

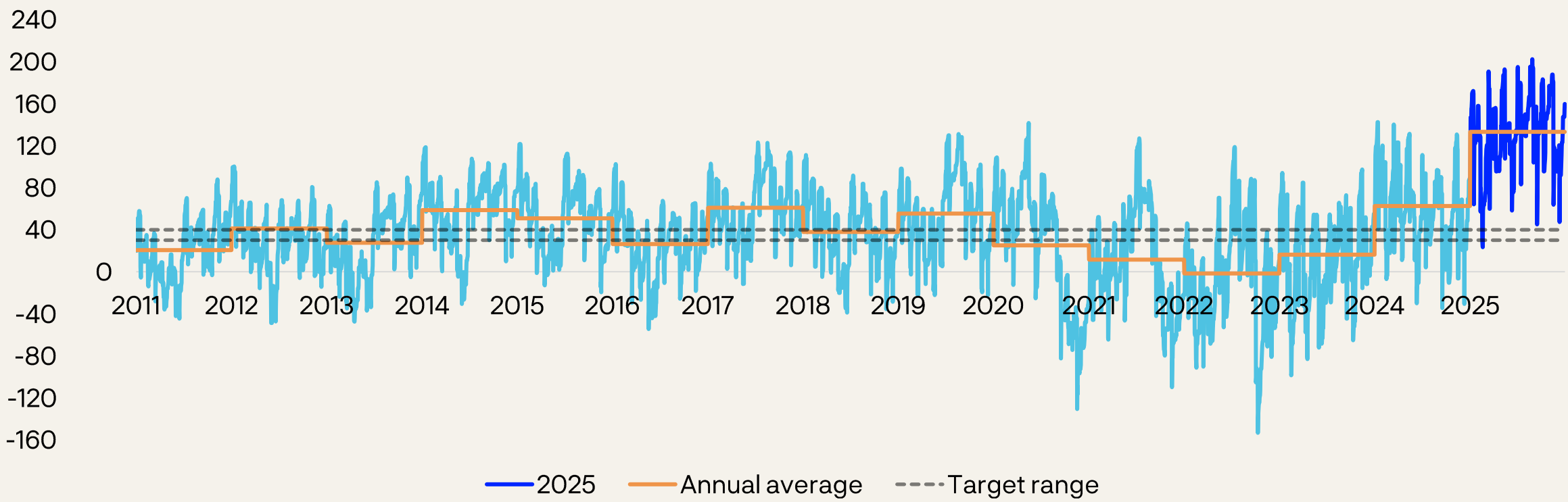
# Higher structural liquidity

Consequences for Norges Bank's liquidity management

# Structural liquidity is at a historically high level

Structural liquidity is defined as banks' deposits in Norges Bank, i.e. central bank reserves, prior to Norges Bank's market operations

Structural liquidity. In billions of NOK



# Agenda

- Key reasons for high structural liquidity in 2025
- Norges Bank's liquidity management system and liquidity policy objectives
- Norges Bank's experiences from withdrawing surplus liquidity
- Consequences for NOWA volume and other effects of high structural liquidity
- What can be done if Norges Bank fails to achieve its liquidity policy objectives?

# Reasons for high structural liquidity in 2025

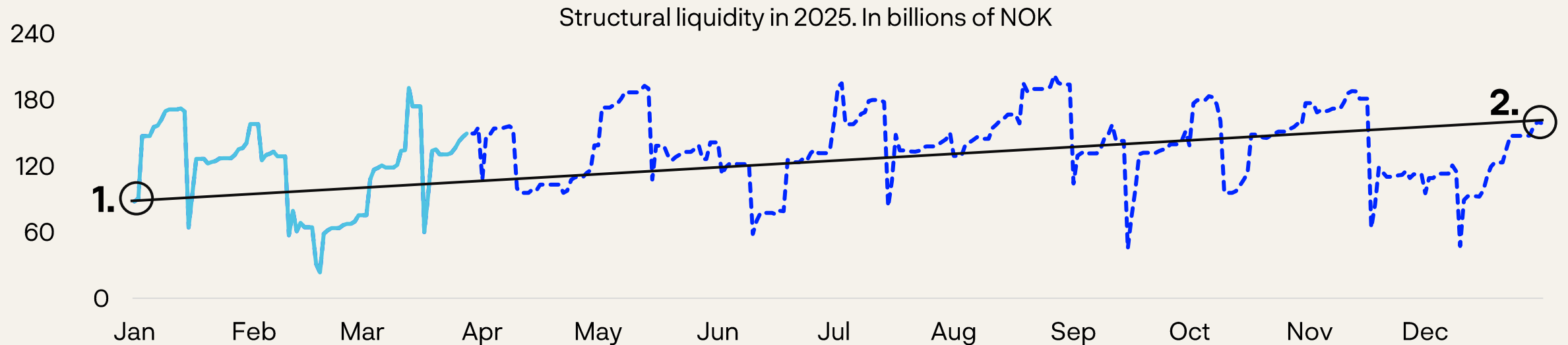
Two key reasons:

## 1. High starting point

Government borrowing over time has not been high enough to compensate for the borrowing requirement

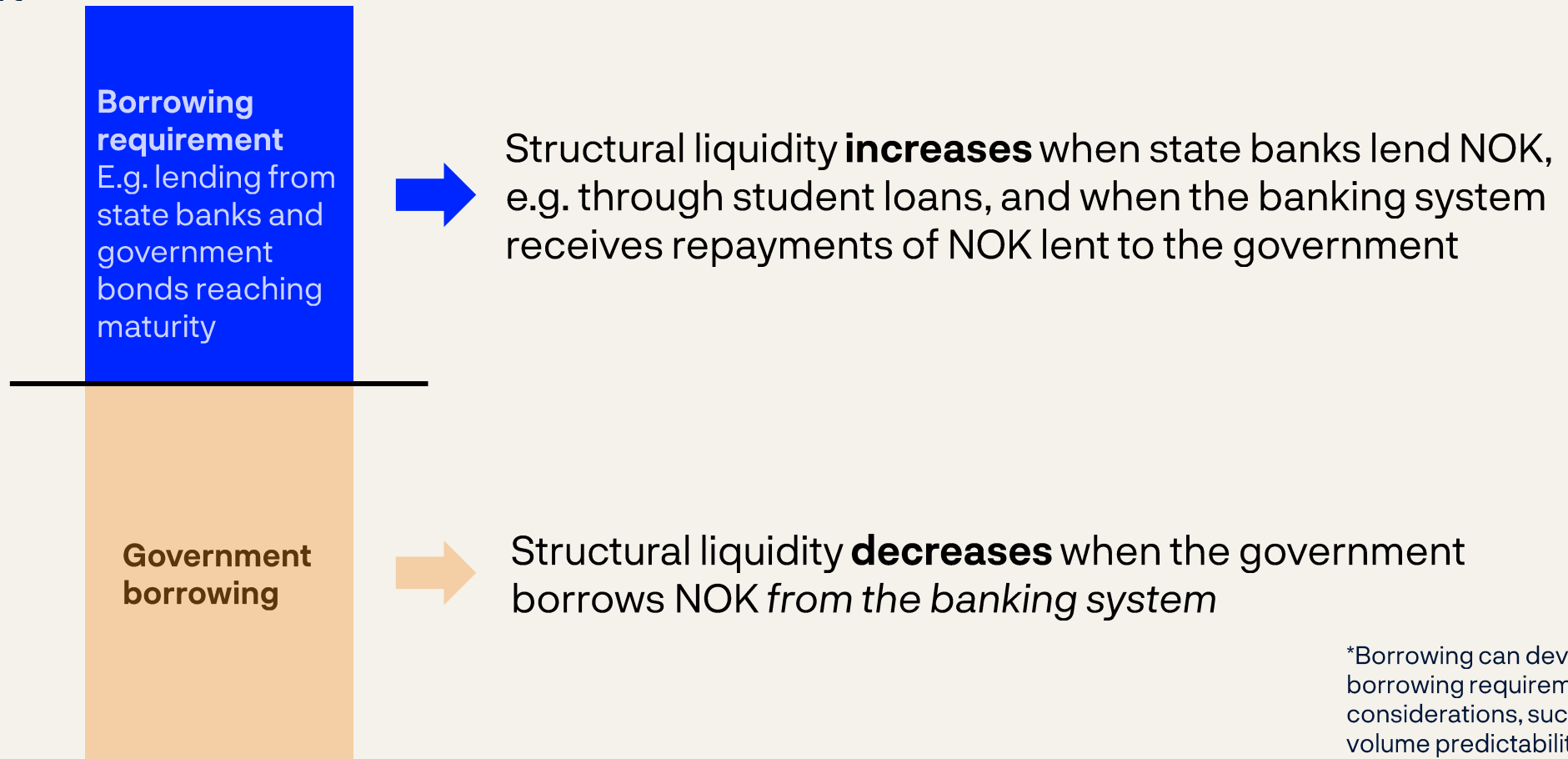
## 2. Steady growth through 2025

NOK 82bn will be transferred to the GPFG through daily NOK sales



# 1. High starting point for structural liquidity in 2025

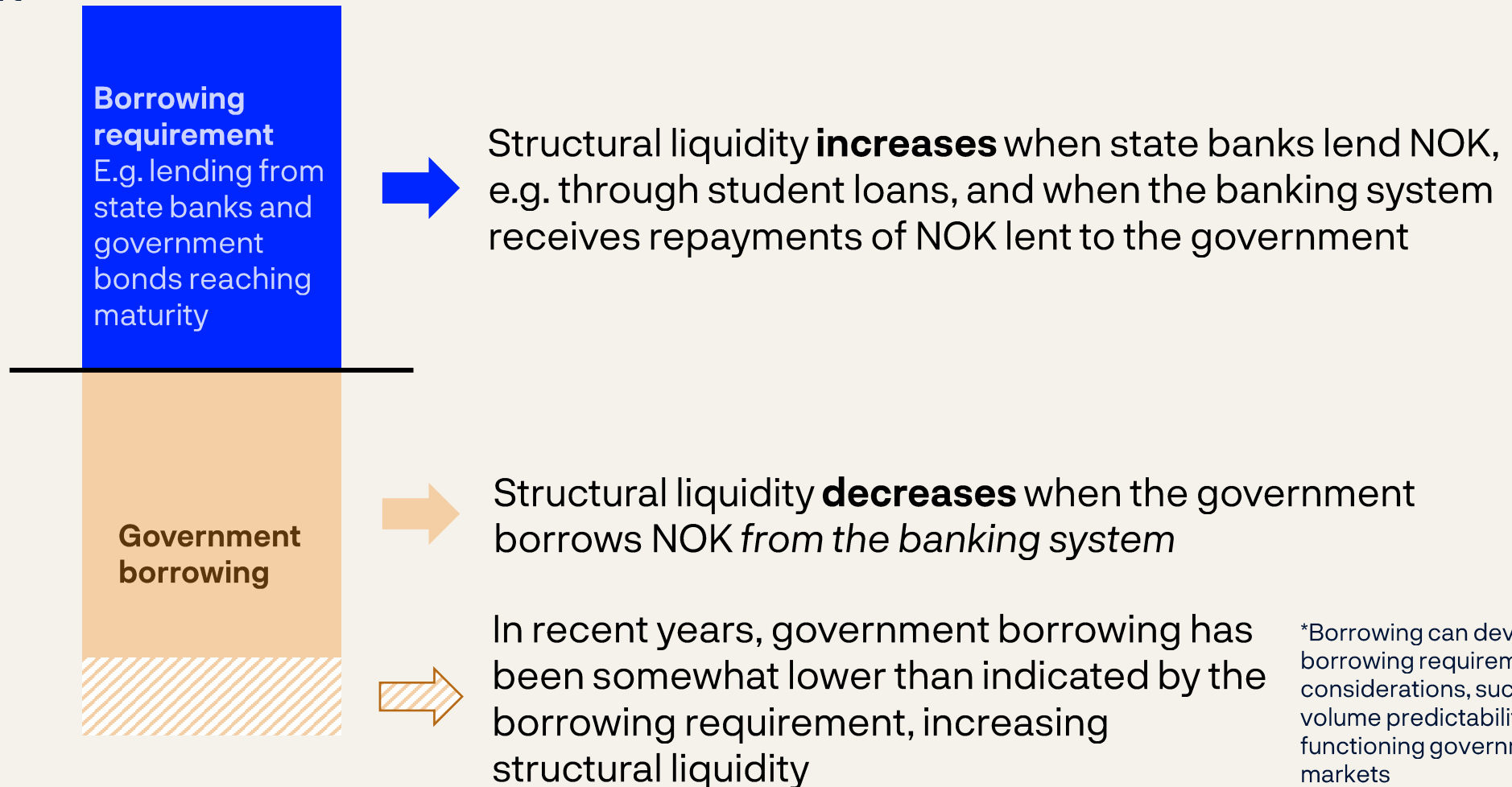
Over time, the government will borrow an amount equal to the borrowing requirement\*



\*Borrowing can deviate from the borrowing requirement due to other considerations, such as borrowing volume predictability and well-functioning government securities markets

# 1. High starting point for structural liquidity in 2025

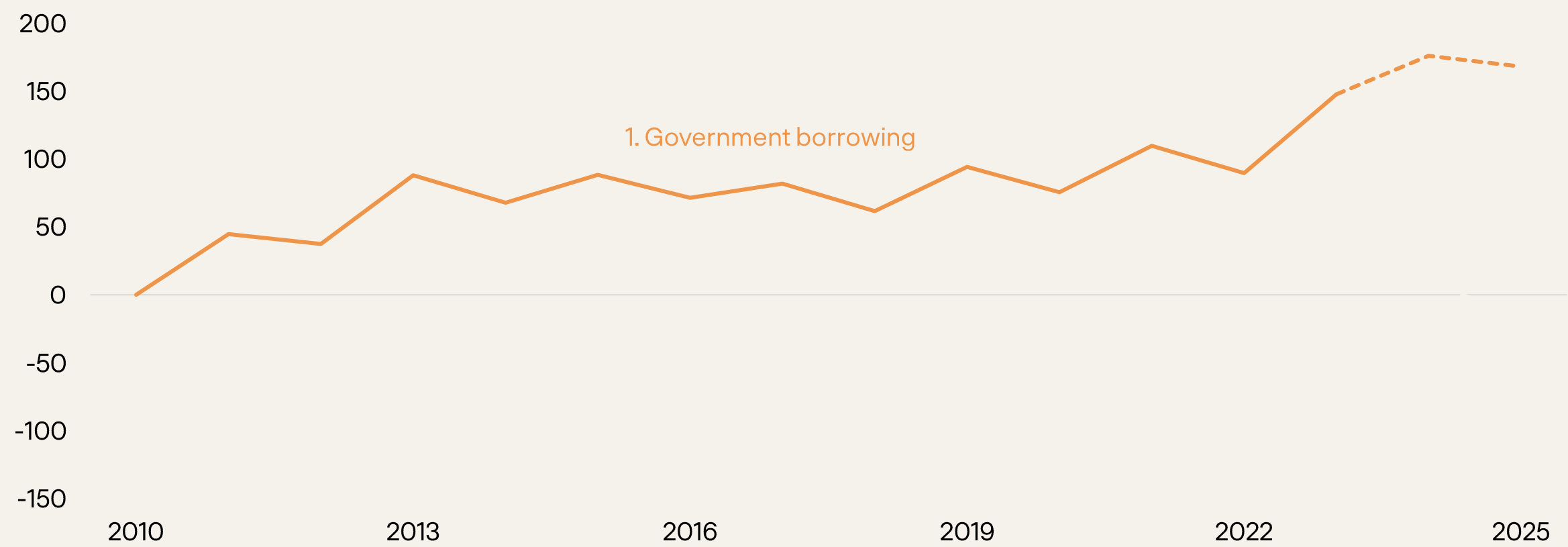
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# Liquidity effect of government borrowing

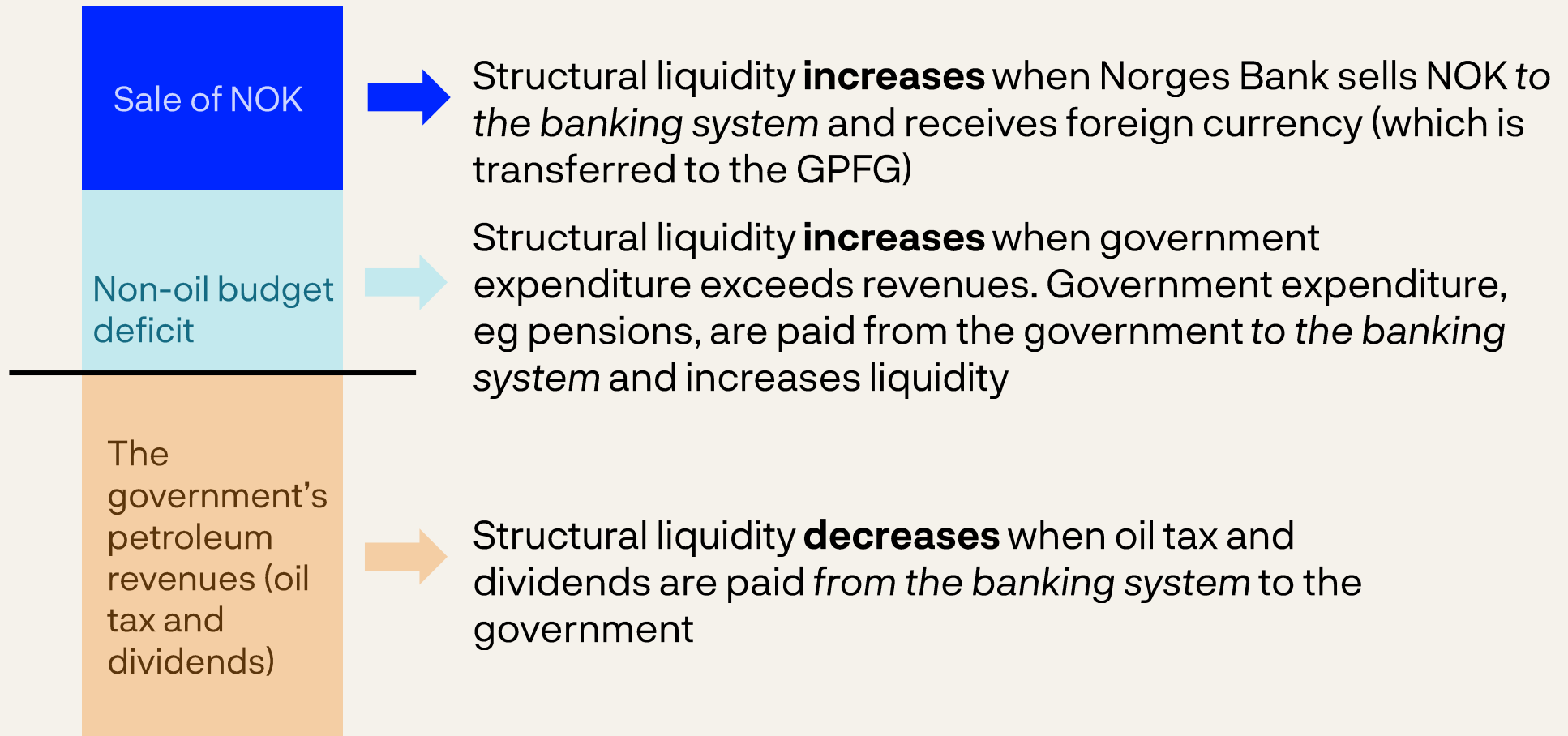
Cumulative change. 2010=0. In billions of NOK



The decomposition of 2024 and 2025 is based on estimates. The actual figures will be published in the central government accounts

## 2. Steady growth in structural liquidity through 2025

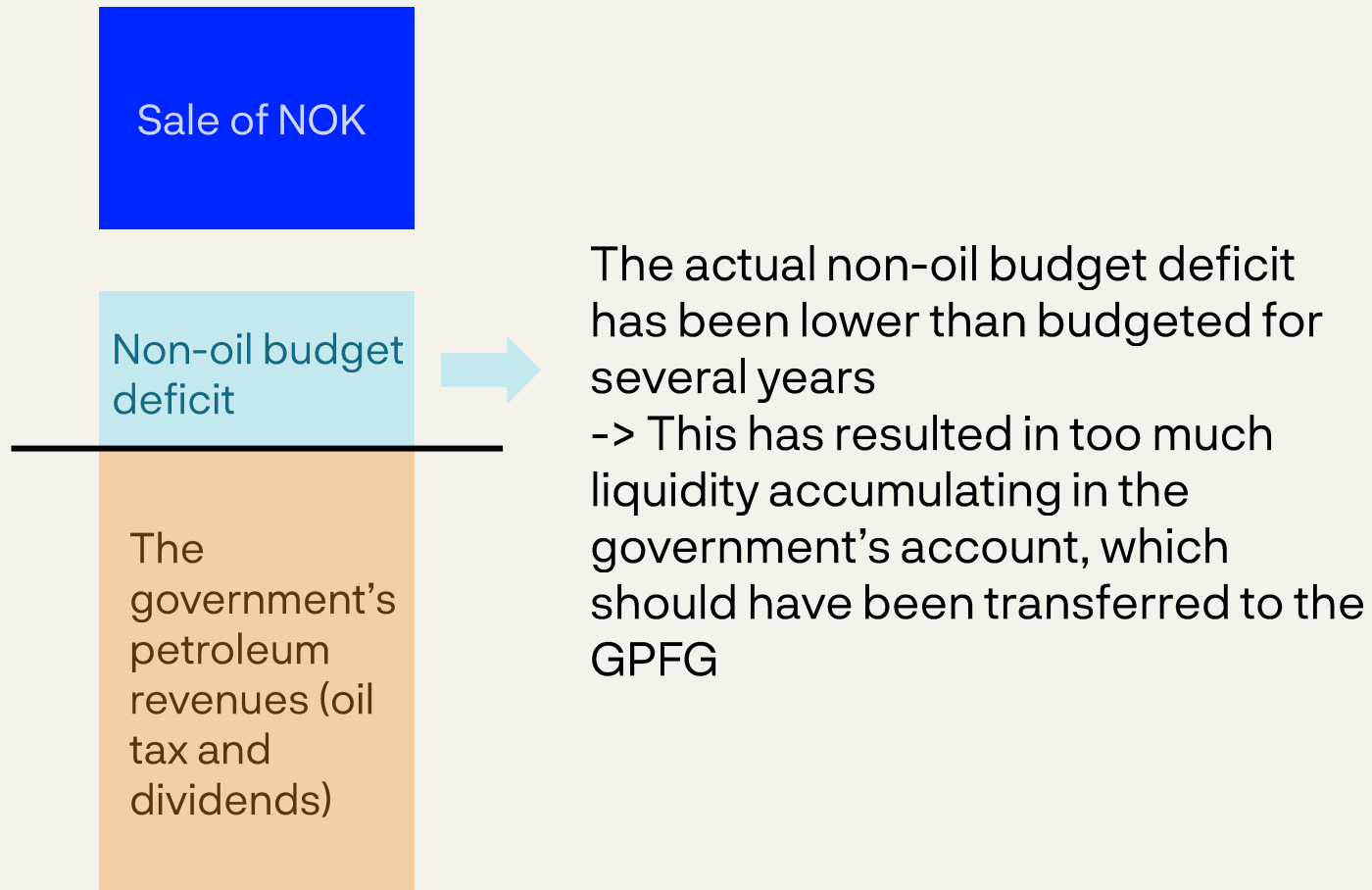
The petroleum fund mechanism should be liquidity-neutral over time





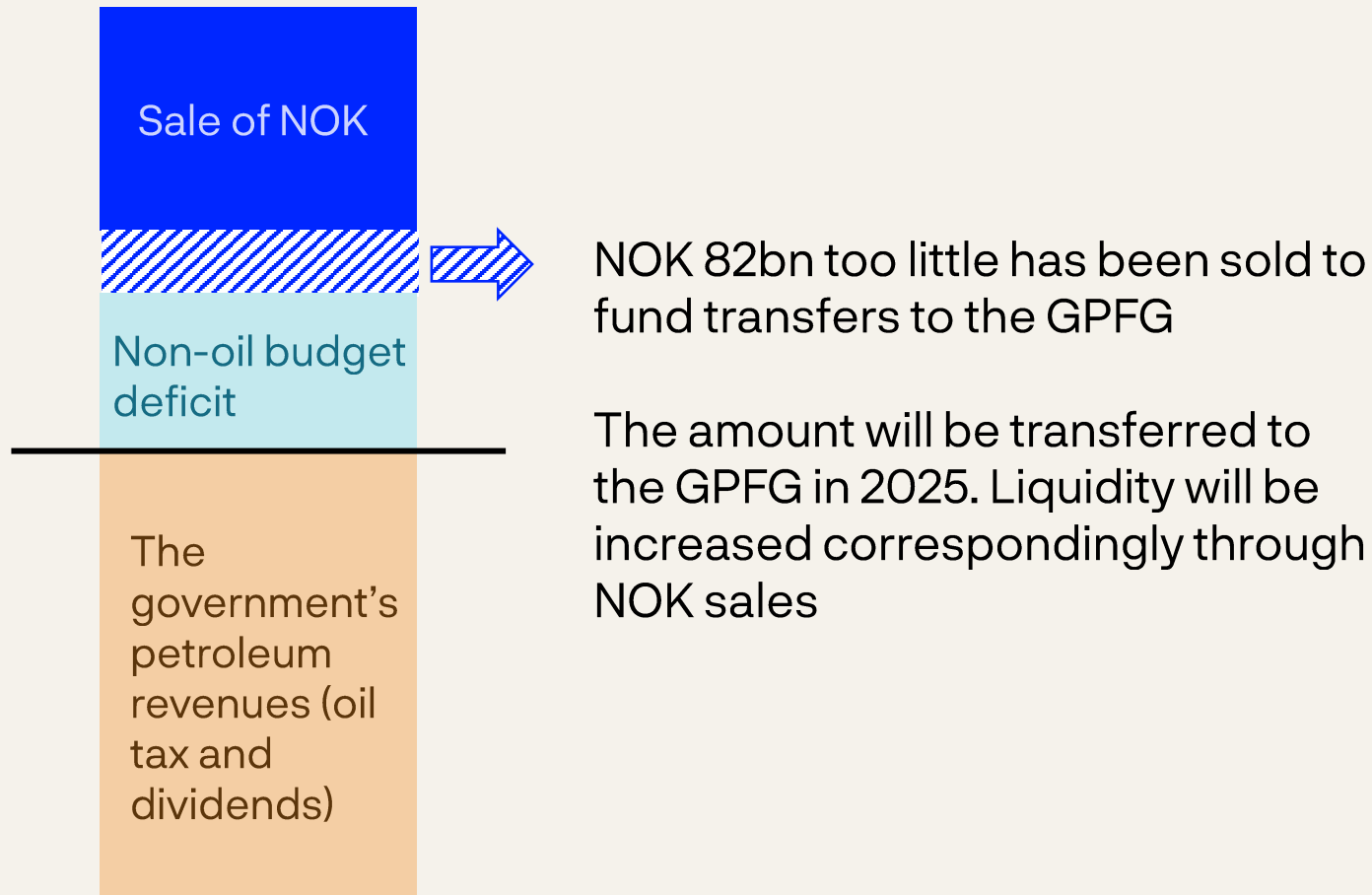
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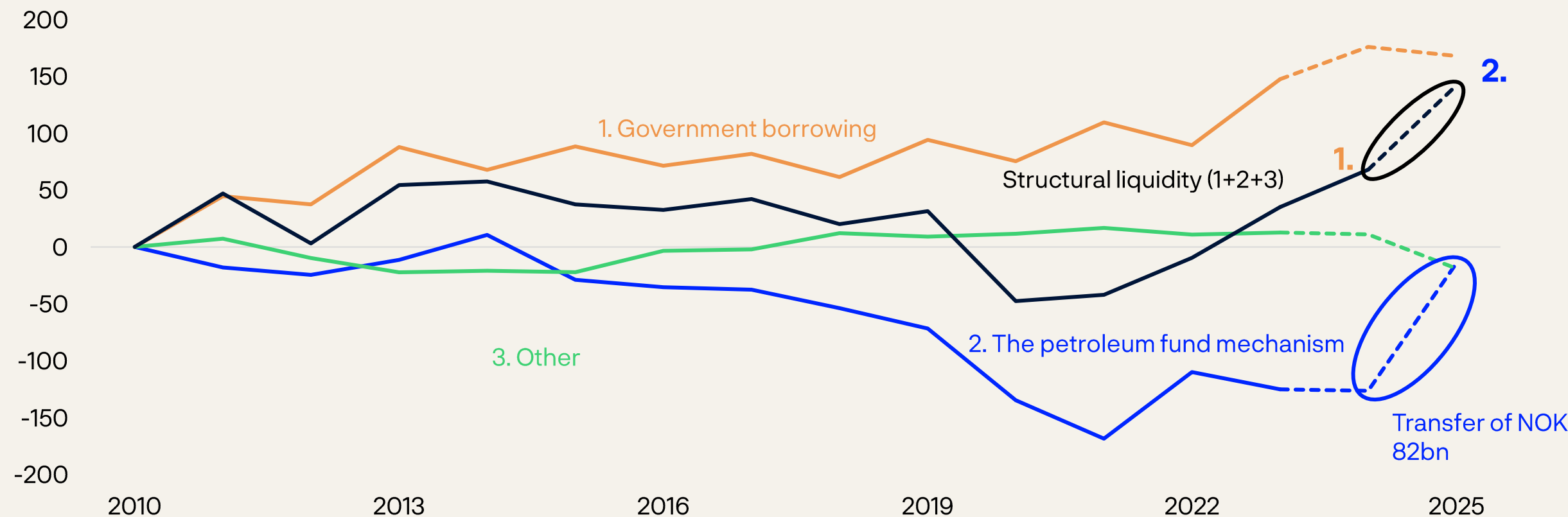
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# Overall higher structural liquidity in 2025

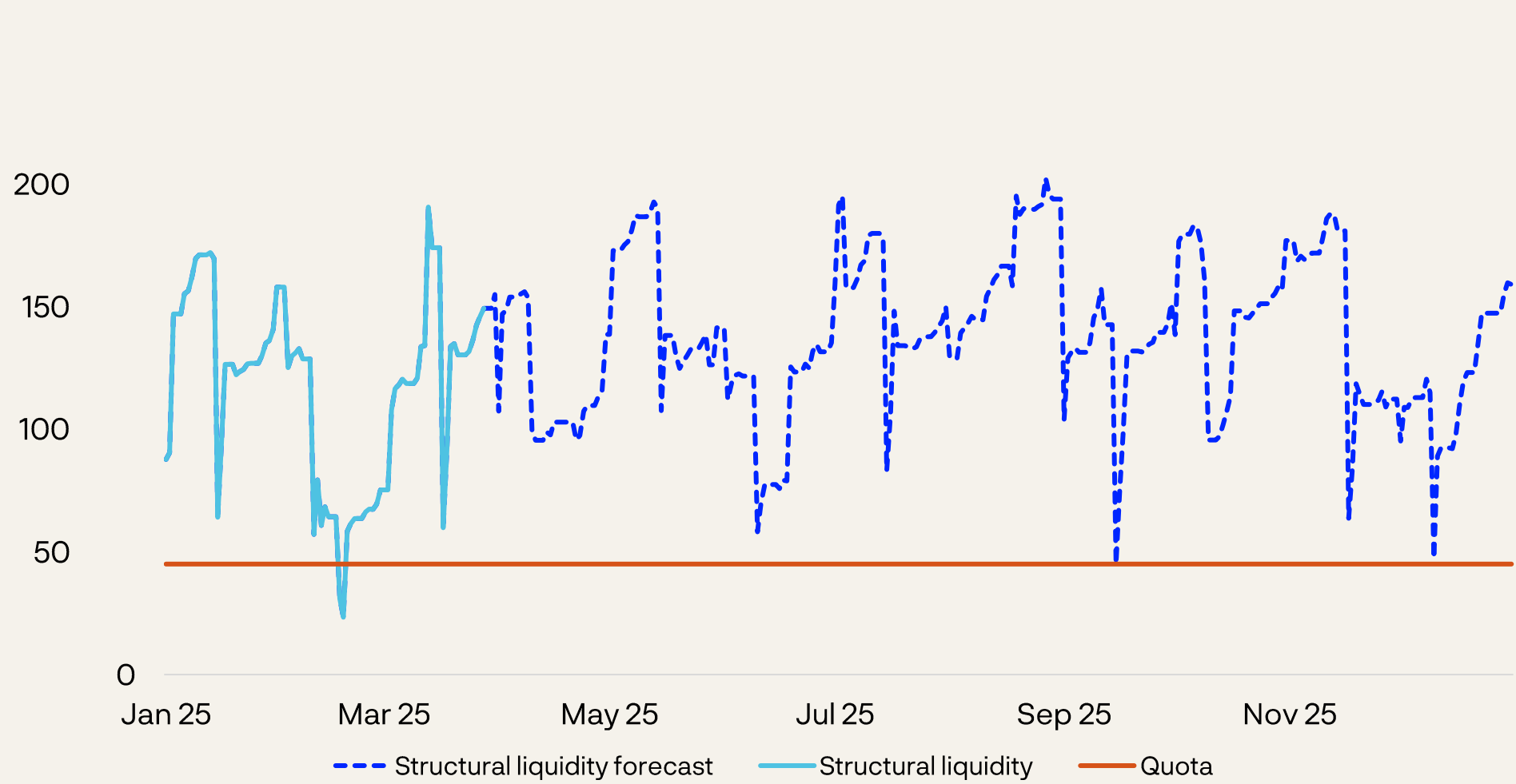
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# Liquidity in 2025 and Norges Bank's liquidity management

Structural liquidity. In billions of NOK



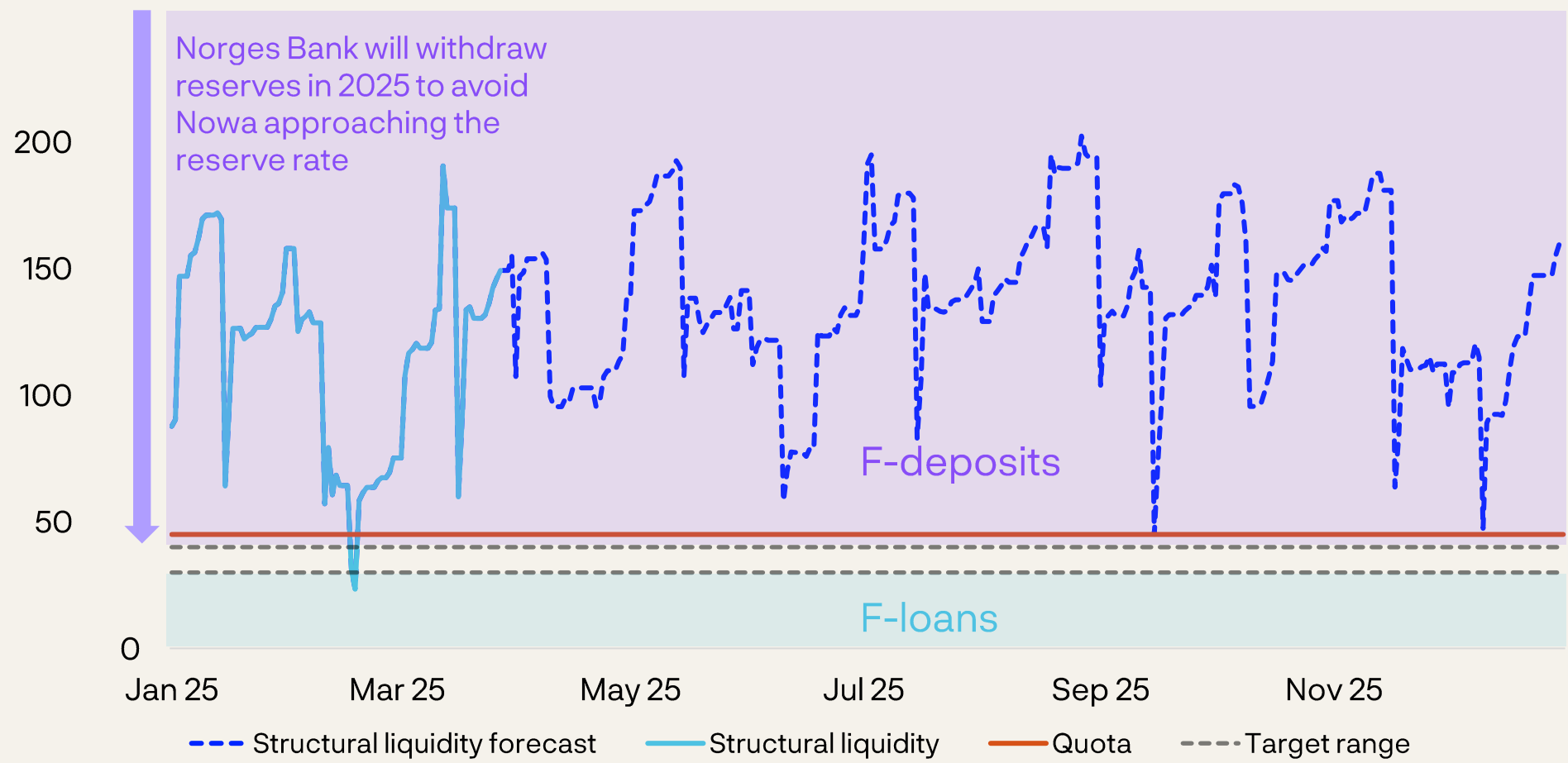
**Total quota of NOK 45bn**  
Banks' deposits within their respective quotas are remunerated at the policy rate

**The reserve rate**  
Reserves in excess of the quota are remunerated at 1 percentage point lower than the policy rate

**Overnight lending rate**  
The interest rate for deposits is 1 percentage point higher than the policy rate

# Liquidity in 2025 and Norges Bank's liquidity management

Structural liquidity. In billions of NOK



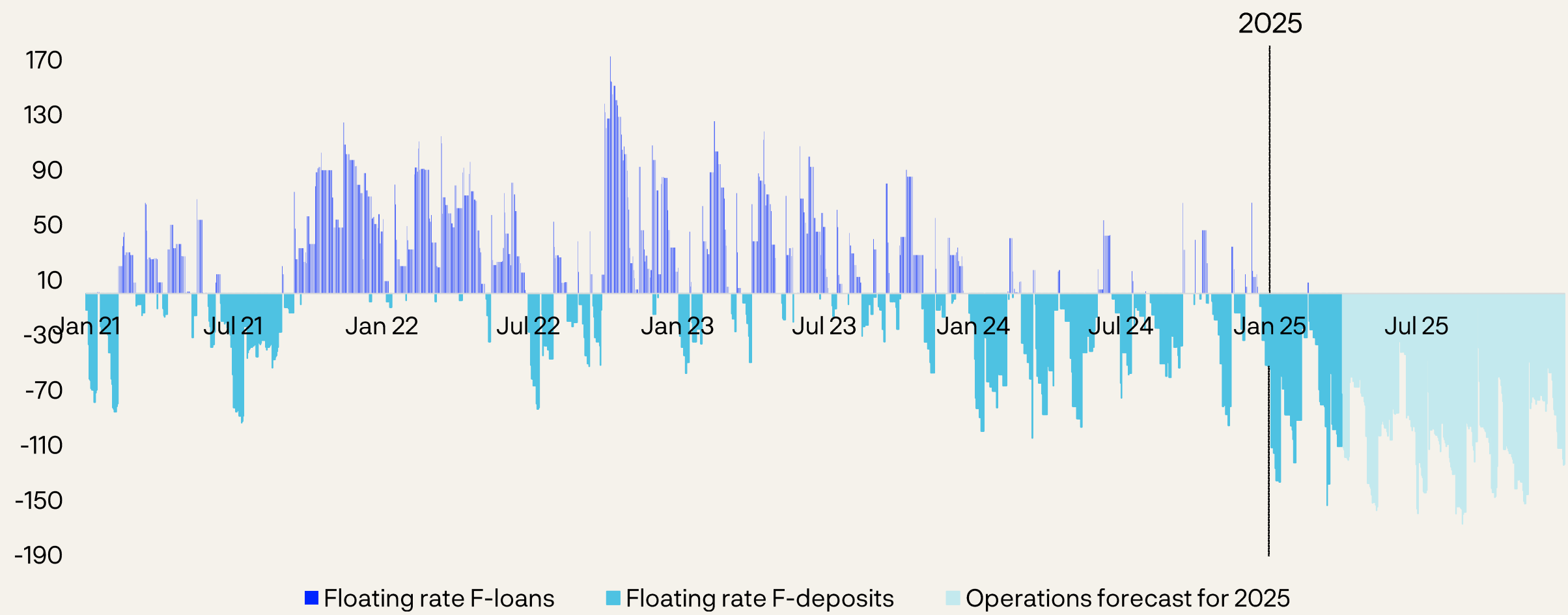
**Market operations**  
Norges Bank aims to maintain reserves between NOK 30bn and NOK 40bn through market operations

**F-deposits**  
Withdraws liquidity if SL is above NOK 40bn at a rate equal to or lower than the policy rate

**F-loans**  
Supplies liquidity if SL is below NOK 30bn at a rate equal to or higher than the policy rate

# Necessary to withdraw substantial liquidity in 2025

Liquidity effect of market operations outstanding. In billions of NOK



# Overall liquidity policy objectives

1

Ensure that short-term money market rates are close to the policy rate



The pass-through is first evident in the overnight market in which banks redistribute central bank reserves (Nowa)

2

Facilitate an efficient payment system

3

Offer liquidity insurance and be lender of last resort

4

Make it possible for liquidity and credit risk to be borne to the greatest extent possible by private financial system participants

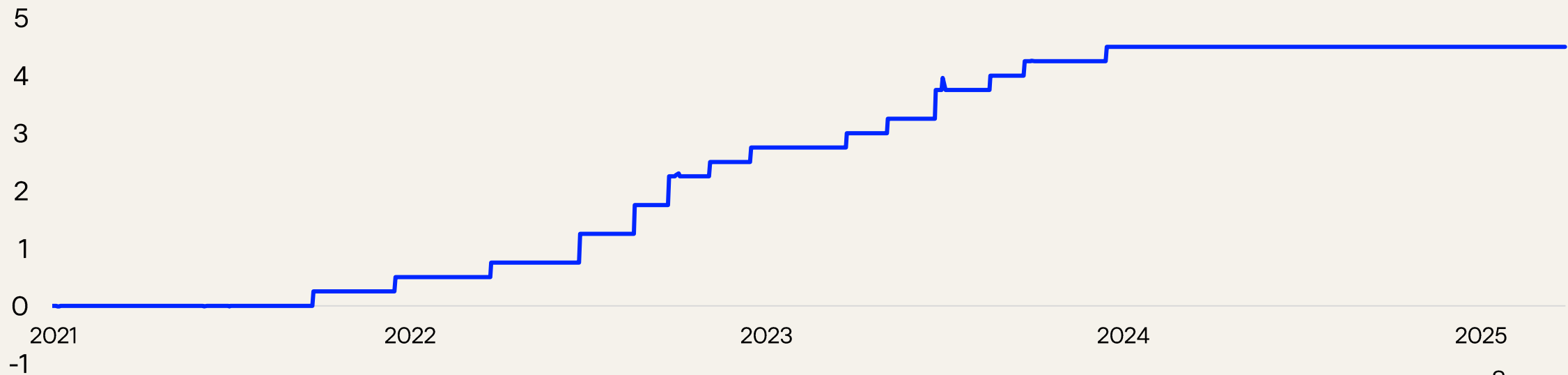


Banks should be incentivised to actively manage liquidity risk

# Pass-through to Nowa – interest rate close to the policy rate

- Nowa is the interest rate in NOK on unsecured overnight interbank loans
- Keeping Nowa close to the policy rate through Norges Bank's liquidity management is still possible

Nowa. Interest rate in percent.

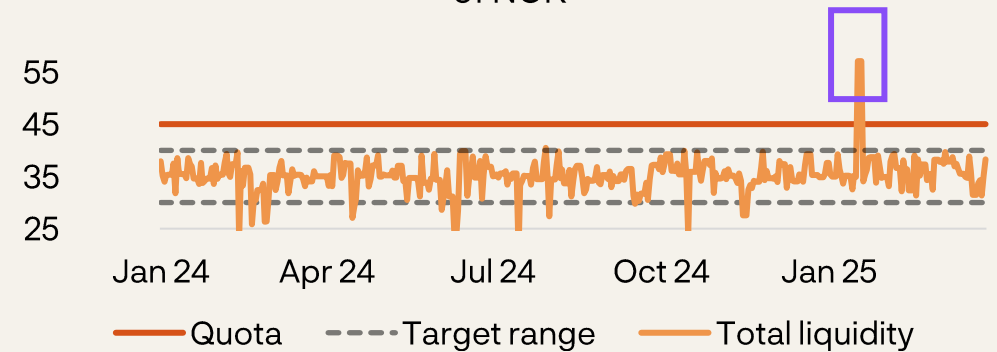




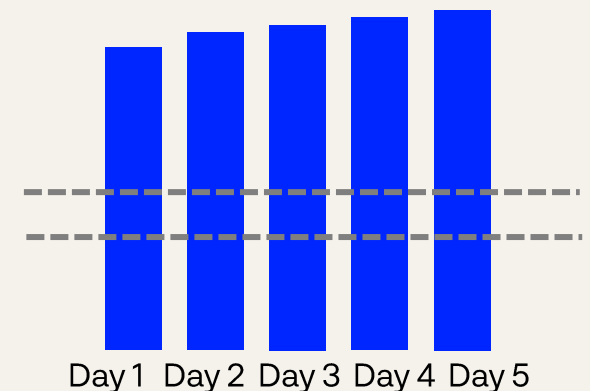
# Lessons learned from withdrawing surplus liquidity using F-deposits in 2025

- Maturities from one to 13 days
  - Majority of maturities were four days or less
- Have operated mostly within the target range, but maturities of more than a few days pose a challenge
  - Too few bids for one 13-day F-deposit leading to **NOK 13bn being deposited at the reserve rate**
- Banks often bid to stay just within quota on day 1
  - Increasing structural liquidity often necessitates a new deposit to be auctioned as early as the following day
- This results in a very large number of days with F-deposit auctions

Central bank reserves after F-deposits. In billions of NOK



Eg increasing structural liquidity where Norges Bank withdraws liquidity using an F-deposit with a maturity of 5 days

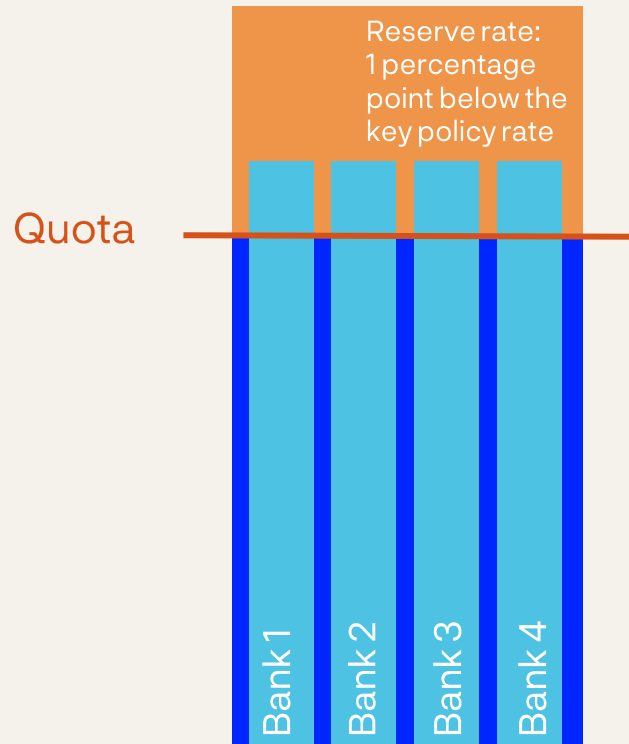


# F-deposit auctions lead to lower liquidity redistribution

Central bank reserves on a given day in two different scenarios

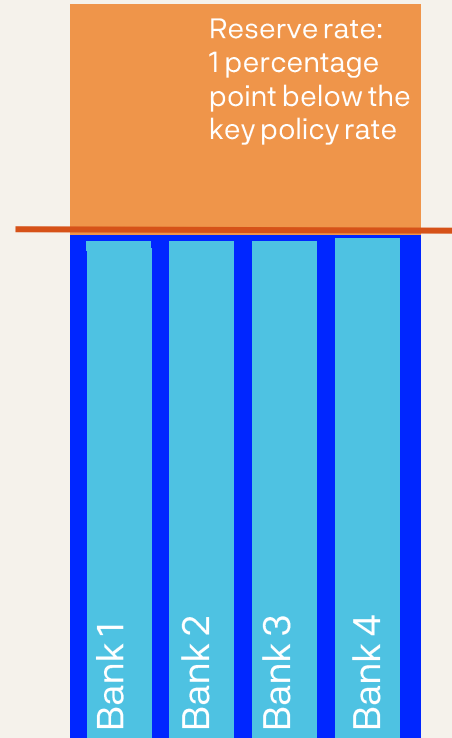
## F-deposits auctioned

Structural liquidity > NOK 40bn



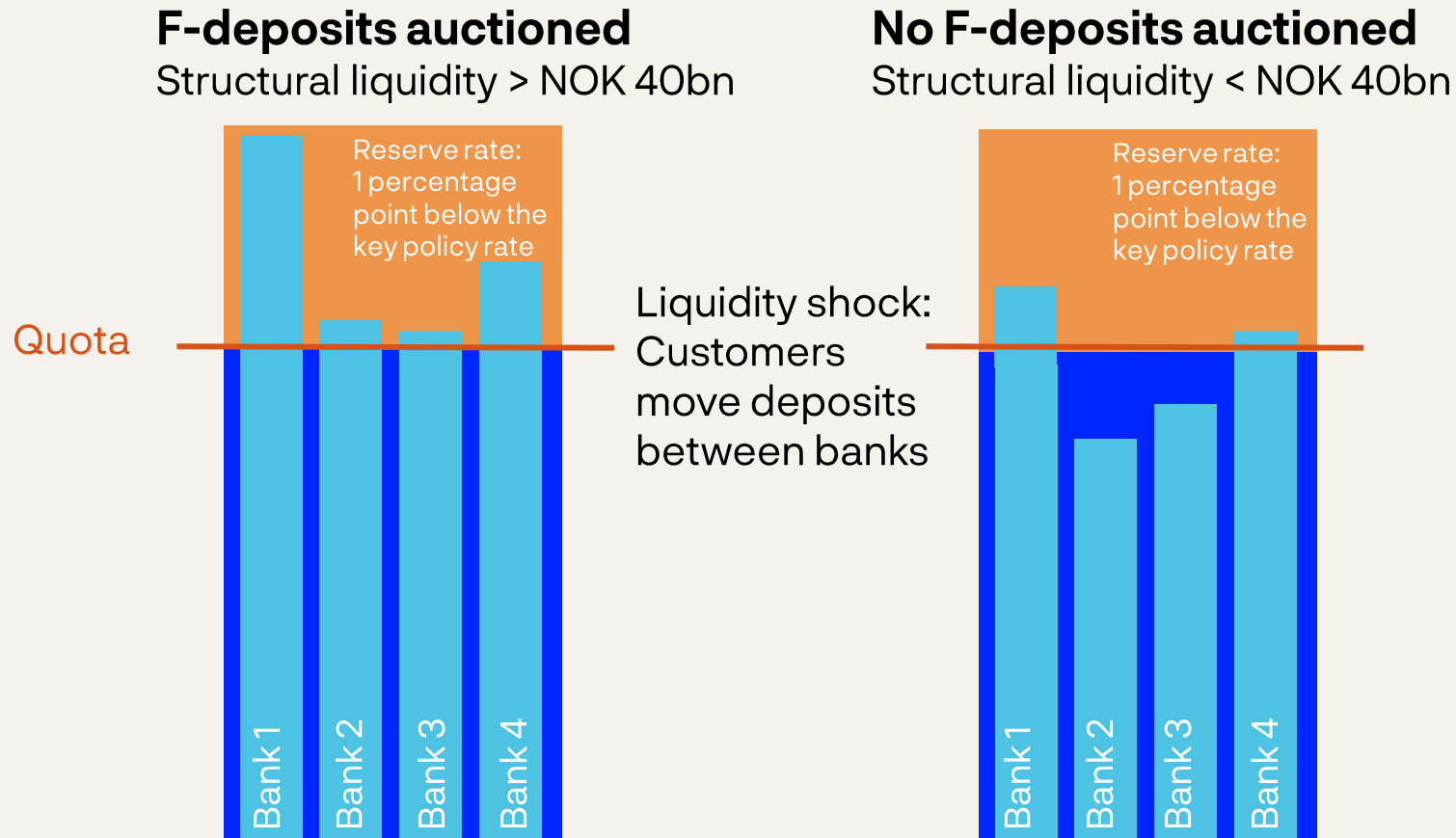
## No F-deposits auctioned

Structural liquidity < NOK 40bn



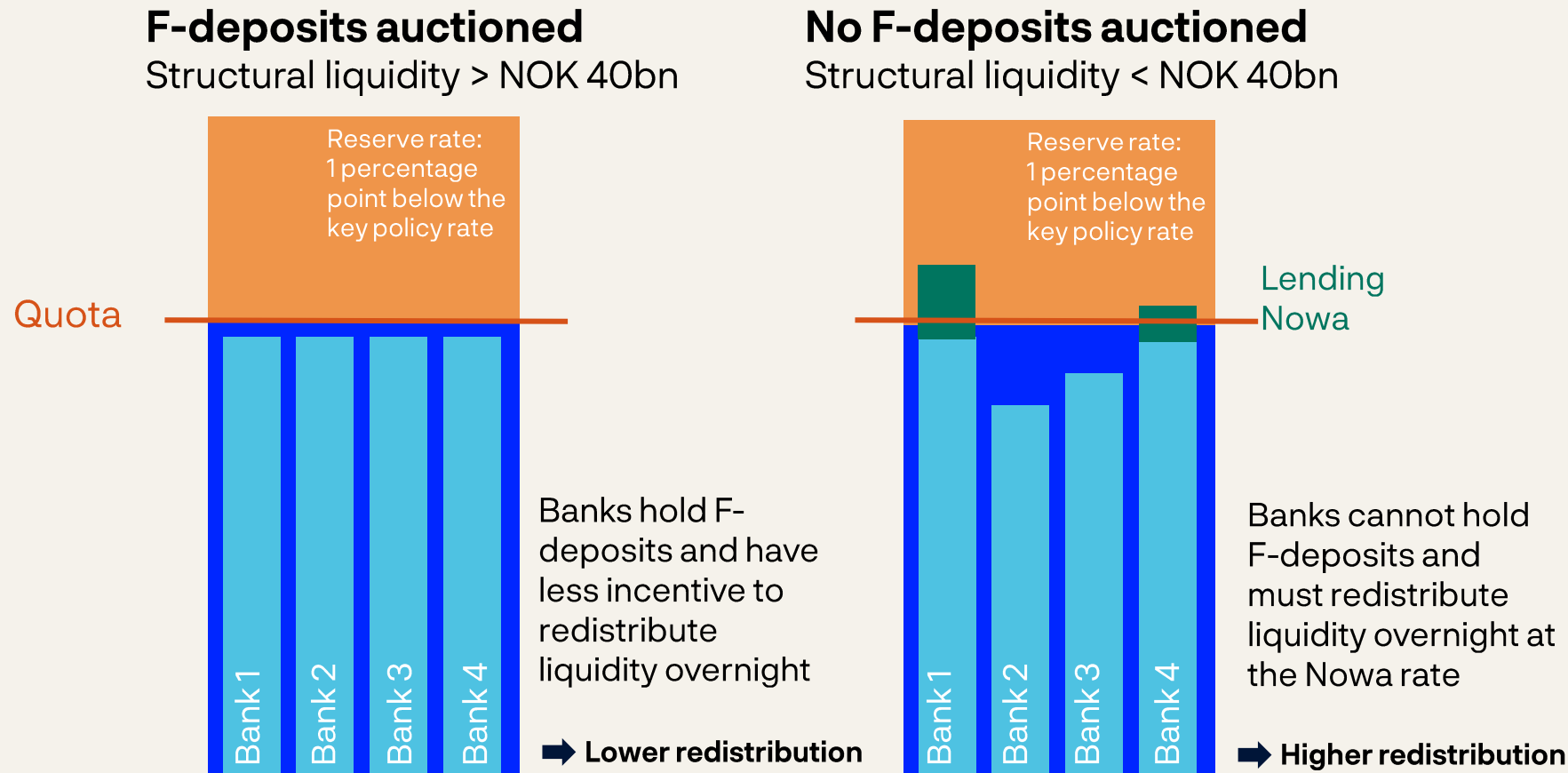
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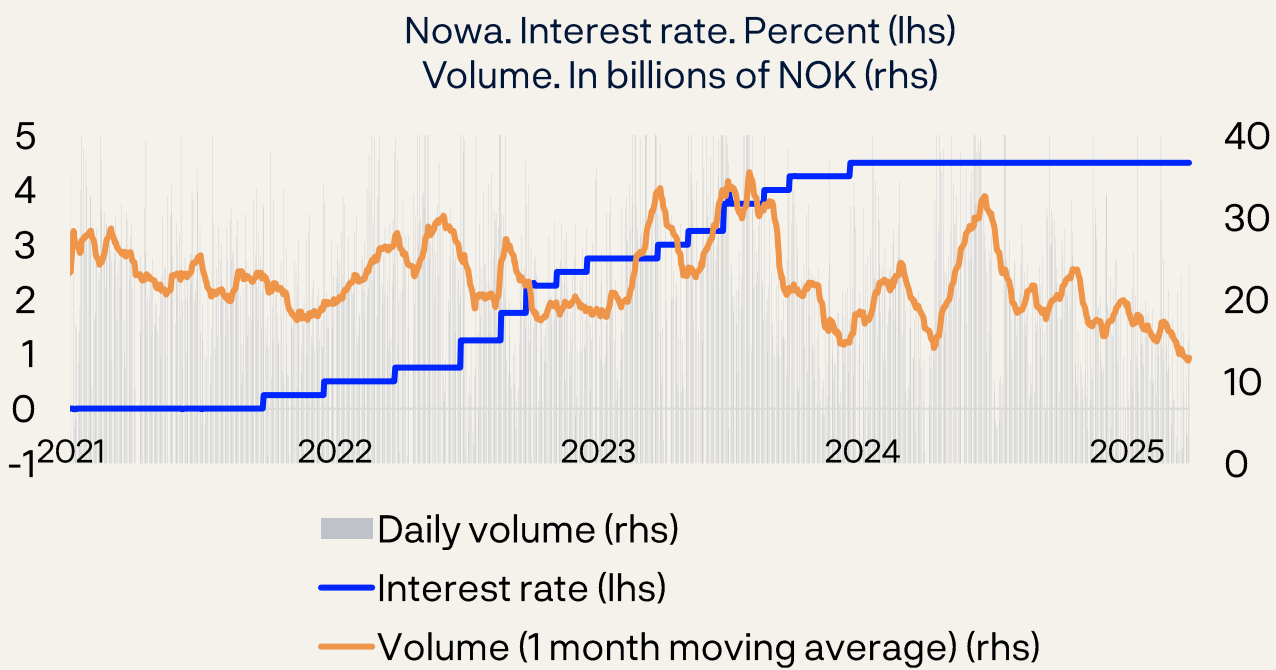
# F-deposit auctions lead to lower liquidity redistribution

Central bank reserves on a given day in two different scenarios



# Pass-through to Nowa – somewhat lower volume

- Overnight liquidity redistribution is often lower on days in which F-deposits are auctioned
  - Daily Nowa volume average in 2025 pulled slightly down
- Risk that banks’ ability to redistribute and handle liquidity shocks will be weakened over time

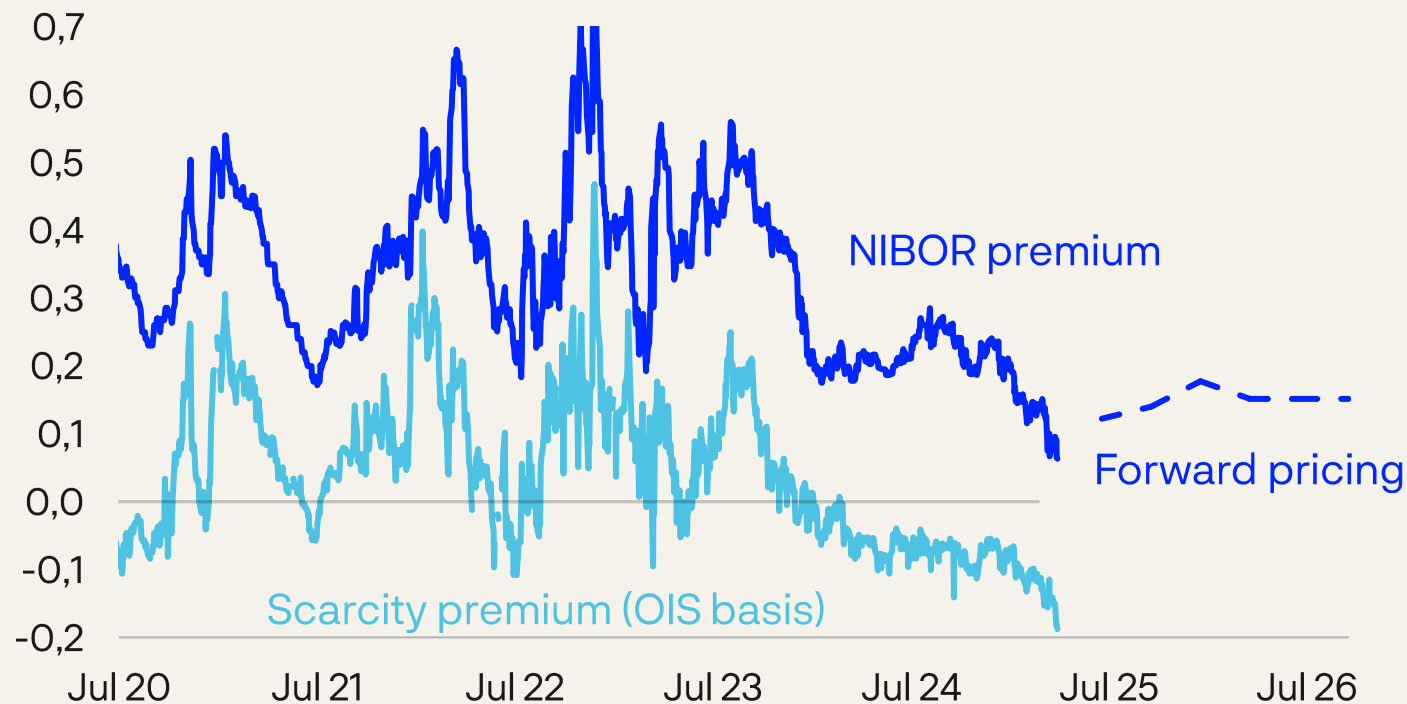


Date	Nowa	Volum (mill NOK)	Qualifier	Banks lending	Banks borrowing	Transactions
2025-03-20	4.50	15975	Normal	10	6	11
2025-03-19	4.50	1985	Normal	4	6	7
2025-03-18	4.50	1980	Normal	3	5	5
2025-03-17	4.50	22915	Normal	7	8	19
2025-03-14	4.50	1610	Normal	3	3	4
2025-03-13	4.50	1330	Alternative method	2	4	4
2025-03-12	4.50	20790	Normal	7	6	13
2025-03-11	4.50	3230	Alternative method	4	2	5
2025-03-10	4.50	1200	Normal	4	5	5
2025-03-07	4.50	7680	Normal	6	8	13

# High structural liquidity has pulled down money market premiums

3-month OIS basis and 3-month NIBOR premium. Percentage points

- In addition to falling premiums, the money market curve has flattened out
  - Cheaper for banks to obtain NOK at the expense of the banks' counterparties
  - Banks have less incentive to manage their liquidity beyond a few days



# What can be done if Norges Bank fails to achieve its liquidity policy objectives?

## **Minor adjustments to current quota system**

- The time of auction, bid rate, target range, and/or the total quota can be changed

## **Reserve requirements**

- The central bank requires banks to hold a certain amount of reserves
- The amount of sight deposits can be reduced in order to further incentivise banks to manage their own liquidity

## **Central bank certificates and/or FX swaps**

- Reserves can be withdrawn beyond a few days
- Unlike F-deposits, non-banks can also participate in auctions
- This means that banks have to compete more for funding, leading to more market-determined liquidity prices

# Summary

- Structural liquidity is at a historically high level
- Norges Bank has withdrawn surplus liquidity through relatively short-term F-deposits
- Norges Bank ensures that NOWA is close to the policy rate, but banks' capacity to redistribute and manage liquidity shocks may weaken over time