and when it borrows from Norges Bank, the result is in both cases a higher money supply growth, i.e., greater liquidity in the hands of the public and the banks.

A main task for credit policy becomes that of trying to lessen these harmful effects. Reserve requirements, the rules for borrowing from Norges Bank, bond-investment obligation and other credit policy instruments are used to influence the banks' willingness and ability to lend and the supply of liquidity.

Nevertheless, a tight credit policy can never fully neutralize the effects of a too expansionary fiscal policy. The fact that credit policy often hampers important investments while fiscal policy tends to stimulate consumption is of special concern.

The money supply growth last year was some 12 per cent. A lower rate of growth would have been desirable.

There is a great difference of opinion about the importance to be attached to this factor. Some economists assert that control of the money supply is not only necessary, but also sufficient in itself to master the inflation. This point of view has gained a greater following in recent years.

However, I find it difficult to give wholehearted support to this view. In any case, the implementation of such a *one-*

*sided* monetarist policy may well take so long and it may have so damaging effects on production and employment that it will hardly find acceptance in a modern welfare economy. This is so because it is unrealistic to imagine that full control of fiscal policy can be attained by putting a brake on the supply of domestic liquidity. Moreover, the governments of most industrial countries are able to borrow almost unlimited amounts abroad. Besides, the labour market parties cannot in this way be forced to embrace a certain type of incomes policy. The problem is just as much a political one as one of economics. In this country, we have one great advantage when it comes to finding a solution, viz., our equitable income distribution and our highly developed social welfare policy.

It is, however, also important to emphasize that control of the money supply is an essential and useful part of an economic policy aimed at containing inflation. A tightening of liquidity will gradually foster an economic basis and an economic climate conducive to greater realism and moderation in fiscal policy as well as in the labour market and among consumers and enterprises. Control of the money supply is thus necessary, but not sufficient in itself. There will always be a need for a sufficiently tight fiscal policy and for an incomes policy, i.e., co-operation between the government authorities and the labour market parties and industry organizations. A major problem in this respect is that each individual group is inclined to assert that its own needs deserve special attention and that these should be accommodated before any moderation is introduced, whether they refer to wage increases or to appropriations over the government budget.

Credit policy in Norway was tight last year. For most of the year, the banks in Southern Norway were subject to a 60 per cent bond-investment obligation. Even though the ratio was cut to 30 per cent at the start of this year, this did not in practice entail any material reduction since obligatory bond holdings have never had to exceed 30 per cent of total assets, a proportion about to be reached in most banks. Since last September, the commercial banks in Southern Norway have had to observe a 13 per cent primary reserve requirement, very near to the statutory maximum of 15 per cent. The savings banks in Southern Norway have been, and still are, subject to a primary reserve requirement of 10 per cent, the statutory maximum for this group of banks.

In spite of the heavy use of the credit policy instruments, the lending growth last year was not kept within the stipulated figure of 7 billion kroner. Bank lending exceeded that figure by over 1 billion kroner, of which the savings banks were responsible for the major part.

About one-half of the excess credit expansion was due to the increase in lending by the banks in Northern Norway. The rate of growth of lending in those banks was nearly twice that for the country as a whole.

Our credit policy is based on a more lenient use of the policy instruments in Northern Norway, but the preferential treatment of the banks in Northern Norway versus those in Southern Norway now seems to have gone very far. A factor of importance in this context is that a substantial part of the increase in lending by the commercial banks in Northern Norway and their branches takes place in Southern Norway.

The overshooting in the banking sector was nevertheless of less significance than the fact that the credit supply to the private sector and municipalities over the bond market exceeded the credit budget figure by a good 3 billion kroner. One reason for this was the lower interest rate on long-term bond loans than on long-term bank loans. Whenever possible, borrowers have therefore preferred to turn to the bond market for financing. Moreover, the banks and life insurance companies have preferred to meet the bond-investment obligation by purchasing private debenture bonds since for a long time they provided a substantially greater return than government bonds and state bank bonds.

This brings us to the change in the bond market, which was the greatest and most important innovation in Norwegian credit policy last year. The Commission on Interest Rate Policy advocated a comprehensive liberalization of the bond market. The issue of bonds and the interest rate terms were now essentially to be left to the market forces. This policy shift was in great measure endorsed by the Government and the Storting and has now largely been implemented. Special permission is no longer necessary before a bond loan is floated, except for some sectors where control has been retained because the risk of a strong expansion would otherwise have been too great. This applies to municipal loans and loans to the shipping sector as well as when bond market financing is sought by financial institutions catering for personal investments, especially in the housing sector, where borrowers benefit from substantial tax advantages.

The greater credit supply via the bond market was thus not offset by a corresponding reduction in credit from other sources. The total domestic credit supply was almost 5 billion kroner larger than planned. However, the liberalization of the bond market was not the only reason for this. Equally important was the fact that the interest rate on government bonds was out of line with the new market terms on other bond loans. Therefore, it proved well nigh impossible to float new government bond loans to any considerable extent.

One of the greatest advantages derived from having an efficiently functioning bond market is that open-market operations can be entered into. This is a common procedure in almost all countries. When liquidity is too ample, the central bank can sell government securities in the open market and thereby smoothly and effectively reduce the quantity of money. At times when an increase in liquidity is necessary, the central bank can purchase government securities in the market. Of course, this system presupposes a market-related interest rate on government securities so that the institutions subject to the bond-investment obligation are interested in purchasing government bonds and so that there will also be a substantial voluntary demand for bonds. In other countries, it is quite normal for private persons and enterprises to purchase bonds when they have excess liquid funds.

It is therefore gratifying that the government last month adjusted the coupon on government bonds. By this means, an effective use of open-market operations has now become possible also here in Norway.

With regard to other aspects of interest rate policy, the Commission on Interest Rate Policy recommended that the interest rate level in a free bond market should serve as a guideline for the interest rate formation in other markets. The authorities should step in only if bank lending rates exceeded rates reasonably related to the market-clearing level for bond loans, e.g., as a result of lack of competition between the banks.

The Government opted for another system, under which interest rates on loans from the banks and life insurance companies are to be governed by interest rate declarations issued by the Minister of Finance. Changes in the short-term interest rate level are to be linked to changes in the interest rates on the money-market paper and on Norges Bank's loans to the banks. The interest rate level for medium-term and long-term loans is also to be governed by interest rate declarations from the Minister of Finance. For such loans, the interest rate level is to be related to interest rates in the bond market. Therefore, this new arrangement need not necessarily deviate materially from a system of free interest rate formation, provided that the bond market functions properly also with respect to government and government-guaranteed bonds.

In the announcement from the Ministry of Finance, it was stated that Norges Bank and the Ministry of Finance would be keeping the trend in interest rates under constant review and control. The regular meetings between the top management of Norges Bank and the Minister of Finance will ensure this. We in Norges Bank are well satisfied with this arrangement.

Concurrently, the lending policy of the state banks has been tightened, affecting the general guidelines for lending, the loan conditions, and the commitment budgets. The total commitment budgets have in recent years been kept at an approximately unchanged nominal level. The increase between last year and this year is somewhat less than the price rise. The state banks' lending rates have been raised by one percentage point, except in the case of the Municipal Bank and the Bank for Industry whose lending rates are linked to the trend in bond rates. With regard to housing loans, a substantial proportion has been switched from the State Housing Bank and the State Bank for Agriculture to loans on special terms from commercial banks and savings banks (so-called PSV-loans).

A special problem in Norwegian credit policy is related to the substantial tax advantages in connection with real estate investments and their financing by borrowing. Real properties are assessed at a fraction of their trading value, and for income tax purposes the imputed earnings are set at only 2½ per cent. On the other hand, full deduction is allowed for interest payments on loans. At a time of rapid price rise, these double tax advantages are rather at variance with the principles on which our direct taxation is otherwise based. Some business investments also benefit from these tax advantages, but in practice the advantages are greatest in the case of personal investments in real property. The result may therefore easily be a sub-optimal allocation of resources and an artifical boost to investments in this sector. On the other hand, savers are hard hit by the tax on their interest earnings which often do not even make up for the inflation.

The guideline figure for bank lending in 1981 has been set at 10 billion kroner. This is some 3 billion kroner more than the 1980 figure. About 1 billion kroner of the increase is attributable to a further shift in housing finance to the so-called PSV-loans from private banks.

The higher guideline figure for bank lending entails that credit policy will be somewhat less tight than in the last couple of years. The banks will be free to lend some 70 per cent of the estimated increase in their deposits. That is a greater proportion than in recent years. In 1979 the proportion was 57 per cent, and last year it was approximately the same. This relaxation of credit policy would have been desirable had it been accompanied by a tightening of fiscal policy. But it can hardly be said that fiscal policy has been tightened sufficiently to actually make room for the planned increase in commercial and savings bank lending. Also for this reason, economic policy may easily become more expansionary than desirable.

Nevertheless, the change in interest rate policy and the adjustment of the coupon on government bonds provide reason for greater confidence and optimism with regard to the efficacy of credit policy in the period ahead. We now have at our disposal new policy instruments which previously have been sorely missed in this country.

*Foreign exchange policy*

The wide fluctuations on the international foreign exchange markets over the past year have created problems for exchange rate policy and for the administration of the foreign exchange reserves in this country, as in others. The strong fluctuations in exchange rates were accompanied by sharp interest rate movements. The wide deviations between the trends in interest rates in the major countries proved to have a greater impact on the exchange rate development than the differences in rates of inflation. The dollar rose by as much as 13 per cent against the Deutsche mark last year, even though the rate of inflation in the United States was some 10 per cent or twice the German inflation rate. In fact, the pound sterling strengthened even more than the dollar in spite of an even higher rate of inflation in the United Kingdom.

For the Norwegian krone, the overall result between the start of last year and the present time has been a decline of more than 12 per cent against the dollar, 14 per cent against sterling, and 29 per cent against the yen. On the other hand, the krone has strengthened against the EMS currencies. While in the beginning of last year the krone was 2 per cent lower than the weakest of the EMS currencies, it is now some 9 per cent higher than the strongest EMS currency. Against the Deutsche mark, the krone has over the same period strengthened by more than 13 per cent.

When measured in terms of the currency basket, the value of the krone has remained relatively stable, but with a moderate tendency towards weakening. At times when the major currencies show strong fluctuations, however, it is not possible for a country with an open economy and large foreign trade to keep the exchange rate truly stable. Whatever exchange rate arrangement is chosen, the sum total of the movements will not be zero. This is so because the additional profit reaped by, e.g., the shipping and wood-processing industries as a result of a strengthening of the dollar and the sterling and a rapid inflation in those countries does not offset the loss to import-competing industry resulting from a price decline on German goods because the Deutsche mark has weakened and the German inflation rate is low.

When measured by the MERM-method of the International Monetary Fund – the most common international yardstick for the effective value of a currency – the krone strengthened by 2 per cent last year. The effective value of the krone is now 10 per cent higher than in 1970 and 4 per cent lower than in 1975.

Norges Bank has intervened quite heavily in the foreign exchange market, primarily because of the payment of oil taxes. The international oil companies wish to cover themselves against the exchange rate risk in connection with their future tax payments in Norwegian kroner. So as to limit the effects of these payments on exchange rates and on the liquidity situation, Norges Bank has operated in the forward exchange market to quite a large extent. Swap transactions have also been entered into extensively.

Norges Bank's international reserves increased strongly last year – from 21 to 31 billion kroner. At present, they amount to some 27 billion kroner, which equals four months' merchandise imports. The reserves are ample – somewhat higher than the average for the industrial countries – but they are not exceptionally large. They provide freedom of movement and possibilities for meeting sudden strains. Recent years' experiences have shown that such strains can arise both unexpectedly and with very great force.

Three-fourths of the reserves are held in dollars, 15 per cent in Deutsche mark, 7 per cent in SDRs, and the remainder in other currencies. The large proportion held in dollars led to large interest earnings because of the high interest rate level in the United States. The dollar reserves provided a yield of 13 per cent and, on average, we obtained a yield of some 12 per cent. In addition, the dollar holdings appreciated by some 5 per cent. But exchange rates are volatile and Norges Bank therefore needs its large adjustment fund.

It is natural to regard Norges Bank's foreign exchange reserves as the nation's cash holdings. A large proportion must be held in liquid form. Last year, this was fully consonant with a high yield, but this will not always be the case.

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The *International Monetary Fund* is currently strongly expanding its activities. The seventh general review of quotas has recently been completed. As a result, the aggregate of Fund quotas has increased from 40 to 60 billion SDRs. The value of the SDR is at present some 25 per cent higher than that of the dollar. Preparatory work on the eighth general review of quotas has started. The People's Republic of China has joined the Fund.

The SDR system has been revised and made more attractive. This makes it possible, as well as an interesting proposition, for the member countries to hold some of their international reserves in SDRs. The SDR is now valued in terms of a 5-currency basket comprising the main reserve currencies.

SDRs are allocated to the member countries in proportion to their quotas. In this way, the IMF acts as an international central bank creating international liquidity. Norway has hitherto received SDRs for an amount equal to 1 billion kroner, of which some 200 million kroner refers to the latest allocation on January 1, this year.

But the main task of the Fund at present is to assist in the recycling process. The problem is how to bring about the necessary recycling between the enormous payments surpluses of the OPEC countries and the deficits of the other countries, especially the developing countries. Since access to the private credit markets is gradually becoming more difficult for a steadily greater number of deficit countries, the role of the Fund has become much more important. Backed by guarantees from the member countries, the Fund enjoys great creditworthiness both in the member countries and in the international capital markets. Moreover, the Fund can attach conditions to its financial assistance to individual countries, an avenue not open to private credit institutions.

The Fund is now actively engaged in supplementing its resources by borrowing from the OPEC countries and other member countries, and it also aims at raising loans on private credit markets. While normally a member country cannot draw on the Fund more than 200 per cent of its quota, new guidelines have now been adopted under which members' access to the Fund's resources in special circumstances would be up to 600 per cent of quota. A separate subsidy account has been established which can be used by the poorest member countries to reduce the burden of interest payments.

Norway and the other member countries have considered it very important that the Fund's activities in this field are expanded. For its part, Norges Bank is prepared to contribute to the financing in a reasonable proportion to what is provided by other countries.

It is important that member countries approach the Fund for assistance at an early stage. Thereby, the adjustment process can become part of a long-term strategy aimed at improving the investment climate and providing the basis for stronger economic growth. Co-operation with the World Bank, IDA and other international institutions providing long-term credit is essential for an effective carrying out of important investment projects.

The question has been raised whether the IMF should go further in its assistance to the developing countries. However, the main task of the Fund is in the field of international payments, and it is imperative that its effectiveness and resources be preserved for this purpose. Otherwise, its position could easily weaken, and other institutions would have to step in. Institutions such as the World Bank and IDA have as their primary task to assist the developing countries. Let us also keep in mind that the developing countries themselves are greatly interested in preserving unhampered and effective international payments arrangements.

Norway is vitally interested in greater international monetary and exchange rate stability. The present disturbances and uncertainty represent a heavy strain on the business community, especially the export-competing and import-competing sectors. Investment decisions and planning become more difficult, and much management effort has to be directed towards foreign exchange problems. The need for more binding and constructive international co-operation is urgent.

*Concluding remarks – Oil economy*

A lively discussion has lately been going on about the economic possibilities and problems created by the production of oil and gas on the Continental Shelf. Such a debate is useful provided the point of departure is realistic.

Oil and gas extraction is not in itself any unique form of economic activity. It does, however, necessitate extremely large investments, for which deliveries from Norwegian industry have played a large and growing role. It creates new jobs.

The point on which it differs from other types of activity is the large amounts accruing to the state in the form of taxes and royalties. Since the oil sector has now become an integral part of the Norwegian economy, care should be taken not to use the concepts "oil-Norway" and "mainland Norway" as if they were separate economic entities. The so-called mainland economy would in important respects have been different had it not been for the oil.

A basic fact at present is, however, that the oil revenue has been absorbed into the Norwegian economy. This issue has been settled long ago. A question often raised is why the oil does not bring greater economic advantages. Why is there a shortage of hospitals, old-people's homes, roads and ferries? Why is it that real disposable personal incomes are not greater?

The fact of the situation is that we have had a very strong growth of both private and public consumption. Between 1975 and 1980, the real disposable national income, including the oil revenues, rose by some 21 per cent. Public consumption increased by as much as 28 per cent, however, and private consumption rose by some 16 per cent.

But, on average, the increase in the real disposable national income was not any greater in the latter half of the 1970s than in the 1960s, i.e., prior to the oil age. The oil and gas revenues have made it possible to go on raising the standard of living in a way which would otherwise not have been feasible without seeing our external debt increase to completely unacceptable levels.

This year we cannot expect any material increase in our real disposable income. Thus, we do not have greater resources at our disposal even when the oil revenues are included.

Both this year and – even more so – in the years to come, much will of course depend on the trend in the production volume and in oil prices. Throughout the world, large resources have been employed in developing new oil fields and alternative sources of energy, e.g., coal, nuclear power plants and new forms of energy. This will eventually provide results, but it will take a long time. Following the first oil crisis in 1973–74, the real price of oil declined each year until 1979. A price rise in real terms nevertheless seems more probable in the years ahead. As from the mid-1980s, the oil production on the Norwegian Continental Shelf will also be on the increase. Even at this early stage, consideration should be given to the changes in economic policy necessary when the higher oil revenues become a reality.

In this connection there is reason to draw attention to the fact that the rapid integration of the oil revenue into the Norwegian economy has already created major adjustment problems which have not yet been fully overcome. The labour market has altered considerably, and this process is still going on. It ought to be a gradual process at a moderate pace, however. The need for greater labour mobility is urgent, but it should also be kept in mind that it often leads to human problems and difficult readjustments in the economy.

In a country such as Norway, where four million people inhabit an area larger than the British Isles and larger than Italy, it is of decisive importance for the settlement pattern to maintain a cost structure and a competitive position making it possible to preserve and develop the core of scattered industrial enterprises and other branches which at present play such an important role in a regional policy context. In this respect, there is a very essential difference between our country and the densely populated countries.

We should also keep in mind that the rapid switch to the service industry in many cases will be in conflict with the job preferences prevalent among the working population in Norway.

The large external debt accumulated in the years when we used the oil revenues in advance should now be repaid as the loans fall due. Norwegian industry should be allowed to increase its direct investments abroad. This will provide a better and more secure basis for employment here in Norway. Other forms of capital export may also be of interest.

As to our domestic economy, a high level of investments ought to be maintained. New investments should in great measure take place in high-technology and capital-intensive sectors which can pay high wages.

By tightening fiscal policy and pursuing a moderate incomes policy we can adjust to a world economy which is facing difficult years. The opposite road will lead to a more rapid cost and price inflation, a weakening of our competitive position, stronger adjustment problems and a depopulation of exposed regions.

A realistic economic policy will require a certain amount of moderation in the immediate future. The problems are nevertheless much easier to handle here in Norway than in the great majority of industrial countries which do not have comparable new resources at their disposal. 85 per cent of the Norwegian economy is based on sectors other than oil and gas production. Let us behave in such a way that also this – the largest – sector of the Norwegian economy can grow and thrive.

# Appendix B

*Tables:*

*Appendix table 1. Norges Bank's Balance Sheet as at December 31, 1979, and at the end of each month in 1980 (million kroner)*

| | 1979 Dec. 31 | Jan. 31 | Feb. 28 | March 31 |
|---|---|---|---|---|
| Financial assets: | | | | |
| International reserves: | | | | |
| Gold | 285 | 285 | 285 | 285 |
| Special Drawing Rights in the IMF | 907 | 1,119 | 1,127 | 1,141 |
| Reserve position in the IMF | 792 | 792 | 792 | 792 |
| Loan to the IMF | 428 | 427 | 413 | 409 |
| Bank deposits abroad[2)] | 10,594 | 11,346 | 11,461 | 12,844 |
| Foreign treasury bills | 3,863 | 3,312 | 3,098 | 2,947 |
| Foreign bearer bonds | 4,018 | 3,771 | 3,993 | 4,240 |
| Deposits with Postal Giro | 218 | 80 | 84 | 372 |
| Deposits with commercial banks | 170 | 132 | 132 | 132 |
| Deposits with savings banks | 190 | 190 | 190 | 198 |
| Norwegian treasury bills | 8,216 | 4,544 | 6,868 | 6,138 |
| Norwegian government bonds | 1,129 | 1,126 | 1,123 | 1,123 |
| Other Norwegian bearer bonds | 187 | 184 | 182 | 176 |
| Loans to commercial banks | 878 | 2 | 665 | 744 |
| Loans to savings banks | 34 | 274 | 189 | 321 |
| Other domestic loans | 275 | 244 | 254 | 263 |
| Government consolidated account | 5,430 | 5,430 | 5,430 | 5,430 |
| Discounted bank drafts | 683 | 375 | 304 | 592 |
| Other domestic claims, etc. | 173 | 776 | 162 | 163 |
| Other foreign claims, etc. | 1,257 | 1,257 | 1,257 | 1,257 |
| Expenditures | 2 | 71 | 112 | 185 |
| Total | 39,729 | 35,737 | 38,121 | 39,752 |
| Liabilities and capital: | | | | |
| Notes in circulation | 17,870 | 17,242 | 16,913 | 16,880 |
| Divisionary notes and coin in circulation | 750 | 740 | 742 | 747 |
| Domestic sight deposits: | | | | |
| Treasury | 6,580 | 5,328 | 8,675 | 9,825 |
| Other central government | 1,752 | 2,210 | 1,762 | 1,940 |
| Social security administration and local governments | 5 | 8 | 7 | 5 |
| Postal Giro and Post Office Savings Bank | 1,094 | 139 | 168 | 332 |
| Commercial banks | 407 | 394 | 613 | 294 |
| Savings banks | 221 | 242 | 122 | 453 |
| State banks | 199 | 212 | 270 | 176 |
| Other domestic finance institutions | 20 | 43 | 97 | 35 |
| State enterprises | 578 | 675 | 559 | 587 |
| Other Norwegian sectors | 49 | 56 | 49 | 58 |
| Norges Bank's money market paper | 2,765 | 0 | 0 | 126 |
| Tax-free allocations to funds | 99 | 96 | 97 | 107 |
| Due to foreign banks | 83 | 72 | 66 | 88 |
| Krone debt to the IMF | 1,122 | 1,122 | 1,122 | 1,122 |
| Other domestic liabilities | 249 | 2,210 | 142 | 58 |
| Other foreign liabilities, etc. | 225 | 197 | 268 | 259 |
| Allocations of Special Drawing Rights in the IMF | 694 | 893 | 893 | 893 |
| Share capital, reserve fund, contingency fund | 105 | 105 | 105 | 105 |
| Adjustment fund | 4,148 | 2,917 | 4,148 | 4,148 |
| Other funds, etc. | 714 | 540 | 705 | 702 |
| Income, domestic | 0 | 115 | 235 | 263 |
| Income, foreign | 0 | 181 | 363 | 549 |
| Total | 39,729 | 35,737 | 38,121 | 39,752 |
| Specifications: | | | | |
| International reserves | 20,887 | 21,053 | 21,169 | 22,657 |
| Other foreign assets | 1,257 | 1,257 | 1,257 | 1,257 |
| Foreign liabilities | 1,430 | 1,391 | 1,456 | 1,469 |

1) Adjustments owing to exchange rate changes are shown in a table in the section on Norges Bank's accounts.

2) Including foreign notes and coin.

| 1980 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| April 30 | May 31 | June 30 | July 31 | Aug. 31 | Sept. 30 | Oct. 31 | Nov. 30 | Dec. 31[1)] |
| 285 | 285 | 285 | 285 | 285 | 285 | 285 | 285 | 285 |
| 1,150 | 1,204 | 1,204 | 1,204 | 1,215 | 1,215 | 1,220 | 1,230 | 1,041 |
| 792 | 773 | 771 | 767 | 754 | 754 | 754 | 750 | 992 |
| 400 | 389 | 385 | 379 | 365 | 361 | 355 | 341 | 339 |
| 13,066 | 13,744 | 13,887 | 13,679 | 14,265 | 15,622 | 19,779 | 20,604 | 18,681 |
| 2,743 | 2,859 | 2,729 | 2,146 | 1,846 | 1,994 | 3,704 | 3,413 | 4,202 |
| 5,142 | 5,228 | 5,283 | 5,090 | 4,968 | 4,976 | 5,158 | 4,357 | 5,775 |
| 58 | 117 | 91 | 102 | 123 | 86 | 94 | 75 | 77 |
| 131 | 131 | 131 | 131 | 128 | 128 | 128 | 129 | 128 |
| 203 | 212 | 214 | 222 | 230 | 234 | 235 | 235 | 233 |
| 6,135 | 2,793 | 2,767 | 6,868 | 7,364 | 8,135 | 2,770 | 3,570 | 3,821 |
| 1,234 | 1,232 | 1,114 | 1,114 | 1,110 | 588 | 588 | 588 | 582 |
| 176 | 172 | 168 | 167 | 167 | 160 | 158 | 155 | 149 |
| 925 | 744 | 1,011 | 319 | 452 | 525 | 547 | 894 | 316 |
| 252 | 527 | 340 | 178 | 210 | 191 | 147 | 176 | 213 |
| 274 | 269 | 277 | 271 | 270 | 279 | 227 | 287 | 285 |
| 5,430 | 5,430 | 5,430 | 5,430 | 5,430 | 5,430 | 5,430 | 5,430 | 5,430 |
| 359 | 528 | 560 | 479 | 289 | 411 | 548 | 308 | 498 |
| 164 | 170 | 190 | 189 | 189 | 190 | 193 | 193 | 74 |
| 1,257 | 1,276 | 1,278 | 1,282 | 1,295 | 1,295 | 1,295 | 1,299 | 2,067 |
| 203 | 214 | 298 | 457 | 472 | 448 | 442 | 366 | — |
| 40,379 | 38,297 | 38,413 | 40,759 | 41,427 | 43,307 | 44,057 | 44,685 | 45,188 |
| 16,617 | 16,886 | 17,368 | 17,329 | 17,474 | 18,562 | 18,214 | 18,126 | 19,013 |
| 740 | 752 | 742 | 740 | 768 | 774 | 806 | 788 | 801 |
| 9,281 | 8,483 | 5,311 | 2,775 | 7,088 | 9,265 | 7,834 | 11,081 | 8,051 |
| 2,926 | 1,589 | 1,804 | 2,731 | 1,942 | 1,879 | 3,268 | 2,025 | 2,125 |
| 27 | 7 | 7 | 5 | 5 | 25 | 22 | 22 | 5 |
| 303 | 185 | 610 | 633 | 185 | 252 | 233 | 318 | 1,162 |
| 918 | 244 | 394 | 545 | 201 | 1,194 | 1,330 | 513 | 551 |
| 104 | 176 | 206 | 276 | 183 | 477 | 204 | 365 | 228 |
| 123 | 133 | 188 | 343 | 268 | 312 | 233 | 130 | 216 |
| 47 | 11 | 74 | 18 | 146 | 47 | 412 | 45 | 51 |
| 463 | 779 | 717 | 666 | 513 | 473 | 563 | 527 | 896 |
| 109 | 78 | 187 | 75 | 125 | 52 | 354 | 62 | 87 |
| 161 | 166 | 1,752 | 5,322 | 2,744 | 45 | 0 | 112 | 114 |
| 106 | 103 | 96 | 96 | 98 | 97 | 96 | 96 | 94 |
| 56 | 87 | 85 | 45 | 207 | 68 | 244 | 102 | 74 |
| 1,122 | 1,141 | 1,143 | 1,147 | 1,160 | 1,160 | 1,160 | 1,165 | 1,932 |
| 78 | 69 | 123 | 100 | 101 | 112 | 148 | 108 | 487 |
| 258 | 248 | 227 | 232 | 227 | 190 | 241 | 185 | 189 |
| 893 | 893 | 893 | 893 | 893 | 893 | 893 | 893 | 910 |
| 105 | 105 | 105 | 105 | 105 | 105 | 105 | 105 | 105 |
| 4,148 | 4,148 | 4,148 | 4,148 | 4,148 | 4,148 | 4,148 | 4,148 | 7,103 |
| 697 | 694 | 689 | 675 | 670 | 659 | 653 | 645 | 994 |
| 354 | 368 | 450 | 560 | 597 | 622 | 694 | 728 | — |
| 743 | 952 | 1,094 | 1,300 | 1,579 | 1,896 | 2,202 | 2,396 | — |
| 40,379 | 38,297 | 38,413 | 40,759 | 41,427 | 43,307 | 44,057 | 44,685 | 45,188 |
| 23,578 | 24,481 | 24,544 | 23,550 | 23,697 | 25,207 | 31,255 | 30,979 | 31,315 |
| 1,257 | 1,276 | 1,278 | 1,282 | 1,295 | 1,295 | 1,295 | 1,300 | 2,067 |
| 1,436 | 1,476 | 1,454 | 1,424 | 1,594 | 1,419 | 1,645 | 1,451 | 2,195 |

*Appendix table 2. Norges Bank's Profit and Loss Account as at December 31 (million kroner)*

| | 1977 | 1978 | 1979 | 1980 |
|---|---|---|---|---|
| Income: | | | | |
| Domestic: | | | | |
| Interest on loans | 260 | 294 | 139 | 301 |
| Interest on deposits | 14 | 14 | 24 | 29 |
| Discount on treasury bills | 22 | 187 | 339 | 340 |
| Interest on bonds | 290 | 120 | 133 | 138 |
| Interest earnings, domestic | 586 | 615 | 635 | 808 |
| Less: Interest on money market paper | — | 33 | 364 | 94 |
| Total, domestic | 586 | 582 | 271 | 714 |
| Foreign: | | | | |
| Interest on deposits | 417 | 432 | 708 | 1,526 |
| Discount on treasury bills | 204 | 374 | 449 | 391 |
| Interest on bonds | 25 | 26 | 217 | 504 |
| Other interest receipts | 70 | 82 | 78 | 90 |
| Interest earnings, foreign | 716 | 914 | 1,452 | 2,511 |
| Agio loss/gain | — | −477 | 35 | 12 |
| Total, foreign | 716 | 437 | 1,487 | 2,523 |
| Total income | 1,302 | 1,019 | 1,758 | 3,237 |
| Expenditures: | | | | |
| Head Office and branches | 186 | 197 | 204 | 220 |
| The Printing Works | 25 | 26 | 26 | 34 |
| The Royal Mint | 21 | 18 | 22 | 15 |
| Total expenditures | 232 | 241 | 252 | 269 |
| Net profit | 1,070 | 778 | 1,506 | 2,968 |
| Distribution of profit: | | | | |
| Dividend | 3.5 | 3.5 | 4.2 | 4.2 |
| Building fund | 110.0 | 150.0 | 150.0 | 300.0 |
| Adjustment fund | 866.9 | 509.0 | 1,231.6 | 2,099.6 |
| Other allocations | 10.0 | 15.0 | 20.0 | 20.0 |
| Transferred to the Government | 80.0 | 100.0 | 100.0 | 400.0 |
| Write-off of the Government's liability for divisionary coin put into circulation before 1962 | | | | 144.2 |

*Appendix table 3. Norges Bank's Lending at end of each month in 1979 and 1980 (million kroner)*

| | Total loans | | Loans to banks | | Government-guaranteed loans to fisheries | | Other loans | |
|---|---|---|---|---|---|---|---|---|
| | 1979 | 1980 | 1979 | 1980 | 1979 | 1980 | 1979 | 1980 |
| January | 208 | 433 | 28 | 259 | 88 | 100 | 92 | 74 |
| February | 1,851 | 1,096 | 1,679 | 912 | 94 | 105 | 78 | 79 |
| March | 702 | 1,310 | 523 | 1,117 | 96 | 111 | 83 | 82 |
| April | 912 | 1,782 | 700 | 1,578 | 103 | 119 | 109 | 85 |
| May | 2,004 | 1,461 | 1,785 | 1,263 | 100 | 118 | 119 | 80 |
| June | 555 | 774 | 355 | 567 | 98 | 130 | 102 | 77 |
| July | 272 | 701 | 50 | 498 | 102 | 131 | 120 | 72 |
| August | 976 | 431 | 756 | 233 | 112 | 129 | 108 | 69 |
| September | 689 | 471 | 472 | 262 | 107 | 125 | 110 | 84 |
| October | 234 | 262 | 20 | 108 | 110 | 112 | 104 | 42 |
| November | 397 | 778 | 179 | 565 | 108 | 125 | 110 | 88 |
| December | 1,192 | 701 | 984 | 495 | 107 | 124 | 101 | 82 |

*Appendix table 4. Norges Bank's Lending, excluding Loans to Banks Quarterly figures 1979 and 1980 (million kroner)*

| | 1979 | | | | 1980 | | | |
|---|---|---|---|---|---|---|---|---|
| | Mar.31 | June 30 | Sep.30 | Dec.31 | Mar.31 | June 30 | Sep.30 | Dec.31 |
| Bergen branch | 4.5 | 6.1 | 5.9 | 2.7 | 3.8 | 8.2 | 5.9 | 5.1 |
| Bodø branch | 14.9 | 23.1 | 21.3 | 14.9 | 19.9 | 21.0 | 26.0 | 22.8 |
| Hammerfest branch | 18.0 | 15.4 | 14.2 | 13.6 | 13.8 | 16.6 | 15.1 | 13.7 |
| Kristiansund N. branch | 1.2 | 0.8 | 0.9 | 0.7 | 1.2 | 1.4 | 1.6 | 1.6 |
| Stavanger branch | 0.3 | 0.3 | 0.2 | — | — | — | — | — |
| Tromsø branch | 61.9 | 75.1 | 70.3 | 36.9 | 25.6 | 29.5 | 27.6 | 33.9 |
| Trondheim branch | 4.9 | 4.6 | 3.9 | 3.1 | 5.6 | 3.8 | 3.0 | 5.2 |
| Vardø branch | 30.3 | 27.7 | 34.1 | 44.1 | 39.7 | 43.1 | 40.0 | 42.6 |
| Alesund branch | 5.8 | 9.4 | 10.5 | 5.0 | 6.9 | 12.3 | 12.6 | 3.7 |
| Head office | 37.3 | 37.4 | 55.7 | 86.9 | 76.2 | 71.6 | 77.4 | 77.3 |
| Total | 179.1 | 199.9 | 217.0 | 207.9 | 192.7 | 207.5 | 209.2 | 205.9 |

*Appendix table 5. Distribution of "Other Loans" from Norges Bank at end of 1979 and 1980 (1,000 kroner)*

| | 1979 | 1980 |
|---|---|---|
| Municipalities, incl. municipal enterprises | 228 | 57 |
| Other private finance companies | 50,275 | 45,978 |
| Food industry, etc. | 2,864 | 14,225 |
| Textile industry | 1,024 | 710 |
| Wholesale and retail trade | 46,024 | 21,437 |
| Total | 100,415 | 82,407 |

*Appendix table 6. The Banks' Automatic Liquidity Loans (A-loans) in Norges Bank in 1980*
*(a) Number of banks, by marginal interest rate*

| | Jan/Feb | Mar/Apr | May/Jun | Jul/Aug | Sep/Oct | Nov/Dec |
|---|---|---|---|---|---|---|
| Discount rate | Suspended | 21 | 73 | 26 | 84 | 113 |
| » +1% | » | 25 | 67 | 39 | Suspended | Suspended |
| » +2% | » | 105 | 71 | 145 | » | » |
| Liquidity buffer[1] | » | 22 | 6 | 9 | 42 | 29 |
| Number of borrowing banks | — | 173 | 217 | 219 | 126 | 142 |

*(b) Relative distribution of loans raised*

| | Jan/Feb | Mar/Apr | May/Jun | Jul/Aug | Sep/Oct | Nov/Dec |
|---|---|---|---|---|---|---|
| Discount rate | Suspended | 51.3 | 72.6 | 36.6 | 61.8 | 86.6 |
| » +1% | » | 25.2 | 17.2 | 34.0 | Suspended | Suspended |
| » +2% | » | 22.9 | 9.8 | 28.4 | » | » |
| Liquidity buffer[1] | » | 0.6 | 0.4 | 1.0 | 38.2 | 13.4 |
| Total | — | 100 | 100 | 100 | 100 | 100 |

[1] Interest rate 12.5% in the period March 3—June 2. Otherwise 11.5%.

*Appendix table 7. Denominations of Coin in Circulation, 1978–1980 (million kroner)*

| | 5-krone | 1-krone | 50-øre | 25-øre | 10-øre | 5-øre | 2-øre[2] | 1-øre[2] | Total[1] |
|---|---|---|---|---|---|---|---|---|---|
| 1978 | 258.3 | 238.7 | 62.0 | 46.4 | 54.9 | 16.6 | 3.8 | 4.4 | 685.1 |
| 1979 | 281.2 | 254.7 | 67.2 | 50.3 | 58.2 | 17.8 | 3.8 | 4.4 | 737.6 |
| 1980: | | | | | | | | | |
| March | 278.4 | 252.8 | 67.2 | 51.1 | 58.9 | 18.0 | 3.8 | 4.4 | 734.6 |
| June | 280.8 | 256.5 | 68.2 | 52.4 | 60.2 | 18.4 | 3.8 | 4.4 | 744.7 |
| September | 286.8 | 264.9 | 70.0 | 53.9 | 61.4 | 18.7 | 3.8 | 4.4 | 763.9 |
| December | 296.0 | 276.4 | 71.8 | 55.2 | 62.3 | 19.0 | 3.8 | 4.4 | 788.9 |

[1] Excl. silver coins for a total of kr. 6,743,000 and 10-krone, 25-krone, 50-krone and 200 krone commemorative coins.
[2] No longer legal tender.

*Appendix table 8. Denominations of Notes in Circulation, 1978–1980 (million kroner)*

| | 1,000-kr. | 500-kr. | 100-kr. | 50-kr. | 10-kr. | 5-kr. | Total |
|---|---|---|---|---|---|---|---|
| 1978 | 6,371.4 | 1,334.7 | 8,427.4 | 360.6 | 559.0 | 6.3 | 17,059.4 |
| 1979 | 7,487.4 | 1,236.8 | 8,185.0 | 376.2 | 578.7 | 6.3 | 17,870.4 |
| January | 7,198.2 | 1,186.1 | 7,938.6 | 356.2 | 556.5 | 6.3 | 17,241.9 |
| February | 6,980.5 | 1,153.8 | 7,864.3 | 356.2 | 551.8 | 6.3 | 16,912.8 |
| March | 6,927.2 | 1,137.5 | 7,894.6 | 358.6 | 556.0 | 6.3 | 16,880.2 |
| April | 6,840.2 | 1,119.5 | 7,747.0 | 357.7 | 546.5 | 6.3 | 16,617.2 |
| May | 6,984.2 | 1,121.3 | 7,833.3 | 375.1 | 565.3 | 6.3 | 16,885.5 |
| June | 7,204.3 | 1,119.6 | 8,089.2 | 360.9 | 579.3 | 6.3 | 17,359.4 |
| July | 7,229.1 | 1,101.1 | 8,023.0 | 395.1 | 575.0 | 6.3 | 17,329.4 |
| August | 7,348.0 | 1,095.9 | 8,061.2 | 389.4 | 573.2 | 6.3 | 17,473.7 |
| September | 8,116.3 | 1,165.3 | 8,291.8 | 393.2 | 588.9 | 6.3 | 18,561.7 |
| October | 8,061.6 | 1,137.4 | 8,045.7 | 380.7 | 582.5 | 6.3 | 18,214.2 |
| November | 8,066.5 | 1,113.5 | 7,975.7 | 379.0 | 585.6 | 6.3 | 18,126.5 |
| December | 8,764.6 | 1,118.3 | 8,133.1 | 386.3 | 603.8 | 6.3 | 19,012.4 |

*Appendix table 9. Denominations of Notes Cancelled 1978–1980 (million kroner)*

| | 1,000-kr. | 500-kr. | 100-kr. | 50-kr. | 10-kr. | 5-kr. | Total |
|---|---|---|---|---|---|---|---|
| 1978 | 1,102.5 | 201.6 | 1,017.2 | 416.4 | 575.7 | — | 4,313.4 |
| 1979 | 994.7 | 265.4 | 2,735.0 | 424.0 | 584.6 | — | 5,003.7 |
| 1980 | 1,244.6 | 294.9 | 3,190.5 | 533.7 | 694.8 | — | 5,958.5 |

*Appendix table 10. Average Life of Notes 1977–1980 (in years)*

| | 1,000-kr. | 500-kr. | 100-kr. | 50-kr. | 10-kr. |
|---|---|---|---|---|---|
| 1977 | 11.2 | 9.2 | 3.8 | 0.8 | 0.8 |
| 1978 | 5.6 | 6.8 | 3.8 | 0.8 | 0.9 |
| 1979 | 6.4 | 5.0 | 3.1 | 0.8 | 0.9 |
| 1980 | 6.0 | 4.1 | 2.5 | 0.7 | 0.8 |

*Appendix table 11. Banknote Production at Norges Bank's Printing Works 1971–1980 (Number of packets, each containing 500 notes)*

| | 1,000-kr. | 500-kr. | 100-kr. | 50-kr. | 10-kr. |
|---|---|---|---|---|---|
| 1971 | 1,177 | 878 | 41,688 | 12,816 | 97,812 |
| 1972 | 839 | 480 | 48,576 | 10,512 | 99,564[1)] |
| 1973 | 954 | 845 | 43,704 | 10,686 | 157,260[2)] |
| 1974 | 1,612 | 1,048 | 50,688 | 21,720 | 102,336[3)] |
| 1975 | 9,318 | 1,267 | 49,920 | 11,640 | 116,760 |
| 1976 | — | 2,048 | 47,760 | 17,520 | 152,936 |
| 1977 | 1,260 | 4,440 | 59,040[4)] | 21,120 | 106,624 |
| 1978 | 3,504 | 3,228 | 109,120[5)] | 7,632 | 100,156 |
| 1979 | 3,432 | 0 | 50,880[6)] | 17,712 | 163,072 |
| 1980 | 4,164 | 0 | 66,120[7)] | 20,736 | 113,484 |

[1)] Of which 420 packets series V. [2)] Of which 44,940 packets series V. [3)] Of which 8,640 packets series IV. [4)] Of which 12,240 packets series VI. [5)] Of which 54,720 packets series VI. [6)] Of which 15,120 packets series VI. [7)] Of which 49,680 packets series VI.

*Appendix table 12. Coin Production at the Royal Mint 1971–1980 (1,000 pieces)*

| | 5-krone | 1-krone | 50-øre | 25-øre | 10-øre | 5-øre | 2-øre | 1-øre | Total |
|---|---|---|---|---|---|---|---|---|---|
| 1971 | 236 | 10,212 | 2,489 | 4,286 | 8,896 | 13,326 | 15,466 | 18,966 | 73,877 |
| 1972 | 2,234 | 13,221 | 4,446 | 8,817 | 24,829 | 18,654 | 15,899 | 21,104 | 109,204 |
| 1973 | 2,824 | 9,145 | 3,325 | 8,521 | 22,315 | 62,139 | | | 108,269 |
| 1974 | 1,984 | 16,366 | 8,494 | 7,880 | 30,995 | 37,018 | | | 102,737 |
| 1975 | 5,215[1)] | 26,276 | 10,111 | 15,751 | 21,833 | 32,921 | | | 112,107 |
| 1976 | 9,142 | 35,936 | 15,032 | 24,110 | 41,712 | 24,255 | | | 150,187 |
| 1977 | 4,443 | 24,797 | 18,349 | 20,769 | 40,238 | 29,645 | | | 138,241 |
| 1978 | 8,843[2)] | 24,323 | 16,209 | 11,259 | 39,615 | 13,838 | | | 114,887[3)] |
| 1979 | 6,818 | 16,076 | 9,575 | 16,667 | 27,354 | 25,256 | | | 101,746 |
| 1980 | 1,578 | 5,918 | 15,037 | 13,336 | 42,670 | 27,515 | | | 106,352[4)] |

1) Of which 2,385,000 commemorative 5-krone coins.
2) Of which 2,990,000 commemorative 5-krone coins.
3) Incl. 800,000 commemorative 50-krone coins.
4) Incl. 298,000 commemorative 200-krone coins.

*Appendix table 13. Norges Bank's Banknote Series 1877–1980*

| | Series I | Series II | Series III | Series IV | Series V | Series VI |
|---|---|---|---|---|---|---|
| 1,000-krone notes | 1877/98 | 1901/45 | 1945/47 | 1949/74 | 1975/80 | — |
| 500- » | 1877/96 | 1901/44 | — | 1948/76 | 1978 | — |
| 100- » | 1877/98 | 1901/45 | 1945/49 | 1949/62 | 1962/77 | 1977/80 |
| 50- » | 1877/99 | 1901/45 | 1945/50 | 1950/65 | 1966/80 | — |
| 10- » | 1877/99 | 1901/45 | 1945/53 | 1954/74 | 1972/79 | — |
| 5- » | 1877/99 | 1901/44 | 1945/54 | 1955/63 | — | — |
| Divisionary notes | | | | | | |
| 1-krone notes | 1917 | 1940/50 | | | | |
| 2- » | 1918 | 1940/50 | | | | |

Series-I notes were taken out of circulation in 1903 in accordance with Section 12 of Act on Norges Bank, but they are still redeemed by the Bank. Series-II 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 series are still legal tender.

*Appendix table 14. Norges Bank's Discount Rate 1939–1980[1)]*

| | | | | | |
|---|---|---|---|---|---|
| 1939, Sept. 22 | 4 1/2 | 1969, Sept. 27 | 4 1/2 | 1978, Feb. 13 | 7 |
| 1940, May 11 | 3 | 1974, March 30 | 5 1/2 | 1979, Nov. 30 | 9 |
| 1946, Jan. 9 | 2 1/2 | 1975, Oct. 6 | 5 | | |
| 1955, Feb. 14 | 3 1/2 | 1976, Sep. 6 | 6 | | |

1) For information on Norges Bank's discount rate back to 1818, see Appendix table 14 of Annual Report for 1979.

*Appendix table 15. Norway's International Reserves and Other Foreign Exchange Holdings as at December 31 (million kroner)*

| | 1976 | 1977 | 1978 | 1979 | 1980[1] |
|---|---|---|---|---|---|
| Norges Bank's net international reserves (a—b) | 11,475 | 8,471 | 14,254 | 20,573 | 30,686 |
| (a) Official gold and foreign exchange reserves | 11,582 | 11,329 | 14,449 | 20,880 | 30,972 |
| Of which: | | | | | |
| Gold[2] | 235 | 260 | 272 | 285 | 285 |
| Reserve position in the IMF | 885 | 857 | 804 | 792 | 750 |
| Loan to the IMF | 601 | 608 | 542 | 428 | 340 |
| Special drawing rights in the IMF (SDRs) | 538 | 580 | 630 | 907 | 1,230 |
| Bank deposits abroad and foreign securities | 9,323 | 9,024 | 12,201 | 18,468 | 28,367 |
| (b) Foreign krone deposits with Norges Bank | 107 | 2,858 | 195 | 307 | 286 |
| Of which: | | | | | |
| Banks | 37 | 2,708 | 51 | 83 | 102 |
| Other depositors | 70 | 150 | 144 | 224 | 184 |
| Commercial and savings banks' net foreign exchange holdings (a—b) | −2,246 | 502 | −1,123 | −3,938 | −10,276 |
| (a) Bank deposits abroad | 1,823 | 3,393 | 2,259 | 1,886 | 1,683 |
| (b) Short-term debt abroad | 4,069 | 2,891 | 3,382 | 5,824 | 11,959 |
| Norges Bank's international reserves and commercial and savings banks' net foreign exchange holdings | 9,229 | 8,973 | 13,131 | 16,635 | 20,410 |
| Other sectors' net foreign exchange holdings (a—b) | 281 | 712 | 645 | 1,180 | 893 |
| (a) Bank deposits abroad and foreign securities | 4,351 | 4,214 | 5,786 | 7,154 | 7,321 |
| Of which: | | | | | |
| Shipowners | 2,429 | 1,858 | 2,401 | 2,933 | 3,064 |
| Insurance companies | 779 | 896 | 1,029 | 1,323 | 1,419 |
| Commercial and industrial companies, etc. | 1,143 | 1,460 | 2,356 | 2,898 | 2,838 |
| (b) Short-term foreign exchange loans from abroad | 4,070 | 3,502 | 5,141 | 5,974 | 6,428 |
| Total international reserves and foreign exchange holdings | 9,510 | 9,685 | 13,776 | 17,815 | 21,303 |

1) As at November 30.

2) On the entering into force of the Second Amendment of the Articles of Agreement of the IMF on April 1, 1978, the official gold price was abolished. However, like most other central banks, Norges Bank will continue to value the gold holdings at the previous official price of SDR 35 per ounce.

# Appendix C

# Norges Bank's Management and Personnel as of January 1, 1981

Section 20 of the Norges Bank Act stipulates that the Bank shall have a Supervisory Council consisting of fifteen members and a Board of Directors consisting of five members. Each branch office shall have a Board of Management composed of three members elected by the Storting and of a Managing Director.

The Chairman and the Deputy Chairman of the Board of Directors shall be appointed by the King, while the fifteen members of the Supervisory Council and three of the members of the Board of Directors shall be elected by the Storting. The Managing Directors of the branch offices shall be appointed by the Supervisory Council.

### Chairman of the Supervisory Council:
Sverre Frogner

### Board of Directors:
Knut Getz Wold, Chairman
Hermod Skånland, Deputy Chairman
Otto Totland
Juul Bjerke
Kaare Petersen

*Alternates:*
Kåre Kristiansen
Bodil Skjånes Dugstad
Rikoll J. Nestaas

*Employee representatives:*
Jan Syversen
Finn Torkildsen
Liv Karlsen (deputy)
Kari Berg (deputy)

### Departments at Head Office:
Knut Getz Wold, Governor
Hermod Skånland, Deputy Governor

*Secretary's and Administration Department:*
Per Mjelve, Director
Legal Division: Viking Mestad
Budget Division: Siri Caspersen
Secretary's Office: Erik Kolderup
Organization and Methods Division: Ivar Borg
Leif-Åge Bergseng (acting head of EDP section)
Personnel Division: Kolbjørn Aspaas, Personnel Manager
General Services Division: Kjell Stixrud
Dag Stenersen

*Securities, Cash and Accounting Department:*
Ragnhild Lagerløv, Director
Central Accounting Division: Hans Torjuul, Chief Accountant
Securities and Trustee Division: Oddvar Trones
Vigleik Nilsen
Dealings and Accounts Division: Leiv Thorkildsen
Chief Cashier's Division: Kåre Sagård, Chief Cashier
Coin Division: Lorang Lund

*Credit Policy Department:*
John Tvedt, Director
Bank Relations Division: Martinus Halsen, Assistant Director
Industrial Finance Division: Knut Knutsen
Monetary Policy Division: Leif Eide
Statistics Division: Jon Petter Holter

*Economic Intelligence Department:*
Jarle Bergo, Director
Research Division: Leiv Vidvei, Assistant Director
Economic Information Division: Liv Kielland (acting)
Economic Analysis Division: Jon A. Solheim

*Foreign Exchange Department:*
Arne Lie, Director
Foreign Exchange Policy Division:
Knut Andreassen, Acting Assistant Director
Exchange Regulations Division: Per Steina
Foreign Collections and Transfers Division:
Trygve Dahlstrøm
Foreign Exchange Operations Division: Trygve Spildrejorde
Foreign Exchange Statistics Division:
C.J. Vogt (acting)

*Norges Bank's Representative Office, New York:*
Bjarne Hansen, Director

### Note and Coin Production:
*Norges Bank's Printing Works:*
Gulbrand Heyerdahl-Jensen, Director
Per Ulsteen, Assistant Director

*The Royal Mint:*
Ole-Robert Kolberg, Director

### Auditing Department:
Knut Romdahl, Director

## Norges Bank's Personnel

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

| | 1977 | 1978 | 1979 | 1980 |
|---|---|---|---|---|
| Head Office: | | | | |
| Secretary's and Administration Department | 196 | 205 | 207 | 215 |
| Securities, Cash and Accounting Department | 171 | 168 | 174 | 165 |
| Foreign Exchange Department | 157 | 155 | 161 | 161 |
| Credit Policy Department | 63 | 37 | 39 | 40 |
| Economic Intelligence Department | | 27 | 27 | 28 |
| Auditing Department | 25 | 27 | 28 | 29 |
| Total Head Office and Auditing Department | 612 | 619 | 636 | 638 |
| Regional branches | 451 | 475 | 488 | 493 |
| Printing Works | 143 | 141 | 139 | 137 |
| The Royal Mint | 82 | 77 | 75 | 76 |
| Total | 1,288 | 1,312 | 1,338 | 1,344 |