Financial markets and Norges Bank's operations[1]

[1]The cut-off date for this report was 8 December.

1 Summary

A number of central banks have raised their key rates since the September Economic Bulletin. The European Central Bank, Bank of England, Danmarks Nationalbank and Sveriges Riksbank increased their repo rates, and the Federal Reserve increased its fed funds rate.

Three-month money market rates have risen in the US, Japan and the euro area. In the US, yields on ten-year government bonds rose, whereas yields fell in Japan. The Norwegian krone weakened against both the yen and the US dollar. The depreciation was strongest against the yen, at about 10%, whereas the krone weakened by just over 3% against the dollar.

The Norwegian krone has strengthened against the euro by 1.3% since the September Economic Bulletin. The krone exchange rate against the euro fluctuated between NOK 8.11 and NOK 8.37 in this period. The trade-weighted index has weakened by just over 0.3%.

Norges Bank has lowered its deposit and lending rates by 0.5 percentage point in this period. This decision was based on projections of slower growth in the Norwegian economy. However, most money market rates have remained unchanged. Short money market rates declined before key rates were lowered, but the liquidity premium around the turn of the year contributed to a renewed rise in short rates. The money market indicator has moved down by 0.4 percentage point to 6.0% and the three-month interest rate differential against the euro was 2.6 percentage points on 8 December, which is 0.7 percentage point lower than in the September report.

The yield curve in the bond market has flattened out since the previous report. Yields have risen slightly on the two government bonds with the shortest maturities, whereas yields have remained unchanged for the three with the longest maturities.

Bank interest rates were reduced from the second to the third quarter of 1999. Lending rates declined slightly more than deposit rates, narrowing the interest rate margin. Lending rates were also reduced in state lending institutions, life insurance companies and mortgage companies.

Year-on-year growth in the money supply was 9.9 % at end-October. The indicator for twelve-month growth in private and municipal sector gross domestic debt (C2) was 8.0%. Growth in C2 moved up by one percentage point in September, reaching approximately the same level prevailing at end-October. The indicator for twelve-month growth in total credit (C3) was 9.8% at the end of the third quarter, compared with 10.1% at the end of the second quarter of 1999.

2 Foreign exchange and money markets and Norges Bank's operations

2.1 Foreign exchange market

The Norwegian krone has appreciated by 1.3% against the euro since the last report. The krone exchange rate against the euro fluctuated between NOK 8.11 (3 December) and NOK 8.37 (18 October). The trade-weighted index has weakened by 0.3%.

Table 2.1 shows movements in banks' total foreign currency transactions in 1998 and so far in 1999. Norges Bank has purchased foreign currency from banks equivalent to NOK 9.0bn up to 26 November this year. These purchases must be seen in connection with the accumulation of capital in the Government Petroleum Fund. Norwegian banks have made spot currency sales to the foreign sector equivalent to NOK 9.3bn and forward currency purchases from the foreign sector equivalent to NOK 5.7bn. The foreign sector has reduced its krone claims on banks by NOK 10.5bn while purchasing VPS-registered bonds (bonds registered with the Norwegian Central Securities Depository) for NOK 12.5bn during this period.

Banks' spot currency purchases from Norwegian customers came to NOK 15.9bn and forward currency purchases to NOK 9.0bn. However, the banks reduced their net currency claims on Norwegian customers by NOK 0.7bn.

Chart 2.1 *Krone exchange rate measured by ECU/EUR and the manufacturing industry's effective krone exchange rate. A descending curve denotes a stronger krone. Weekly figures*

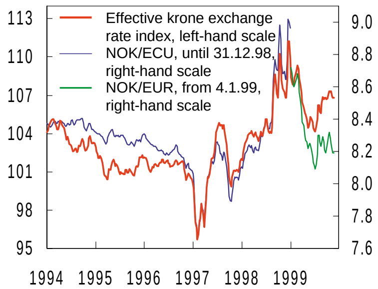
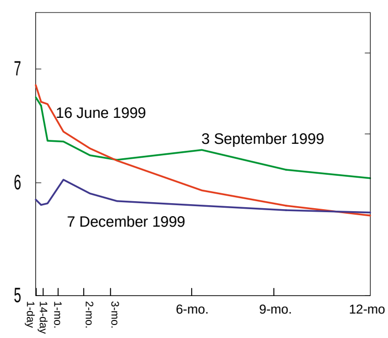


Table 2.1 *Transactions relating to Norges Bank´s exchange market transactions.*[1] *In billions of NOK*

	1998[2]	1999[3]
A. Norges Bank´s net sales of currency to banks	*11*	*-9.0*
1. Spot	11	-9.0
2. Forward	0	0.0
Used by banks to provide cover (offsets):		
B. Foreign[4]	*10*	*3.6*
1. Spot	-15	9.3
2. Forward	25	-5.7
C. Norwegian sectors, non-bank[5]	*-13*	*-24.2*
1. Spot	20	-15.9
2. Forward	-15	-9.0
3. Increase	-18	-0.7
D. Other	*14*	*11.6*
Memorandum item: Norges Bank´s international reserves	*142*	*144.6*[5]

[1]For further details, see Table 48 in the statistical annex.
[2]Based on figures from the Bank´s statistics.
[3]Weeks 1-47.
[4]Positive figures denote foreign exchange sales from banks. Negative figures denote purchases.
[5]End October
Source: Norges Bank

Chart 2.2 *Yield curves for Norway. Effective money market rates*



Source: Norges Bank

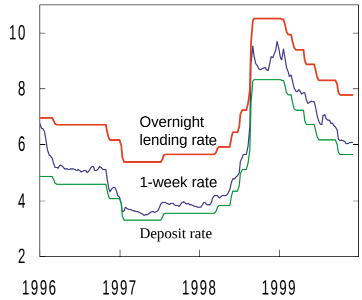
2.2 The money market and Norges Bank's operations

Interest rates

Norges Bank lowered its key rates by 0.5 percentage point on 23 September, reducing the deposit and lending rates to 5.5% and 7.5% respectively. The decision to lower these rates was based on projections of slower growth in the Norwegian economy. However, most money market rates have not changed since the September Economic Bulletin. Short money market rates declined before key rates were changed, reflecting market expectations of lower interest rates. The liquidity premium around the turn of the year led to a rise in short money market rates. The money market yield curve shows that there was also a substantial liquidity premium around the turn of the year. When the three-month swap rate's maturity was set for 3 January on 29 September, it rose by 34 basis points from 5.8% to 6.2%. The rate rose a further 27 basis points during October before receding in the last half of the month. At end-November, the three-month swap rate was 5.9%. After third-quarter GDP growth proved to be sharper than expected, short rates once again moved on an upward trend, reaching 6.0% on 8 December. The fall in the liquidity premium after the new year shows that fears of liquidity problems in connection with the turn of the year have eased considerably over the last month.

The money market indicator (an average of yields for maturities of one week to three months) has fallen from 6.4% to 6.0%. The interest rate differential against the euro (effective three-month) has also declined, from 3.3 percentage points to 2.6 percentage points on 8 December.

Chart 2.3 *Short-term money-market rates. Effective rates. Weekly figures*

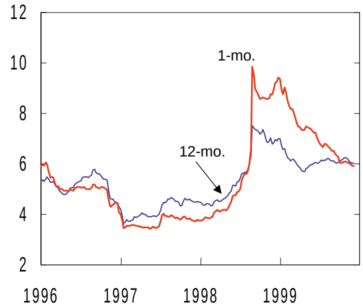


Source: Norges Bank

Money market liquidity

Norges Bank influences money market rates by using its key rates to set a corridor for interest rates, ie banks' interest rates on sight deposits in Norges Bank (deposit rate) and the interest rate on overnight loans to banks (overnight lending rate). Norges Bank can influence interest rates in the money market within this interval through the supply and withdrawal of krone liquidity. Norges Bank counters seasonal variations in banks' liquidity associated with government incoming and outgoing payments through the Bank's liquidity policy instruments. Norges Bank introduced a collateral requirement for fixed-rate loans (F-loans) on 1 September 1999, and has not made use of repurchase agreements in its management of liquidity since that time, ie collateralised F-loans and fixed-rate deposits (F-deposits) are the only liquidity policy instruments Norges Bank has utilised since the last report on financial markets.

Chart 2.4 *One- and twelve-month money market rates. Effective rates. Weekly figures*

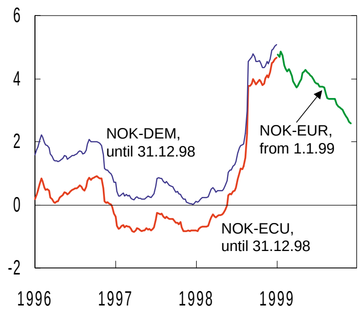


Source: Norges Bank

In September, the average liquidity surplus in the money market was NOK 7.7bn. In the first half of the month, liquidity was withdrawn through three F-deposits at weighted average interest rates between 6.19% and 6.21%. In the last half of September, liquidity was supplied through the issue of four F-loans, the first two at rates of 6.08% and 6.05% respectively. Norges Bank lowered its deposit and lending rates by 0.5 percentage point on 23 September. The F-loans issued following the change in key rates both had a weighted average interest rate of 5.55%.

In October, the liquidity surplus in the money market was on average NOK 9.7bn. There was a need for liquidity during the whole of October. Therefore, liquidity was supplied through seven F-loans which, combined, covered the entire month. The weighted average interest rate for these loans varied between 5.55% and 5.57%.

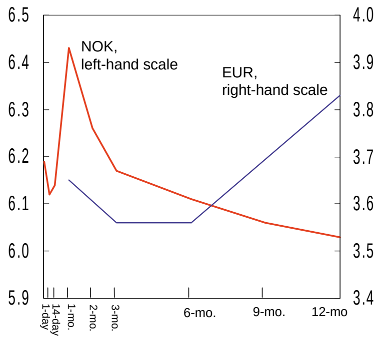
Chart 2.5 *Interest rate differentials for 3-month effective money market rates. Weekly figures*



Source: Norges Bank

In November, the liquidity surplus in the money market was on average NOK 7.8bn. At the beginning of the month, an F-loan was issued to supply liquidity. Liquidity was ample after this time, and two F-deposits at a weighted average interest

Chart 2.6 *Money market yield curves for NOK and EUR. Effectives rates on 7 December 1999*



Source: Norges Bank

Table 2.2 *Central bank financing*

	1999				
	July	Aug.	Sept.	Oct.	Nov.
Daily average (NOKbn)	2.2	4.6	0.5	8.5	8.1
Of which:					
Overnight loans	0.0	0.0	0.0	0.0	0.0
Fixed-rate deposits/loans	-0.3	-0.6	0.5	8.5	8.0
Other financing	2.5	5.2	0.0	0.0	0.0
Overnight borrowing facilitiy, NOKbn	10.6	10.6	10.6	11.3	11.3
Banks´sight deposits with Norges Bank	6.3	7.0	7.8	9.7	7.5
Fixed-rate deposit rate (average), per cent	6.19	6.23	6.20	-	5.66
Fixed-rate lending rate (average), per cent	6.65	6.65	5.81	5.56	5.56

Source: Norges Bank

Table 2.3 *Gross issues of certificates by issuer sector[1]. In billions of NOK*

	1997	1998	Jan. 1998	Oct. 1999
Treasury bills	92.5	48.0	44.0	41.0
Bank certificates (CD)	102.5	108.3	88.1	103.5
Notes issued by				
Mortgage companies	20.1	18.8	14.8	22.4
Private companies	84.5	82.4	68.1	57.5
Finance companies	4.6	6.8	5.6	3.4
Foreign notes in NOK	0	0.1	0.1	0.3
Total	304.2	264.4	220.7	228.1

[1] Table 18 in the statistical annex shows the distribution of NOK-denominated VPS-registered certificates by issuer sector.
Source: Norges Bank

rate of 5.57% were issued in the first half of the month to mop up the excess. In the second half of the month, liquidity was tight before Norges Bank supplied liquidity to the market through five F-loans. The F-loans issued in November had a weighted average interest rate of between 5.54% and 5.57%.

Certificate market

Treasury bills are issued to finance central government activity, but issues are also adjusted to changes in liquidity in the money market. Generally, a Treasury bill is issued each month, following a pattern whereby a new twelve-month bill is issued every quarter. The four existing loans are increased in the intervening months so that there are four outstanding issues covering various maturities of up to one year. In order to facilitate liquidity management, certificates with maturities adapted to large fluctuations in market liquidity or to the Treasury's cash holdings may be issued on an ad hoc basis.

On 6 September, Treasury bill SS59, with maturity on 17 November 1999, was increased by NOK 4bn at a weighted average interest rate of 6.03%. A new Treasury bill, SS61, maturing on 20 September 2000, was issued by auction on 5 October at a weighted average interest rate of 5.84%. The market subscribed for NOK 4.0bn and Norges Bank subscribed for NOK 0.5bn. This Treasury bill was increased by NOK 5.0bn at a weighted average interest rate of 5.91% on 2 November. On 15 November, a new Treasury bill (ad hoc issue) was issued, maturing on 18 May 2000. The market subscribed for NOK 4.0bn of the total NOK 4.5bn, at an average weighted interest rate of 5.88%. Treasury bill SS58 was issued on 6 December, in an amount of NOK 4bn and a weighted average interest rate of 5.83%.

Commercial and savings banks, as well as insurance companies, are the major investors in Treasury bills. They accounted for nearly 40% and 25%, respectively, of total nominal holdings of NOK 32.5bn at the end of the third quarter. Other private enterprises and the foreign sector accounted for approximately 17% and 9% respectively of total nominal holdings.

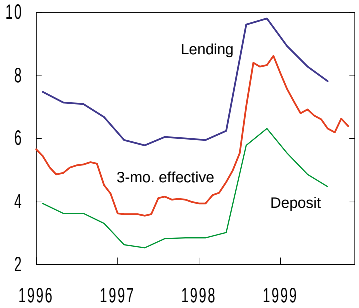
Turnover in certificates on the Oslo Stock Exchange came to NOK 158.5bn to end-November. Treasury bills accounted for approximately 88% of turnover, ie NOK 139.3bn.

2.3 Interest rate trends in financial institutions

Banks' lending and deposit rates were reduced from the second quarter to the third quarter of 1999, with lending rates declining slightly more than deposit rates, thereby narrowing the interest margin. State lending institutions, mortgage companies and life insurance companies also lowered their lending rates.

Banks' lending rates (excluding non-accrual loans) moved

Chart 2.7 *Banks' deposit and lending rates (quarterly figures) and 3-month money market rates (monthly figures)*



Source: Norges Bank

down by 0.47 percentage point from the end of the second quarter to 7.81% at the end of the third quarter of 1999. Deposit rates fell by 0.38 percentage point in the third quarter to 4.48%. As a result, the spread between lending and deposit rates narrowed by 0.09 percentage point to 3.33 percentage points at the end of the third quarter this year.

Life insurance companies lowered their lending rates by 0.35 percentage point to 6.69% at the end of the third quarter. Lending rates in mortgage companies were reduced by 0.19 percentage point to 6.84%. State lending institutions lowered lending rates by 0.60 percentage point to 5.58% at the end of the third quarter of 1999.

3 Capital markets

3.1 The bond market

Yields

The yield curve in the bond market has flattened since the last report. Yields on the two government bonds with the shortest maturities have increased, while there has been virtually no change in the yield on the three bonds with the longest maturities. At 8 December, the yield on Norwegian ten-year government bonds was 6.0%, ie roughly unchanged from the beginning of September.

The yield differential between Norwegian and German ten-year government bonds has remained virtually unchanged at one percentage point since the September report. The yield on German ten-year government bonds was 5.0%, ie approximately unchanged since the last report.

Turnover

Turnover in bonds on the Oslo Stock Exchange amounted to NOK 774.8bn in the period to end-November. Turnover in November amounted to NOK 50.9bn, with an average daily turnover of NOK 2.3bn. In comparison, average daily turnover so far this year has been NOK 3.4bn. The fall in daily turnover is largely due to tighter liquidity in the market towards the turn of the year.

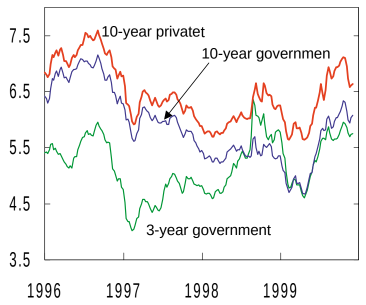
Government bonds have accounted for the largest share of turnover at 78% of total turnover so far in 1999 and 68% of turnover in November. Mortgage companies, banks and institutions with government guarantees were the principal issuers of bonds other than government bonds.

New issues

Gross bond issues came to NOK 77.7bn in 1998, compared with NOK 74.4bn in 1997. In the first ten months of 1999, gross issues came to NOK 68.3bn, compared with NOK 67.1bn in the same period of 1998. Private banks reduced their share of gross issues from 50% in the first ten months of 1998 to 23% in the same period of 1999. State lending institutions and state-owned enterprises accounted for a combined 26.8% of gross issues in the period to end-October, increasing from 11% in the same period of 1998. Mortgage companies accounted for 15.6% of gross issues in the ten months to end-October, compared with just under 11% in the same period last year.

Government bonds S463, S466, S467 and S468 were increased by a total of NOK 1.3bn in August as a result of subsequent subscriptions by Norges Bank. These subscriptions

Chart 3.1 *Yields on government and private bonds. Weekly figures*



Source: Norges Bank

Chart 3.2 *Yield curves for Norway. Effective Treasury bill and government bond yields*

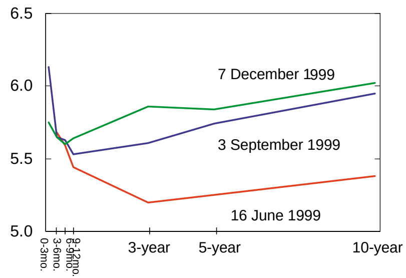
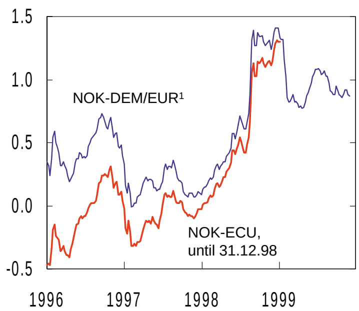


Chart 3.3 *Yield differentials for 10-year government bonds. Effective rates. Weekly figures*



[1] From 4.1.1999 German government bonds denominated in EUR

Source: Norges Bank

Table 3.1 *Gross issues of bearer bonds by issuer sector*[1]. *In billions of NOK*

	1997	1998	Jan. 1998	Oct. 1999
Central government	14.0	14.0	12.0	12.9
State banks and state enterprises	3.9	11.7	7.4	18.3
Private banks and insurance companies	39.9	35.0	33.6	15.8
Mortgage companies and finance companies	5.6	8.3	7.4	10.7
Private sector and municipalities	9.9	8.2	6.3	9.2
Non-resident borrowers	0.8	0.5	0.5	1.4
Total	74.1	77.7	67.1	68.3

[1] Table 15 in the statistical annex shows the distribution of NOK- denominated VPS-registered bonds by holding sector.
Source: Norges Bank

were undertaken in connection with the extension of primary dealers' access to loans in Norges Bank. In addition, government bond S468 was increased by NOK 2.6bn on 28 September and government bond S465 was increased by NOK 2bn on 22 November. These bonds were increased by Dutch auction at a weighted average interest rate of 6.11% and 5.74% respectively. The total value outstanding for the five benchmark government bonds is NOK 118.9bn.

Distribution of bond holdings

Third quarter figures from Norges Bank show that insurance companies accounted for the largest share of NOK-denominated VPS-registered bond holdings at a good 41% of the total market value of NOK 381bn. Commercial and savings banks (including Postbanken and the banks' guarantee funds) accounted for just under 15%, while the central government and social security sector accounted for nearly 9%. Foreign investors' share at the end of the third quarter of 1999 was a good 12%.

3.2 The stock market

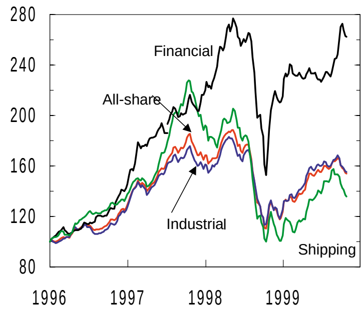
Share prices

The all-share index of the Oslo Stock Exchange has shown a rise of 41% up to the second week of December, ie among the strongest share price performances in Europe in this period. The all-share index fell by nearly 30% in 1998. Since the beginning of 1995, the all-share index has advanced by 95%.

Of the sub-indices, the IT index has shown the strongest gains in 1999 at 75%. The shipping and SME indices rank second, advancing by 46% and 60% respectively. The financial index has shown the weakest gains at 24% while industrials have advanced by 43%.

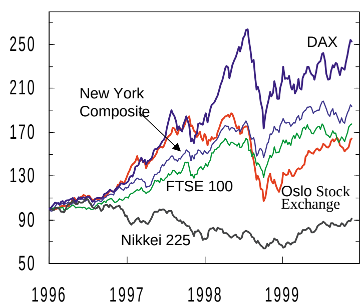
Of the international exchanges, the Nikkei 225 index on the Tokyo stock exchange has shown gains of 34% so far in 1999. The New York composite (NYSE) has shown the weakest increase, advancing by 10%. The FTSE 100 and DAX indices have advanced by 16% and 22% respectively.

Chart 3.4 *Share indices on the Oslo Stock Exchange. Weekly figures. Week 1 1996 = 100*



Source: The Oslo Stock Exchange

Chart 3.5 *International share indices. Weekly figures. (Week 1 1996 = 100)*



Sources: Reuters and the Oslo Stock Exchange

Turnover and market value

Turnover in shares and primary capital certificates on the Oslo Stock Exchange amounted to NOK 398.1bn (Table 3.2) to end-November 1999. This is a 31% rise in turnover on 1998. Industrials have shown the sharpest gains at 41.6%. Turnover in SME shares has declined by about 22%. At end-November, 216 companies, of which 121 on the main list, 79 on the SME list and 20 on the primary capital list, were listed on the Oslo Stock Exchange. The total market value of companies listed on the Oslo Stock Exchange amounted to NOK 525.5bn at end-November, ie an increase of approximately 27% since the

Table 3.2 *Turnover and market value on Oslo Stock Exchange. In billions of NOK*

Turnover	1996	1997	1998	Jan.-Nov. 1999
Total	231.7	341.1	322.7	398.1
Financial	28.1	43.3	51.4	63.8
Industrial	132.7	200.0	123.7	175.3
IT[1]	-	-	33.0	43.6
Shipping/ offshore	46.3	53.7	67.6	68.4
SMEs	16.2	34.4	24.4	19.0
Primary capital	8.2	9.4	7.1	6.5
Other	0.2	0.3	15.5	21.5
Market value	389.4	490.3	415.0	525.5

[1]The IT index was established in 1998
Source: The Oslo Stock Exchange

Table 3.3 *Issues on the Oslo Stock Exchange. In millions of NOK*

	1996	1997	1998	Jan.-Nov. 1999
Total	9 020	21 501	11 385	12 706
Of which foreign	1 867	5 392	0	170
Financial	147	327	415	121
Industrial	3 516	5 094	1 417	3 007
IT[1]	-	-	1 380	3 166
Shipping/ offshore	1 970	3 893	2 080	2 611
SMEs	1 393	6 490	3 208	3 245
Primary capital	127	304	2 527	351
Other	0	1	359	205

[1]Not available prior to 1998
Source: The Oslo Stock Exchange

beginning of the year, and an increase of just over 2% since July.

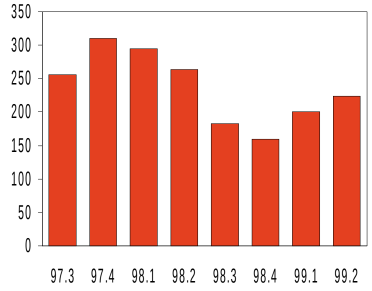
New issues

Shares and primary capital certificates issued so far in 1999, including issues in connection with new stock exchange listings, amounted to NOK 12.7bn (Table 3.3). This represents an increase of 23% on the same period in 1998. Public offerings and private placements accounted for 38% and 57%, respectively, of total issues to end-November. The remaining capital was placed with employees. Industrials and IT have accounted for the largest issues. SMEs account for issues of over NOK 3.2bn. Compared with 1997, the foreign sector has accounted for a small amount of capital both in 1998 and so far in 1999.

Distribution of shareholdings

Foreign investors had the largest holdings in Norwegian listed companies, accounting for 31% of total market value at end-November 1999. The public sector accounted for 17%. The largest Norwegian shareholders are private enterprises, with holdings of 23% of market value. Securities funds have increased their shareholdings from 3.1% in 1990 to 8.7% at end-November 1999. The household sector has reduced its shareholdings from 12.9% to 7.6% in the same period.

Chart 4.1 *Private and municipal gross assets less liabilities excl. shares etc. Last 8 quarters. In billions of NOK*



Source: Norges Bank

Table 4.1 *Private and municipal sector assets and liabilities at market value. In billions of NOK*

	21 June 1998	31 Dec. 1998	31 Mar. 1999	30 June 1999
Total assets	*2207*	*2199*	*2247*	*2329*
Bank deposits etc.	590	603	611	642
Bonds etc.	101	96	96	94
Equities etc.	634	586	628	664
Insurance claims	393	401	413	424
Other assets	489	513	499	506
Total liabilities	*2907*	*2890*	*2956*	*3053*
Loans	1461	1547	1548	1589
Bonds etc.	158	162	173	176
Equities etc.	964	850	909	948
Other liabilities	325	330	326	340
Net assets	*-700*	*-691*	*-709*	*-724*
Households	316	285	326	340
Non-financial enterprises	-999	-954	-1013	-1040
Municipal sector	-17	-22	-22	-24
Memorandum I				
Gross assets less liabilities excl. equities etc [1]	264	159	200	224
- non-financial enterprices	-35	-104	-104	-92
Memorandum II				
Money supply (M2)	705	710	728	753
Credit indicator (C2)[2]	1157	1194	1214	1243
Credit indicator (M3)[2]	1461	1540	1579	1612

[1]For non-financial enterprises, «liabilities excl. equities etc» refers to total liabilities excl. equities, units in securities funds and deposits

[2]Changes in holdings in the money supply differs from twelve month growth in C2 and C3. The reason is that exchange rate valuation changes on domestic foreign exchange loans are deducated when calculating percentage growth.

Source: Norges Bank

4 Private and municipal[1] financial assets and liabilities

4.1 The financial position of the private and municipal sector

General

The financial position of the private and municipal sector, measured as the difference between gross assets and liabilities, excluding equities, units in securities funds and capital contributions measured in terms of market value, rose by NOK 24bn from the end of the first quarter to the end of the second quarter of 1999. The background for the increase is that gross assets (higher equity values and an increase in bank deposits) rose by NOK 82bn, while liabilities, excluding equities, etc, rose by NOK 58bn. By this measure, the financial position of the private and municipal sector was reduced by NOK 40bn from the second quarter of 1998 to the second quarter of 1999 in spite of an improvement in their financial position last quarter.

Cash holdings of the private and municipal sector and domestic bank deposits account for approximately four-fifths of the money supply. At the end of the second quarter of 1999, growth in the money supply was 6.7%. This was 2.0 percentage points lower than the increase in the private and municipal sector's holdings of notes and coin and total bank deposits (bank deposits, etc.). Twelve-month growth in the money supply was 9.9% at end-October 1999.

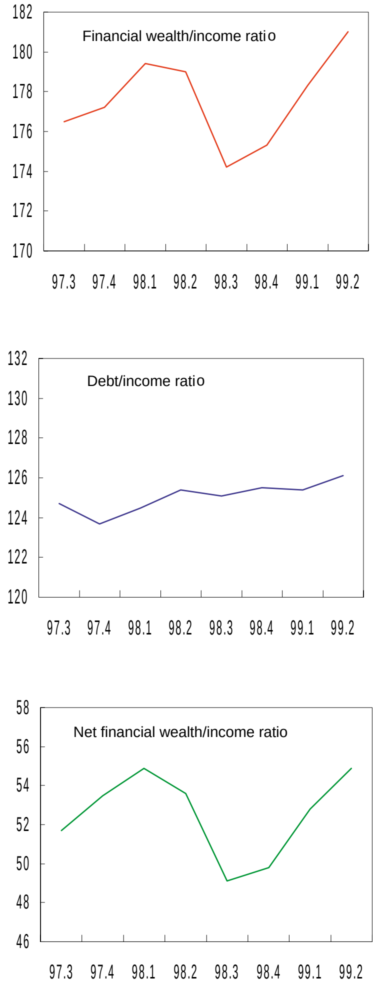
The credit indicator C2 consists of the private and municipal sector's gross liabilities in the form of certificates, bonds and loans. C2 accounts for about two-thirds of private and municipal sector liabilities, excluding equities, etc. Growth in C2 was 7.1% at the end of the second quarter of 1999, ie 1.2 percentage points lower than the increase in liabilities, excluding equities, etc. Year-on-year growth in C2 was 8.0% to end-October. The credit indicator C3 includes, in addition, the sector's liabilities to the foreign sector, and increased by 9.8% from the third quarter of 1998 to the third quarter of 1999. At the end of the second quarter of 1999, twelve-month growth was 10.1%, ie 1.8 percentage points higher than the increase in liabilities, excluding equities, etc, in the same period.

Net assets of various sectors

Household net financial assets increased by approximately NOK 14bn in the second quarter of 1999, and the net financial wealth/income ratio (as a percentage of disposable income)

[1]The private and municipal sector consists of municipal government, non-financial enterprises and households. "Money-holding" sectors also include financial enterprises other than banks and state lending institutions.

Chart 4.2 *Households. Financial wealth/income, debt/income and net financial wealth/income ratios. % of disposable income. Seasonally adjusted figures. Last eight quarters*



Source: Norges Bank

rose to 54.9%. This was the same level recorded at the end of the first quarter of 1998 and the highest level recorded over the last eight quarters. The net financial wealth/income ratio has risen since the third quarter of 1998, mainly due to the change in assets. The financial wealth/income ratio has risen by 6.8 percentage points over the last three quarters, while the debt/income ratio has increased by one percentage point. The rise in the financial wealth/income ratio is attributable to both price gains on securities and investments in financial assets.

The date for the 1998 tax settlement was moved forward to June 1999 (accounting for approximately NOK 11bn in early tax refunds) and led to a sharp increase in the household sector's bank deposits in the second quarter. This was countered by a reduction in tax claims on the central government sector, with little effect on household assets. On the other hand, the change in the tax settlement date contributed to a rise in household liquidity in the second quarter of 1999.

Non-financial enterprises reduced their net liabilities excluding equities, etc, by NOK 12bn from the first quarter to the second quarter of 1999. The enterprise sector's net liabilities excluding equities, etc, has increased by NOK 57bn compared with the second quarter of 1998. Calculations show that the municipal sector's net liabilities have increased by NOK 7bn in the twelve months to the end of the second quarter of 1999. There is nevertheless uncertainty attached to the calculations of preliminary municipal balance sheets, since the figures for some financial items are primarily based on projections.

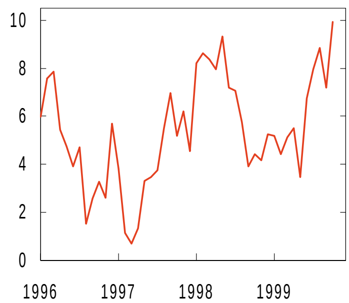
Developments in individual asset and liability items

Private and municipal equity holdings over the last four quarters have been affected by a fall in the market value of equities in the autumn of 1998. The market value of equities issued by domestic non-financial enterprises (equities on the liabilities side of the private and municipal sector's balance sheet) reached its lowest point in the third quarter of 1998. At the end of the second quarter in 1999, the value of equity holdings, etc, was still 1.7% below the value one year earlier. Private and municipal sector liabilities excluding equities, etc, has increased by 8.3% in the four quarters to the end of the second quarter of 1999. At the end of the second quarter, the twelve-month rise in liabilities excluding equities was 8.8%. This is mainly due to slower growth in borrowing during the second quarter of 1999.

Private and municipal gross assets grew by 5.5% from the second quarter of 1998 to the second quarter of 1999. In comparison, growth in the four quarters to the end of the first quarter of 1999 was 3.2%. Insurance claims and other assets have increased from the first quarter to the second quarter, while holdings of bonds, etc, moved on a falling trend last quarter. The market value of equities owned by the private and municipal sector (equities on the assets side of the private and municipal sector's balance sheet) reached its lowest point around the turn of the year. Holdings of equities, etc, were 4.7% higher at end-July compared with the same period last year.

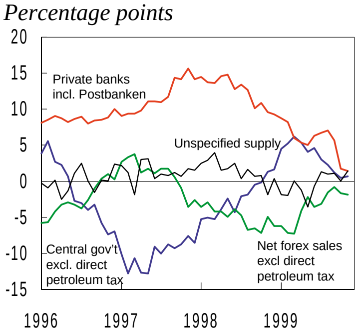
Bank deposits, notes and coin (bank deposits, etc) together make up the largest asset item for the private and municipal sector. Bank deposits, etc, increased by 8.7% in the last four-quarter period. The corresponding increase at the end of the first quarter of 1999 was 7.0%. Approximately 1.8 percentage points of the increase from the first to the second quarter is ascribable to the change in date for the 1998 tax settlement.

Chart 4.3 *Growth in money supply (M2). Percentage growth in last 12 months*



Source: Norges Bank

Chart 4.4 *Contributions of money supply components to 12-month growth in money supply (M2). Percentage points*



Source: Norges Bank

4.2 Money supply

At end-October, twelve-month growth in the money supply (M2) was 9.9% (NOK 70.2bn), compared with 7.2% (NOK 50.5bn) at end-September.

Year-on-year growth in the money supply was 5.2% to the end of 1998, and reached 7.9% at end-July, after fluctuating somewhat in the first six months of the year. After rising further to 8.8% at end-August, growth slowed again in September.

Underlying year-on-year growth in the money supply slowed from 11.9% at end-September to 7.7% at end-October. From a peak of 13.3% at end-March, the growth rate slowed in the next three months before rising again to end-August when it reached 15%.

The central government's combined transactions (revenue deficit and loan transactions) contributed to a lower supply of liquidity in the first three quarters of the year than in the corresponding period of 1998. Banks' supply of liquidity was also considerably lower in the period January-September compared with the previous year. So far in 1999, net sales of foreign currency from money-holding sectors have supplied liquidity, whereas net purchases were recorded in the first nine months of 1998. The total supply of liquidity in the first nine months of the year was slightly higher than in the same period of 1998.

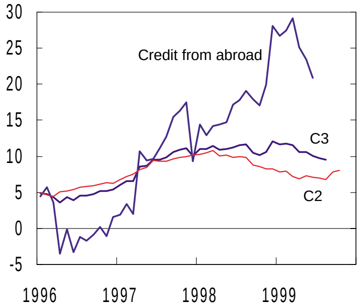
4.3 Credit indicators

Year-on-year growth in the indicator for private and municipal sector gross domestic debt (C2), adjusted for exchange rate changes, was 8.0% (NOK 93.9bn) at end-October, compared with 7.8% (NOK 91.7bn) at end-September. Year-on-year growth in credit from domestic sources in NOK (C1) and foreign currency debt accelerated slightly from end-September to end-October.

After hovering at 7.0% in the period March-August 1999,

Chart 4.5 *Norges Bank's credit indicator (C2 and C3). Growth in aggregate credit (from domestic and foreign sources) to the municipal sector, non-financial enterprises and households.*

Percentage growth in last 12 months



Source: Norges Bank

year-on-year growth in C2 grew by one percentage point in September, and continued at this level to end-October.

The underlying growth rate decelerated from 8.5% at end-September to 8.3% at end-October. It has remained fairly stable since end-July when it was at 8.5%. The underlying growth rate increased by 2.6 percentage points during the first seven months of the year.

Seasonally adjusted annualised growth in C2 increased for the second straight month, and was 11.5% in October. Seasonally adjusted annualised growth in credit from domestic sources declined to 7.8% in October, while monthly growth in foreign currency debt reached its highest value since December 1998. Private and municipal domestic foreign currency debt increased in the three months from August to September, after declining during the first seven months of the year.

Year-on-year growth in bank lending decreased from 7.4% at end-September to 6.6% at end-October. This must be seen against the background of a transfer of loans from one bank to one finance company. These transactions also contributed to a sharp increase in year-on-year growth in lending from finance companies. Transfers of lending portfolios, affecting banks' lending growth, also took place in September, when loans were transferred to a bank from a mortgage company. Therefore, the growth rates which have been published do not properly reflect actual growth in lending from some of the financial undertakings. Adjusting for the largest transactions of this type in the last year, year-on-year growth in bank lending was 9.0%.

Year-on-year growth in private and municipal sector certificate debt continued to accelerate in October. Twelve-month growth in lending from life insurance companies also rose, but the growth rate was still negative at end-October. Growth in loans from state lending institutions slowed in October for the fourth consecutive month after moving on an upward trend over a relatively long period.

Credit from private banks, state lending institutions and mortgage companies accounts for a good 85% of C2. Information on this sector's distribution of credit by borrowing sector is available earlier than for other components of C2. As with developments in C2, year-on-year growth in lending from these sources rose in the last two months. Aggregate lending from these three sources increased by one percentage point from end-August to end-October (7.8%). Lending growth for non-financial enterprises declined from 9.0% to 8.3%, but was still higher than lending to the household and municipal sectors. Year-on-year growth in lending to the household sector rose by 1.4 percentage points to 7.7%, whereas the growth rate slowed from 5.6% to 5.5% for lending to the municipal sector (a low of 3.6% at end-March).

The indicator for private and municipal sector total gross

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debt (C3) comprises private and municipal sector domestic debt (C2) and gross foreign debt. The indicator for private and municipal sector gross foreign debt rose by 17.3% (NOK 53.6bn) over the twelve months to end-September. Year-on-year growth in the indicator for private and municipal sector gross domestic debt was 7.8% (NOK 91.7bn) at the time. This means that the indicator for total private and municipal gross debt (C3) increased by 9.8% (NOK 145.3bn) in the twelve months to end-September, against 10.1% (NOK 147.1bn) in the twelve months to end-June. This decline is exclusively attributable to foreign sources of credit.