

The Government Petroleum Fund and its influence on the Norwegian economy

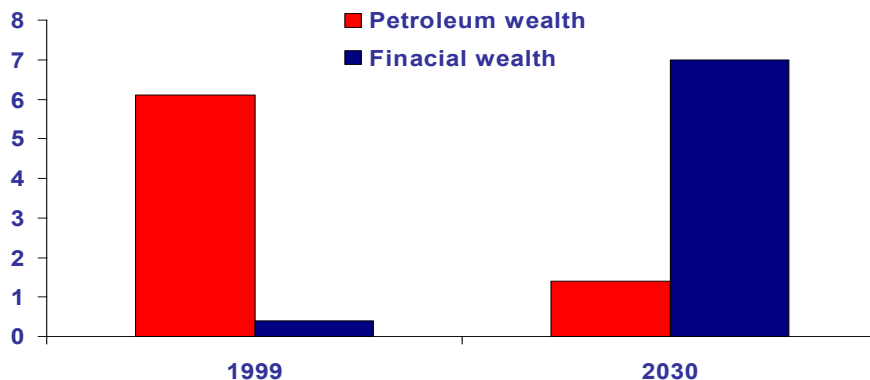


Deputy Governor Jarle Berge
 Svensk – norska
 handelskammaren
 Stockholm 22. oktober 2003

www.norges-bank.no

From petroleum wealth to financial wealth

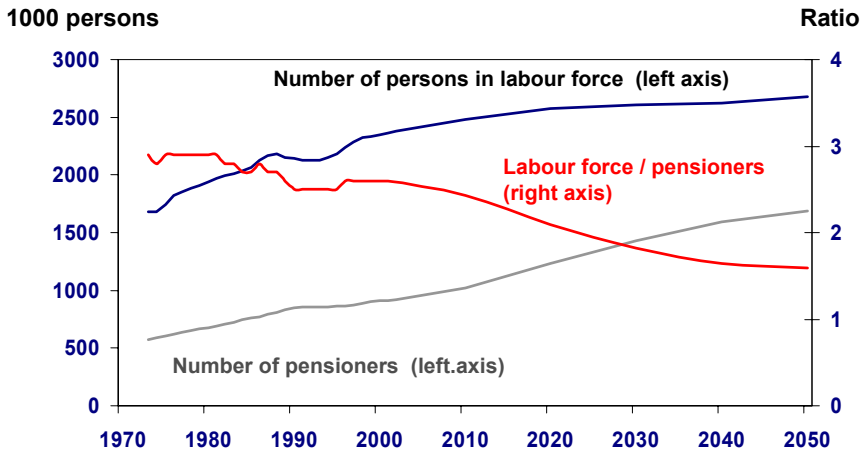
Per cent of total wealth



Source: The Long Term Programme 2002-2005

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A demographic challenge



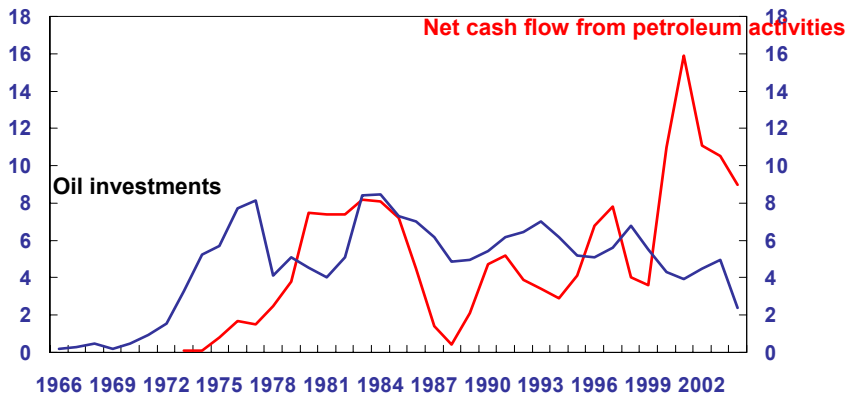
Source: National Budget 2004

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PF-norsk ok/Stockholm/JB221003

Petroleum activities and the Norwegian Economy

Per cent of GDP



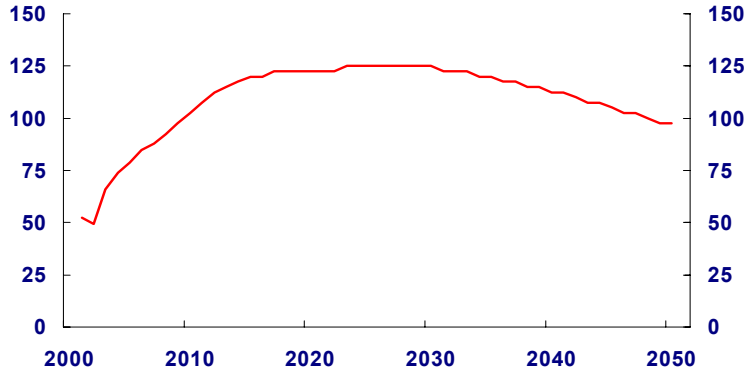
Source: National Budget 2004 and Norges Bank

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PF-norsk ok/Stockholm/JB221003

The Government Petroleum Fund¹⁾

Per cent of mainland GDP

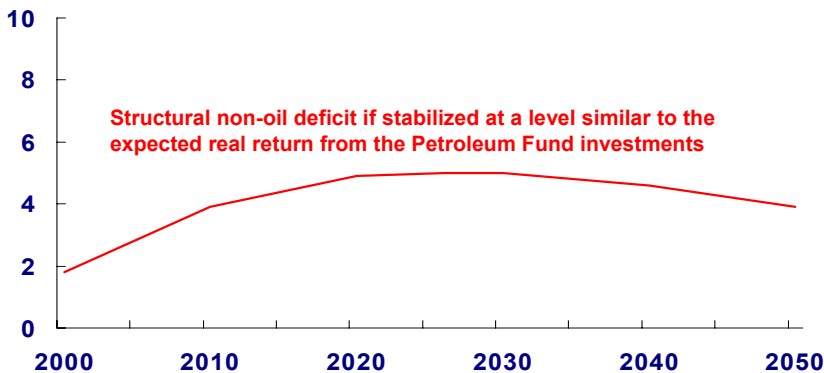


1) When expected return is used

Source: National Budget 2004 and Norges Bank

The fiscal policy rule targets a stable increase in the use of oil revenues in the economy

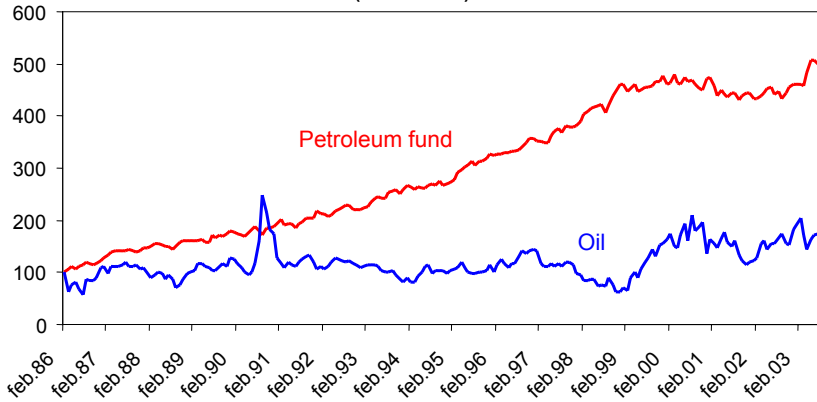
Per cent of mainland GDP



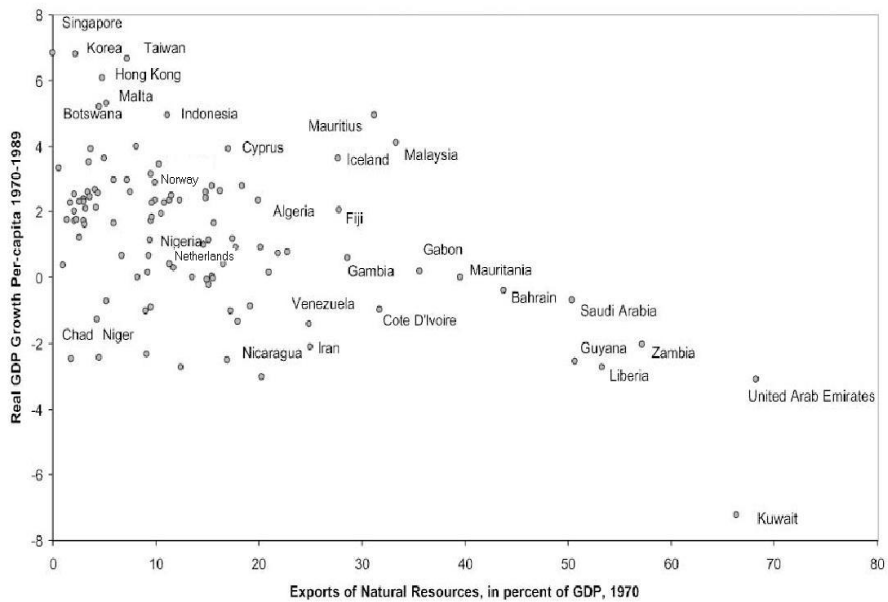
Source: National Budget 2004

Return on oil vs Petroleum Fund

Value index on oil and the Petroleum fund in USD
(1.2.86 = 100)



	Oil	Petroleum fund
Annual return	3,1 %	9,8 %
Standard deviation	41,2 %	8,8 %



Source: J.D. Sachs & A.M. Warner (2001) 8

Experiences: Spain in the 1600s

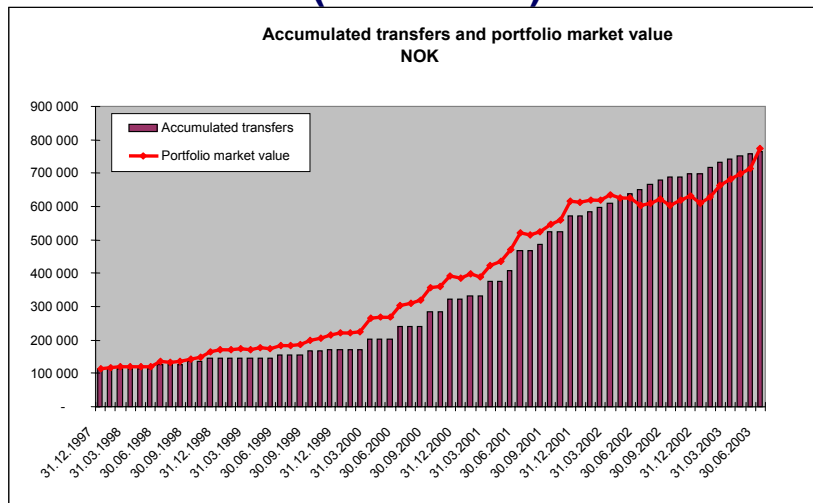
- "... the Spanish nation today possesses the greatest wealth and the largest income of all the Christians. But the love of luxury and the comforts of civilization have overcome them, and you will rarely find one of this nation who engages in trade or travels abroad for commerce as do the other Christian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

the Moroccan ambassador in Spain, 1690

Source: "The wealth and poverty of nations", David Landes

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Petroleum fund 1998 – 2003 (mill NOK)



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1. Diversify

- Between asset classes



2. Diversify

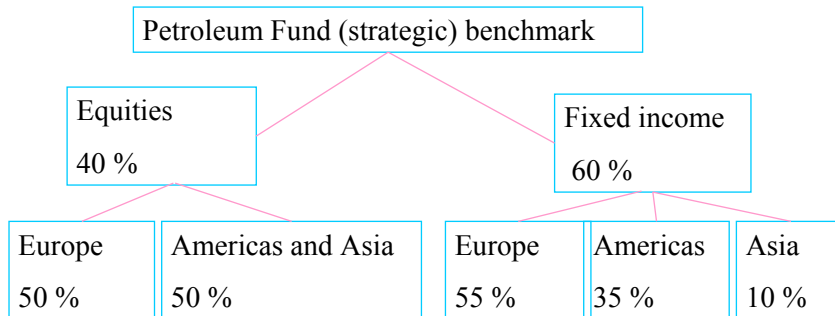
- Between regions and sectors

3. Diversify

- Between companies and issuers



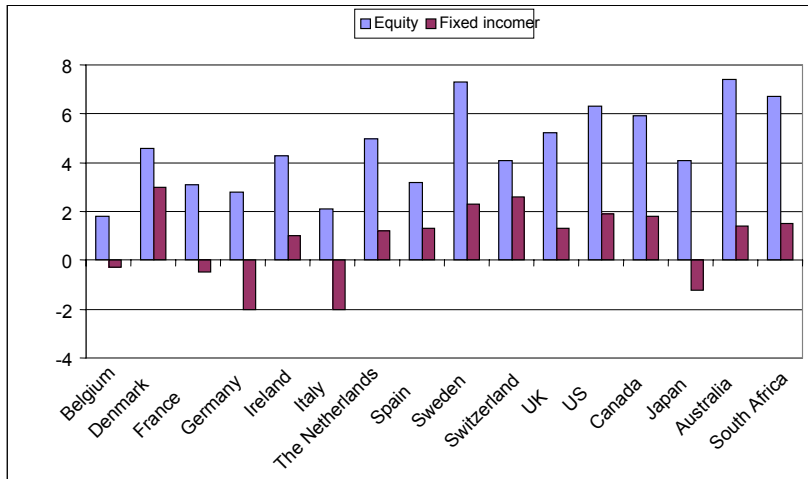
Benchmark – current regulations



FTSE all-world country indices in 27 countries. Approx. 2200 companies as of september 2003.

Lehman Global Aggregate broad fixed income index in 18 land European and North American countries and LGA Treasury indices in 4 Asian countries. Approx. 7400 bonds as of august 2003

Global long term equity and fixed income return



Source: Dimson, E., Marsh, P. & Staunton, M. "Global Investment Returns Yearbook 2003, London Business School - ABN Amro

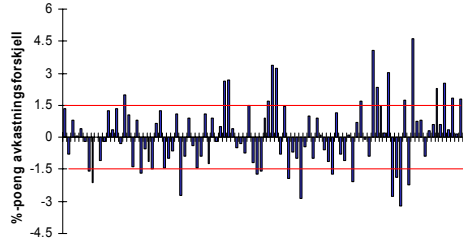
PF-norsk ok/Stockholm/JB221003

Discussion on the investment strategy in the National Budget 2004

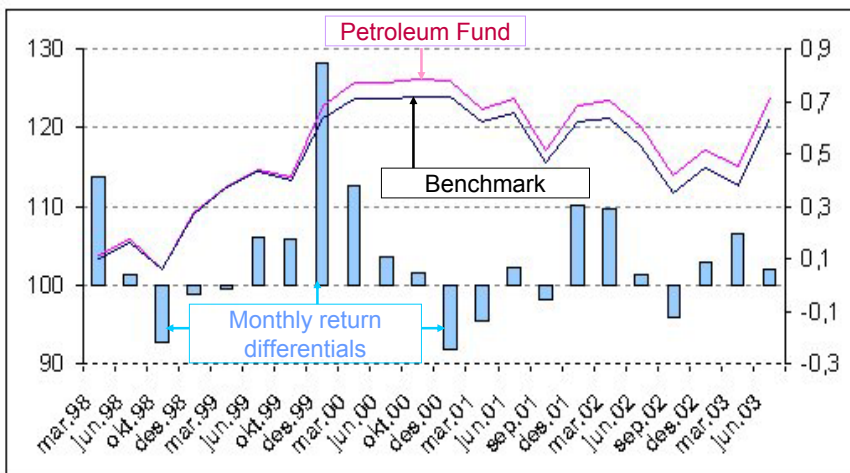
- The last years market movements is not a valid argument in it self to reconsider the investment strategy
- The benchmark will not be expanded with small cap equity
- Private Equity and Real Estate will not be accepted in the investment universe
- A limited allocation in the benchmark to inflation indexed bonds will be considered

Norges Bank risk limits

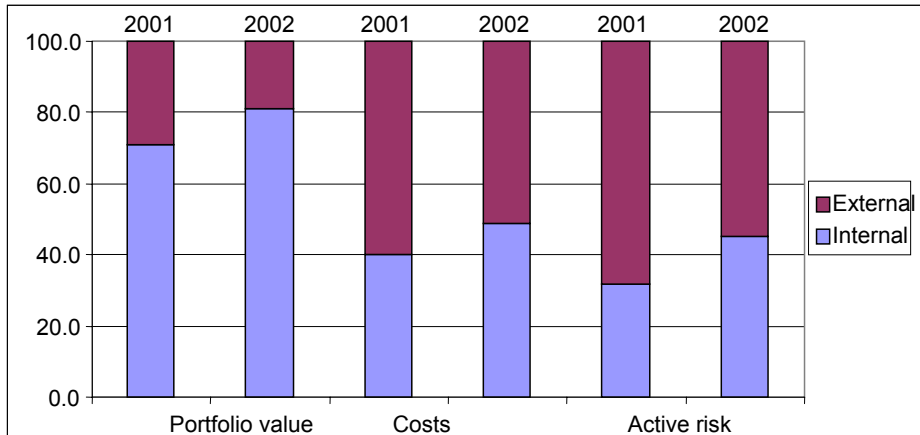
- **Total risk:** 150 basis points tracking error
- **Means:** The relative return differentials will be less than 150 bp in 2 out of 3 years if the risk quota is utilized 100 % at any time
- **Partial risk limits:**
 - Equity proportion: 30 – 50 %
 - Regional weights: +/- 10 % from benchmark weights (F. ex: Fixed income Europe 45 – 65 %)
 - Interest rate risk: Modified duration between 3 – 7 on the aggregate fixed income portfolio



Petroleum Fund return 1998 - 2003



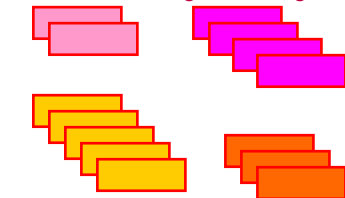
Division of portfolio value, management costs and active risk between internal and external managers 2001 - 2002 (per cent)



The Petroleum Fund mandate and manager structure 31.12.2002

Fixed income

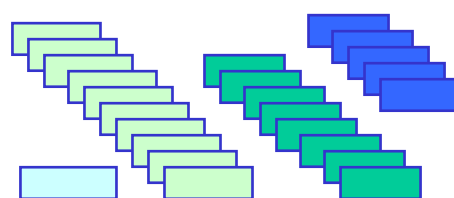
- internal global indexing + external MBS indexing
- internal and external active global management, external active MBS management
- 8 external managers having 9 mandates



- internal enhanced index
- external index and active MBS
- Internal active global fixed
- external active global fixed

Equity

- internal indexing
- internal and external global sector management, external regional management
- 16 external managers having 27 mandates



- Internal enhanced index
- internal active sector
- external active regional
- external active sector

Proposal on ethical guidelines for the Government Petroleum Fund

1. *Exercise of ownership rights* to promote long-term financial returns based on the UN's Global Compact and the OECD Guidelines for Multinational Enterprises.
2. *Negative screening* from the investment universe of companies that produce or through entities they control produce weapons whose normal use violates fundamental humanitarian principles.
3. *Exclusion* of companies from the investment universe where there is deemed to exist a considerable risk of contributing to gross violation of human rights, gross corruption or severe environmental degradation