

The Norwegian Government Petroleum Fund

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Costs of KP for Norway

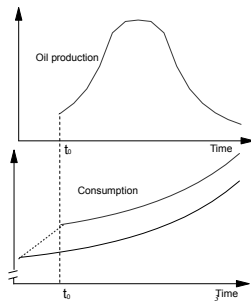
(from White paper in 2001)

- Yearly abatement costs: US \$ 430 mill. (international emissions trading)
- Lost income because of response measures in 2010: US \$ 2,1 bn.

The Petroleum wealth -Smooth consumption

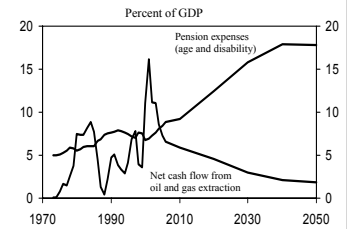
But - the consumption must be separated from the oil production

A main purpose with the Petroleum fund



The Petroleum wealth Saving for the future

- Unsustainable pension system
- Possible solution: Petroleum fund as a Pension fund



Background

- The Norwegian Government Petroleum Fund was established by law in 1990
- The inflow to the Fund is the annual surplus of the central government account
- The first transfer occurred in May 1996
- The fund, currently about \$ 85 bn, is invested in financial assets outside Norway

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Why not invest the Fund in Norway?

- The fund is an instrument of national financial savings. As a nation, we can only save financially abroad
- Few profitable investment opportunities, in Norway in view of the large size of the fund. One could artificially bid up financial assets prices ...
- ... so as to lower the required return on investments in Norway, and instigating capital outflow from the private sector

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The fund management model

- The Ministry of Finance acts as “owner” of the Fund and decides the investment strategy, the benchmark portfolio and the relative risk limits
- Norges Bank, the operational manager, is responsible for “value added” against the benchmark
- Norges Bank reports results, risk and costs quarterly. The reports are released at press conferences and on the Internet

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Important concerns in the management of the Fund

- **Clear lines of responsibility** between the Ministry of Finance as owner and Norges Bank as manager
- **Openness** on the management by public disclosure of goals and regulations, public reports on the management and full disclosure of the Fund's holdings annually
- **Control** of the management by
 - consulting the Parliament on important issues
 - independent performance measurement
 - audits by the Auditor General

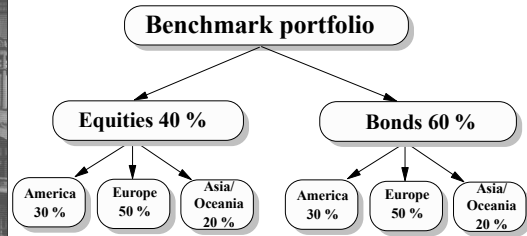
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The Petroleum Fund's investment objectives

- Objective: to maximise the Fund's long-term international purchasing power, assuming acceptable risk
- Short-term return variations are less important
- Parliament has decided on a transfer rule: The expected long-term real return (4 per cent p.a.) is to be transferred to the General budget each year
- US \$ 140 mill. in special Environmental Fund (will be evaluated this year)

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Investment of the Fund



The equity portfolio is distributed between countries according to market capitalization weights

The bond portfolio is distributed between countries according to GDP weights

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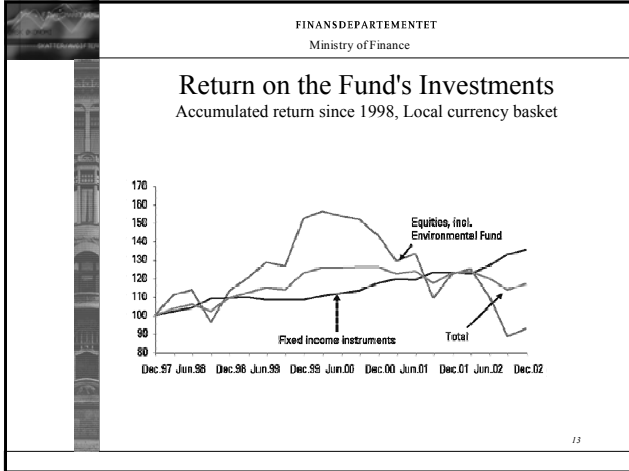
Norges Banks Investment Philosophy -Highest possible return at lowest possible risk

- Many small positions rather than a few large ones
- Greatest possible independence in position-taking
- Specialisation of expertise
- Reasonably safe revenues receive highest priority

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Results

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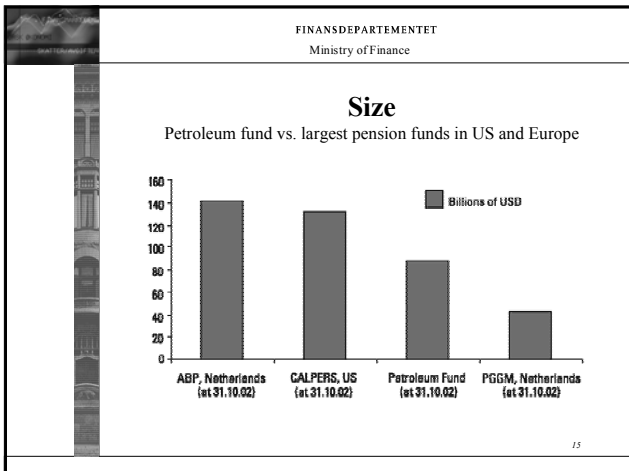
Annualised rates of return

Table 1: Annual nominal and real return on the Petroleum Fund in the period 1997-2002, measured in terms of the Fund's currency basket. Per cent

	1997	1998	1999	2000	2001	2002	1997-2002
Nominal return							
- on the equity portfolio*	-	12.86	34.81	-5.82	-14.59	-24.37	-1.53
- on the fixed income portfolio	9.07	9.31	-0.99	8.41	5.04	9.90	6.72
- on the total portfolio	9.07	9.25	12.44	2.5	-2.47	-4.74	4.14
Price inflation**	1.75	1.03	1.41	2.05	1.18	1.74	1.53
Real return	7.32	8.22	11.03	0.45	-3.65	-6.48	2.62
Management costs***	0.04	0.06	0.09	0.11	-0.07	0.09	0.08
Net real return	7.28	8.16	10.94	0.34	-3.72	-6.57	2.53

* Including the Environmental Fund.
 ** Weighted average of consumer price inflation in the countries included in the Fund's benchmark portfolio during the year in question.
 *** Costs include fees to external managers for excess return achieved. Costs in 1997 are estimated but not calculated exactly.

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- ### Lessons to be learned
- It is important to be prepared for lower income from petroleum production
 - In the case of Norway, financial savings are used because of the need to meet financial obligations in the future
 - Other types of Fund constructions may be wiser in other countries with other circumstances and other needs.
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Websites:

www.norges-bank.no

odin.dep.no/fin/