Norges Bank's Certificate Program

21 April 2026

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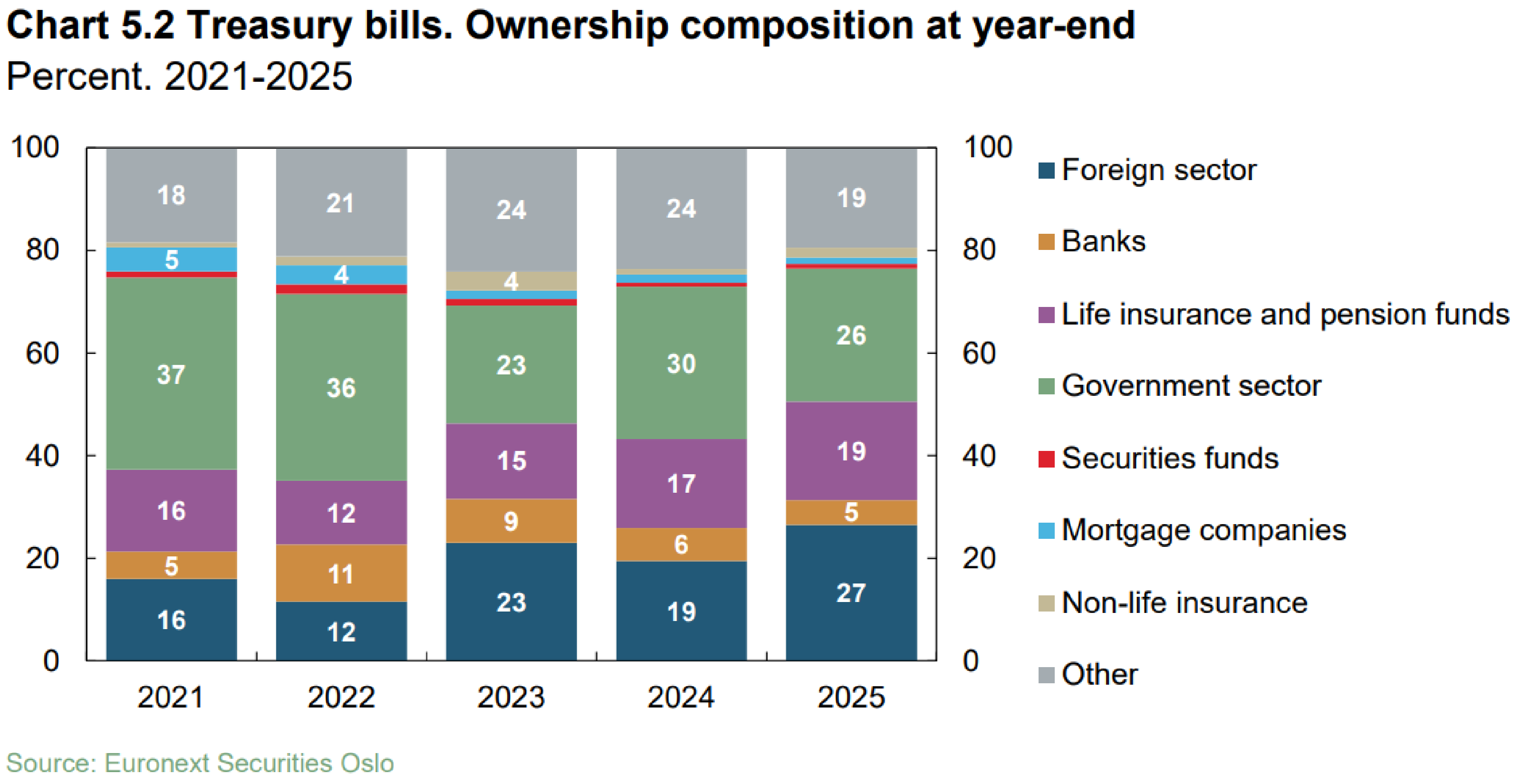
Who will buy central bank certificates?

The investor base for Treasury Bills should give some clues

TREASURY BILL OWNERSHIP COMPOSITION



** Note: Government sector ownership is primarialy Norges Bank's own holding for repo purposes*

BUT THERE ARE SOME KEY DIFFERENCES

- Three big categories of investors in Treasury Bills:
  - Foreign sector (27%)
  - Domestic real money: Life Insurance and Pension Funds (19%) & Other Financial Institutions (11%)
  - Banks (5%)
- Initial frictions might limit foreign sector particpation - at least initially
- Whilst domestic real money has to weigh up a potential lack of liquidity versus the yields on offer

Certificates are a very appealing asset for bank treasuries

BANK TREASURIES LIKELY THE MAIN BUYERS

- Banks now sit on a large amount of excess reserves that need to be placed on F-deposit - central bank certificates are an obvious alternative to this
- Buying certificates instead of F-deposits gives up some amount of flexibility, but in exchange for:
  - Potentially higher yields
  - Better NOK LCR treatment

$$LCR_{NOK} = \frac{High\ Quality\ Liquid\ Assets}{Outflows - MIN(Inflows,\ \ 0.75 * Outflows)} \geq 50\ \%$$

We therefore expect bank treasuries to absorb the bulk of certificate interest, at rates somewhat above matched-maturity NOWA

F-DEPOSIT LCR MECHANICS

	Starting position	Increase in structural liquidity excess reserves Y added	F-deposit below inflow cap	F-deposit at inflow cap	Certificates HQLA eligible
				Response options	
HQLA	X	X + Y	X	X	X + Y
Excess reserves	—	Y	→ F-deposit	→ F-deposit	→ certificates
Inflows (NB)	0	0	+ Y	~~+ Y~~ capped	0
Net outflows	N	N	N – Y	N	N
Overall LCR[1]	X / N	(X+Y) / N ↑	X / (N−Y) ↑↑	X / N →	(X+Y) / N ↑
NOK LCR[2]	X_N / N	(X_N+Y) / N ↑↑	X_N / (N−Y) ↑	X_N / N →	(X_N+Y) / N ↑↑

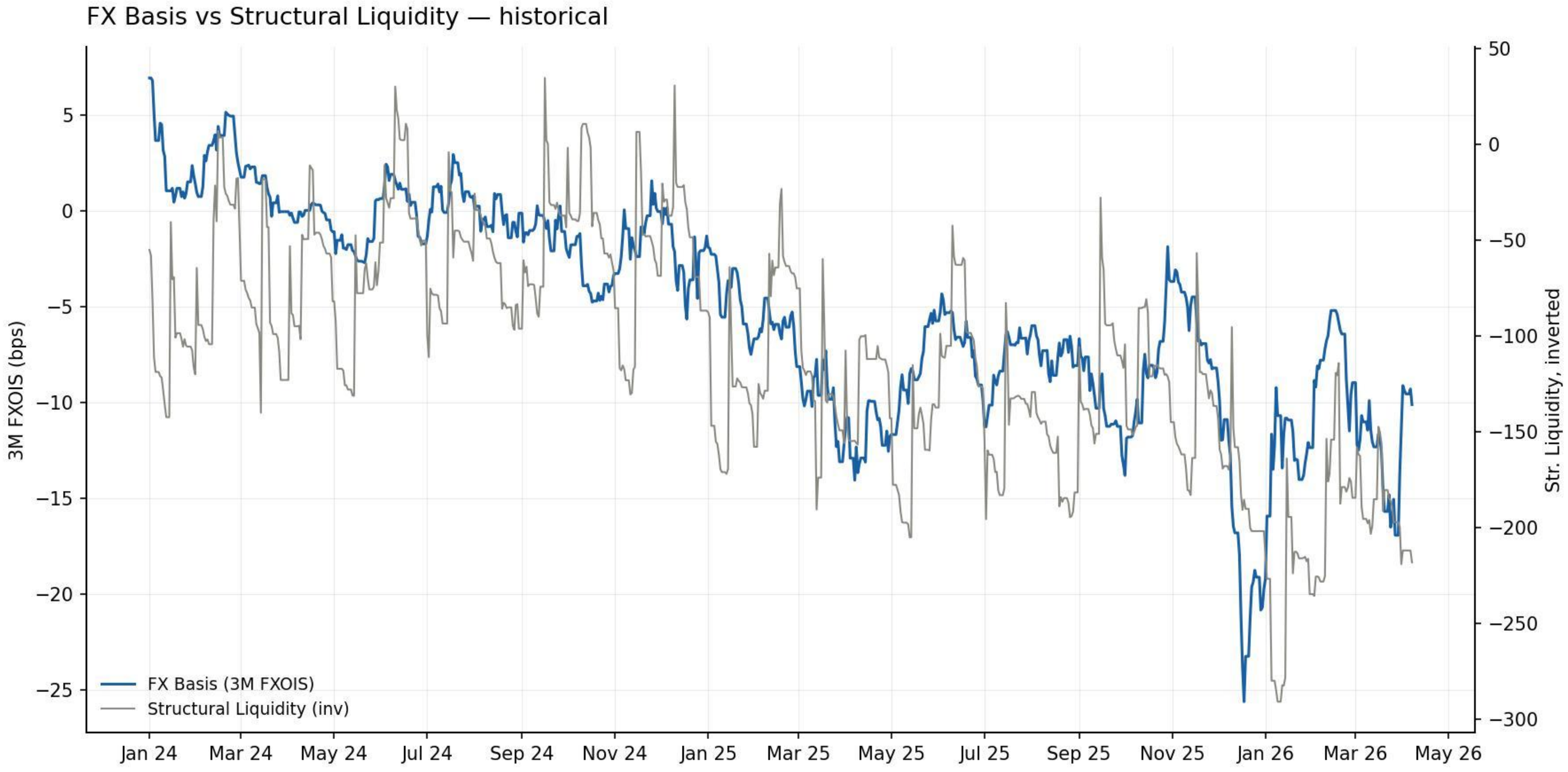
[1] Overall LCR assumed to be greater than 1

[2] NOK LCR assumed to be between 0.5 and 1

↑↑ / ↑ / → relative to starting position · X_N = NOK portion of HQLA · all outflows assumed NOK

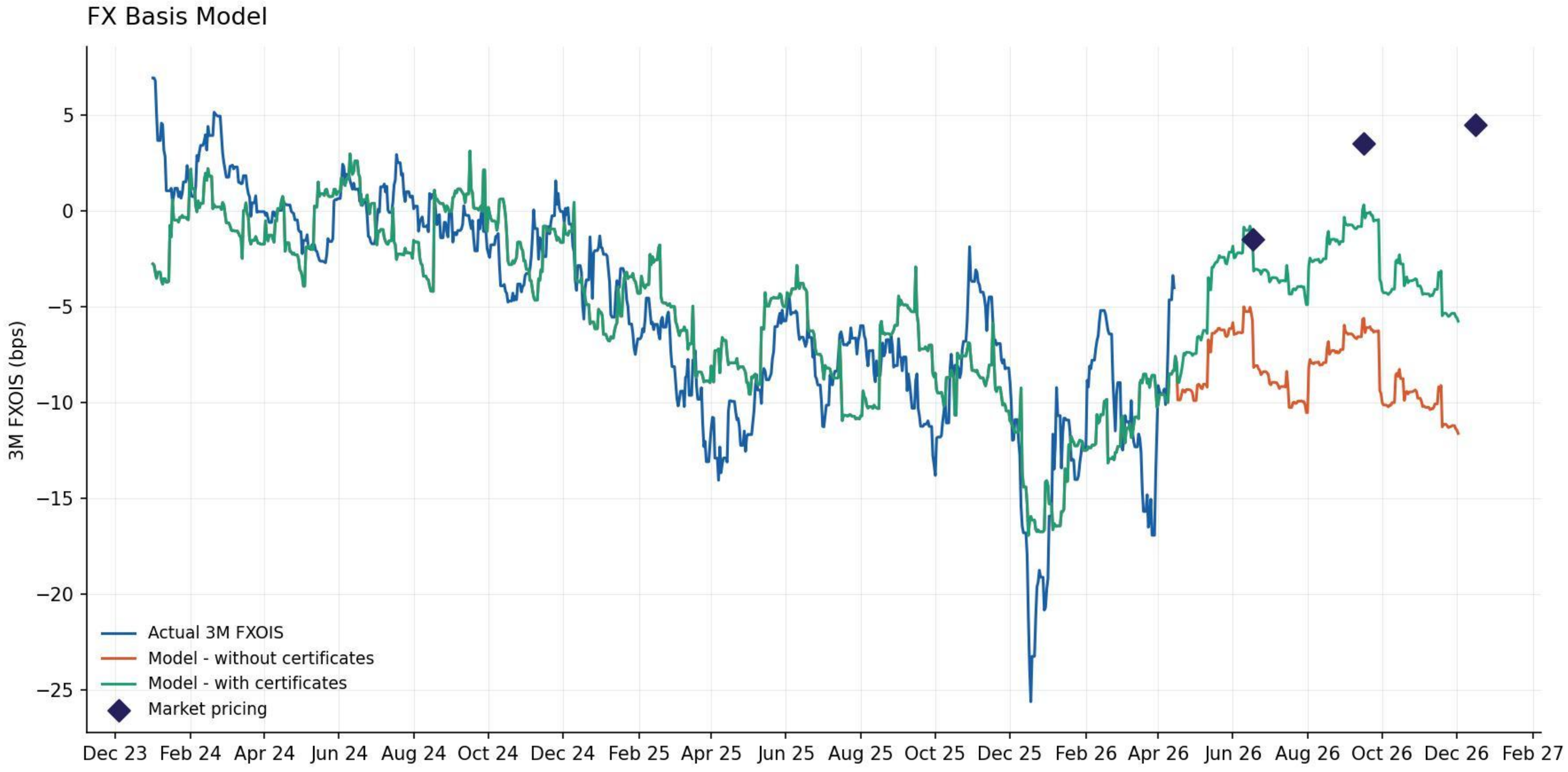
We have all seen charts plotting structural liquidity versus money market premiums

STRUCTURAL LIQUIDITY VERSUS 3M USDNOK OIS/OIS BASIS



It is natural to extend this to infer the impact of certificates

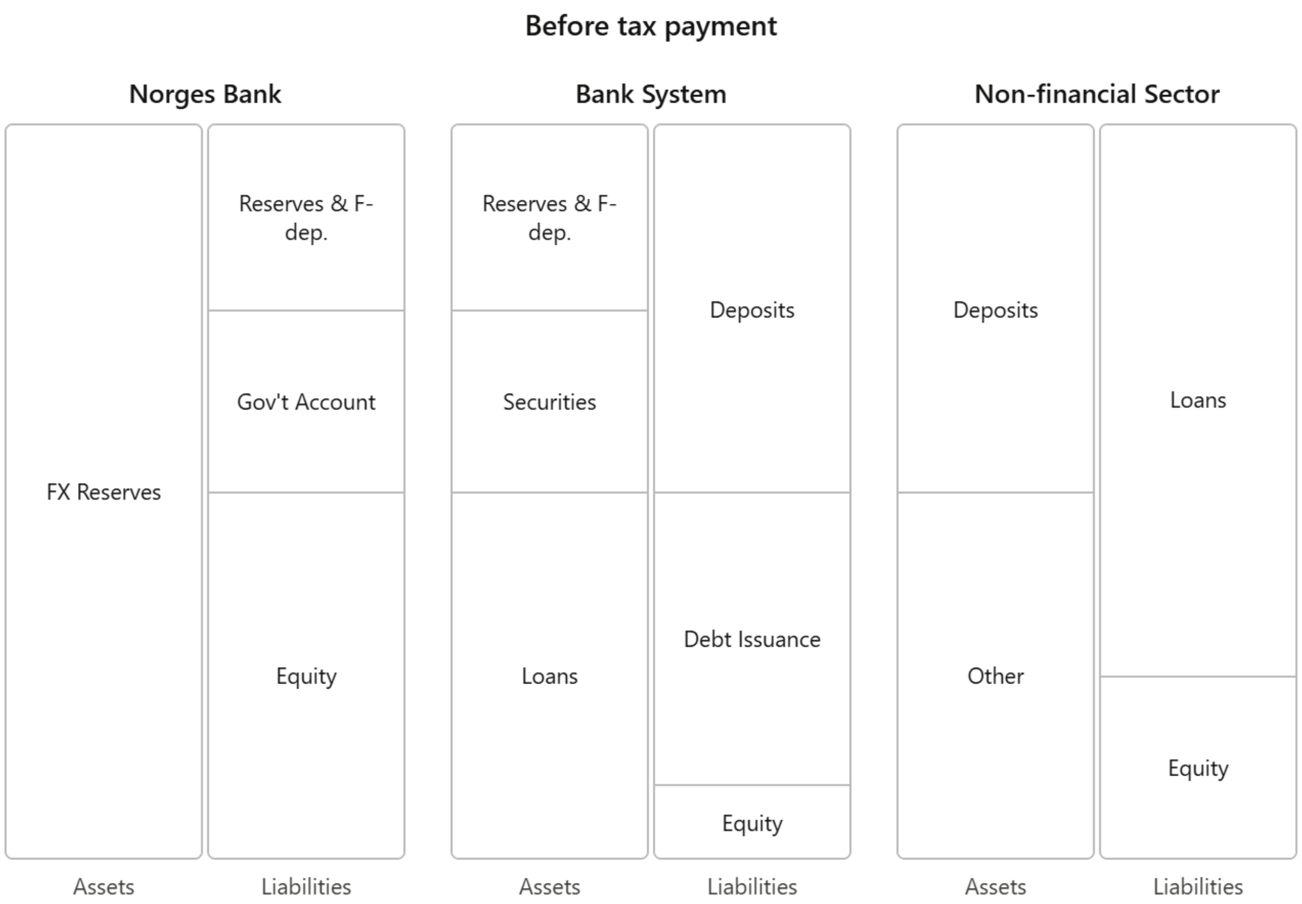
3M USDNOK OIS/OIS BASIS: ACTUAL & MODEL FORECAST WITH AND WITHOUT CERTIFICATES



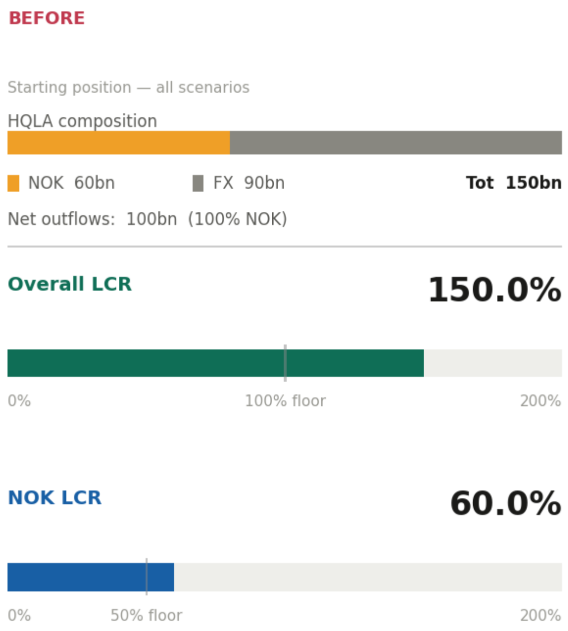
But will this historical relationship hold true with certificates?

Swings in structural liquidity have historically been driven by cashflows to/from the government account

STYLISED BALANCE SHEET COMPOSITION



LCR



Banks lose both reserves and deposits when taxes are paid

Which hits LCR hard and requires a response

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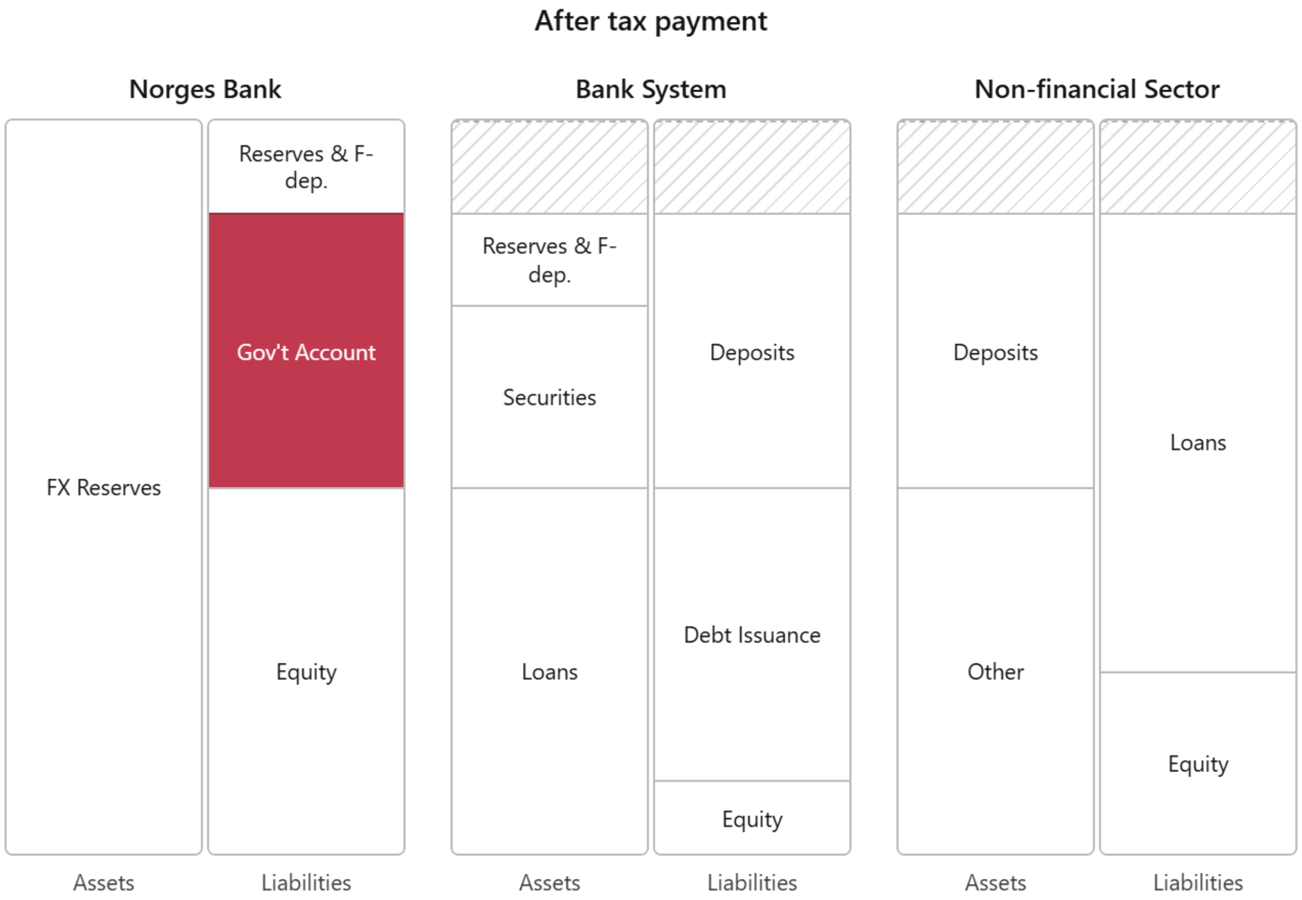

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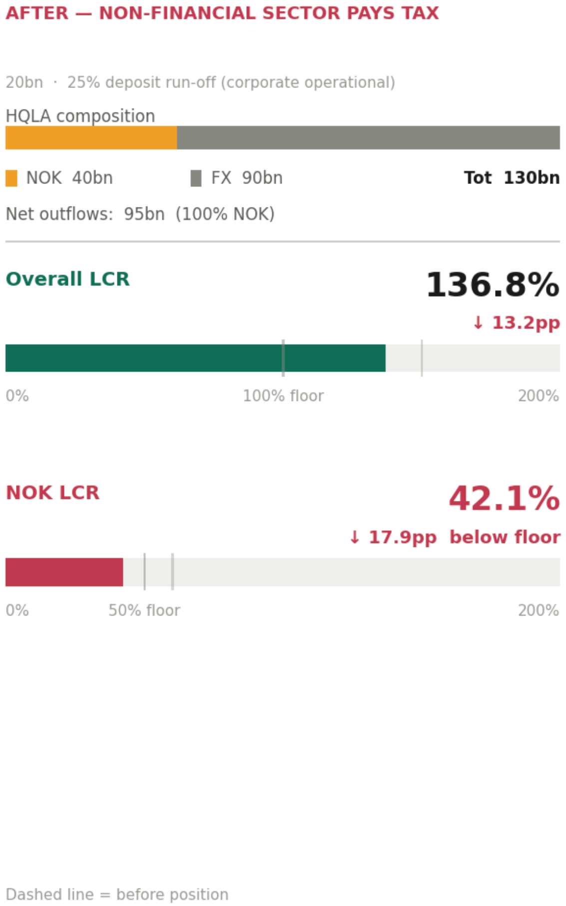

* Loans includes all external liabilities (including taxes payable)

This is exactly what will happen if the non-financial sector buys certificates

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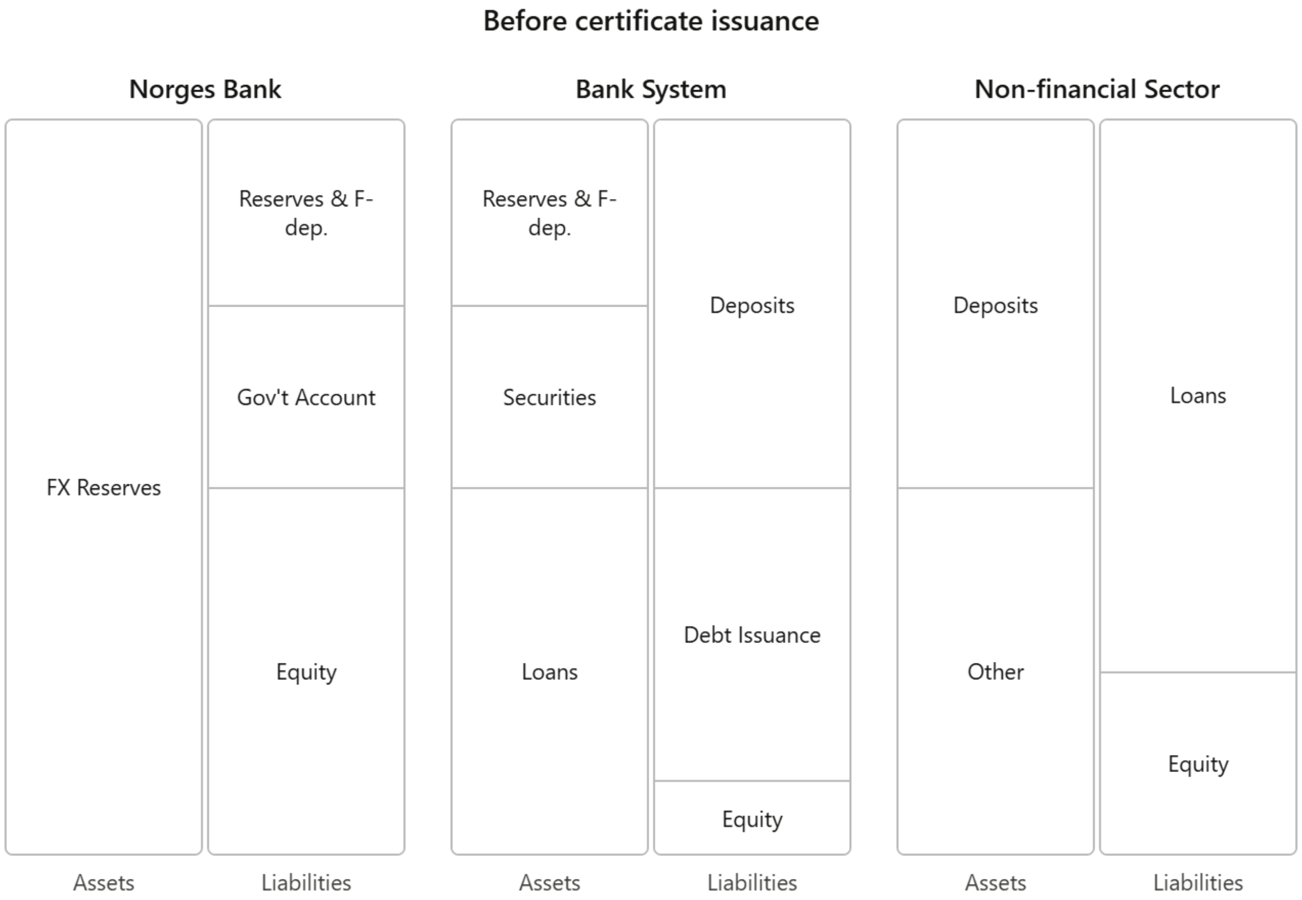

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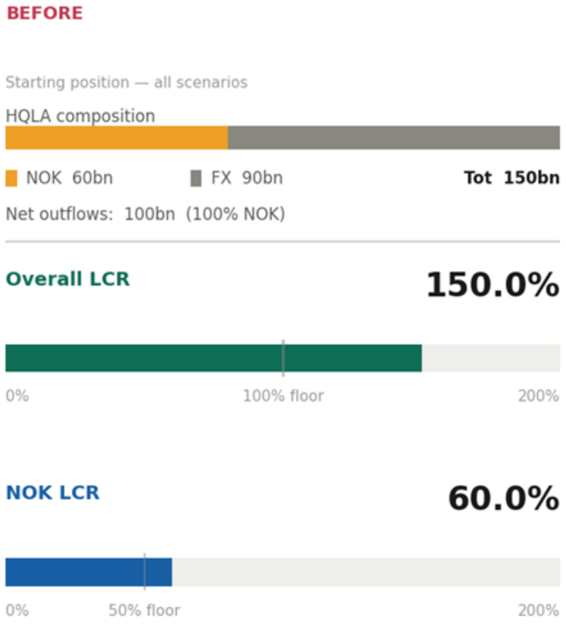

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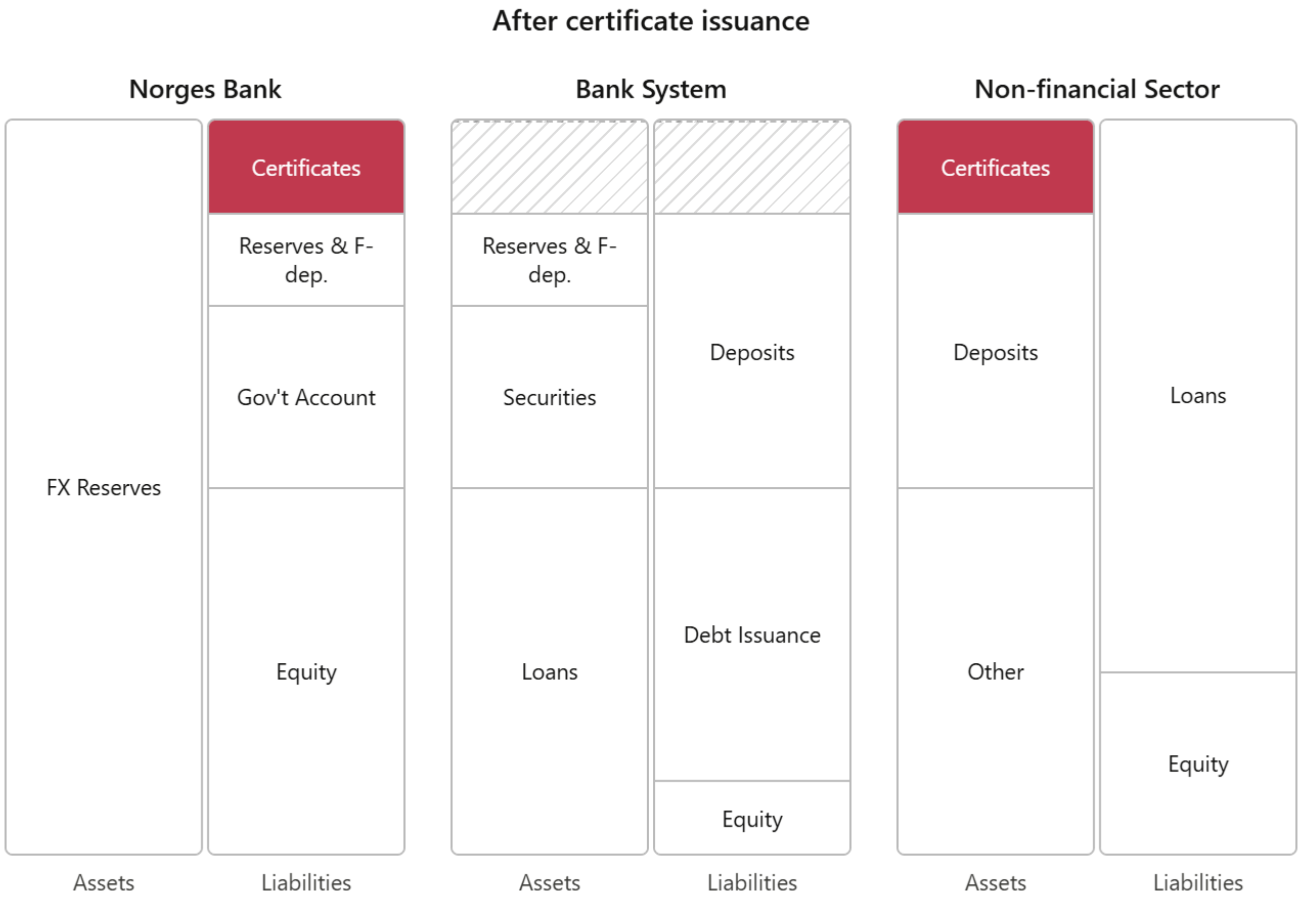

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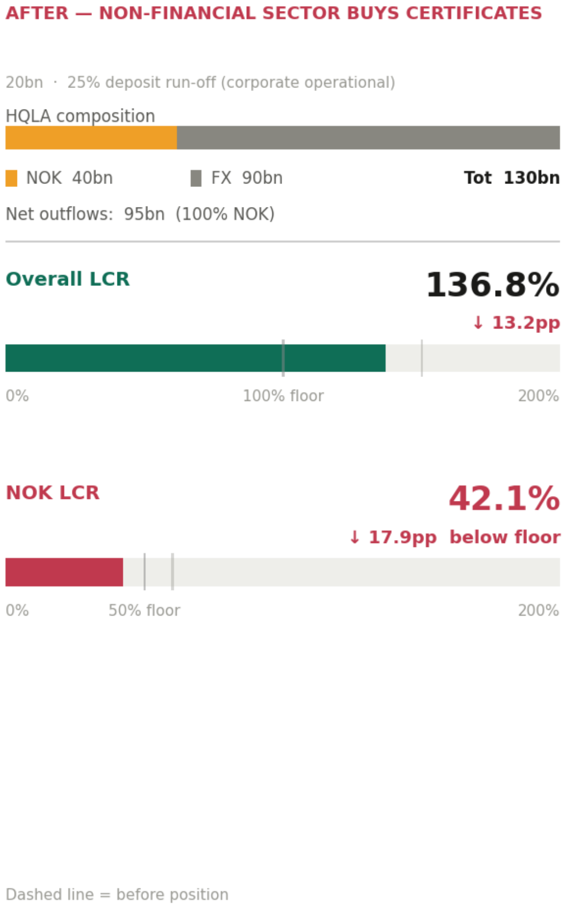

But not what will happen if the bank sector buys certificates

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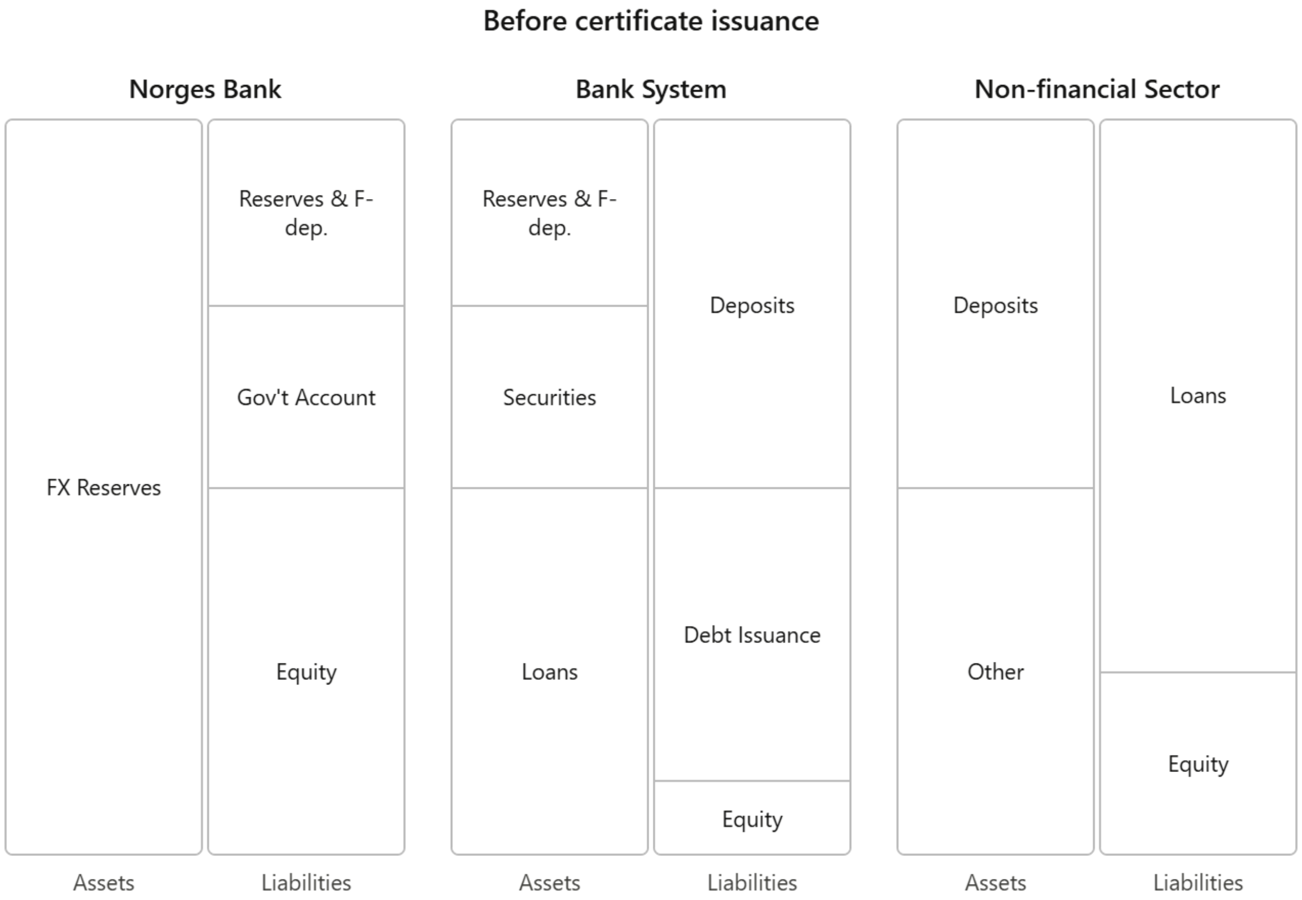
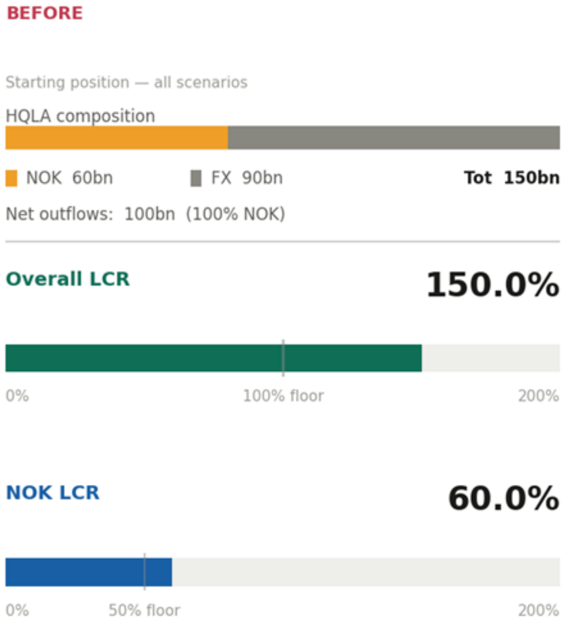


LCR



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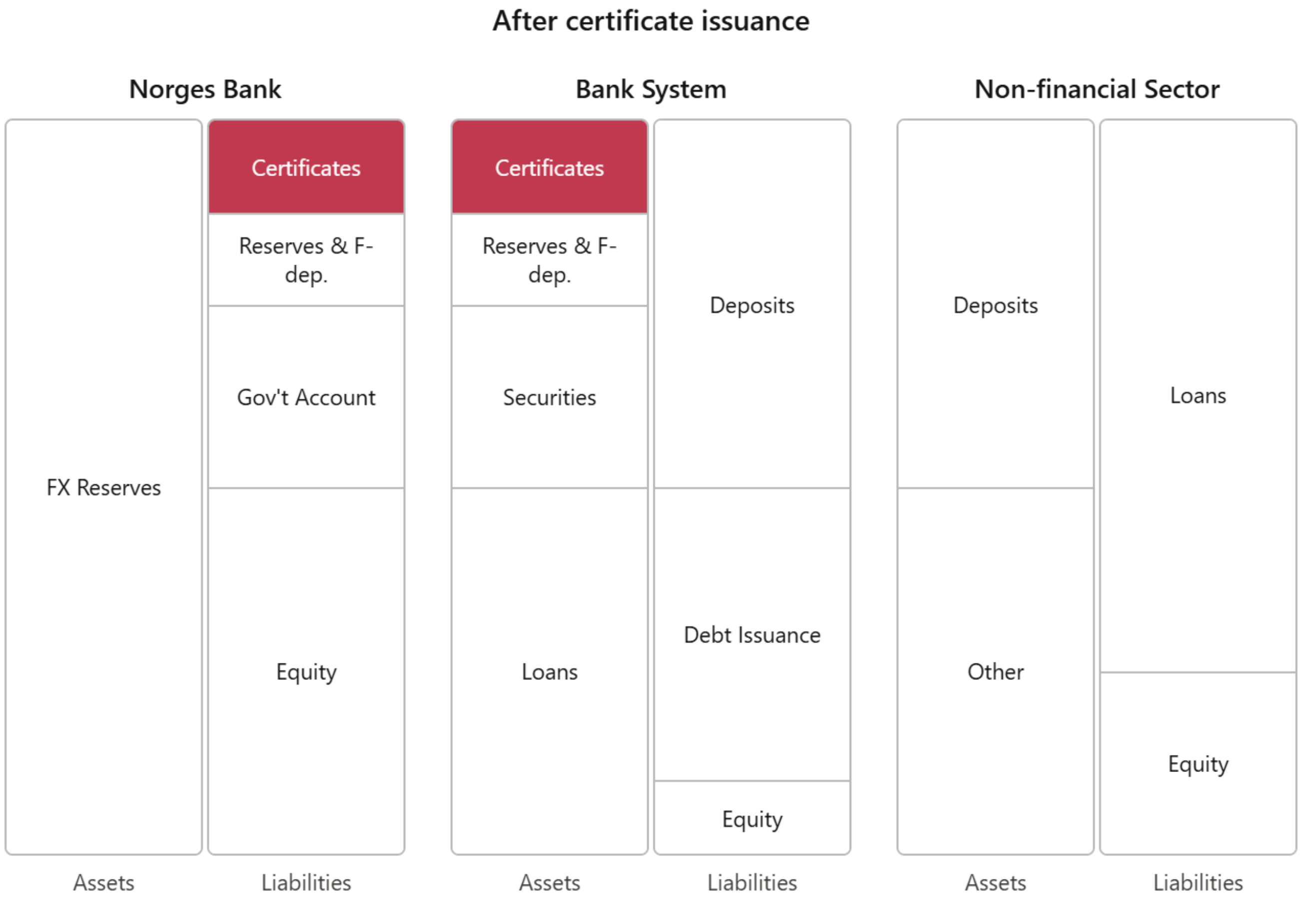

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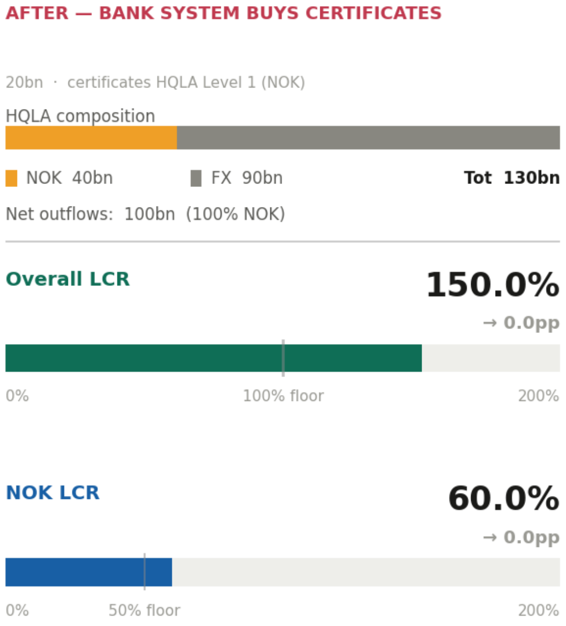


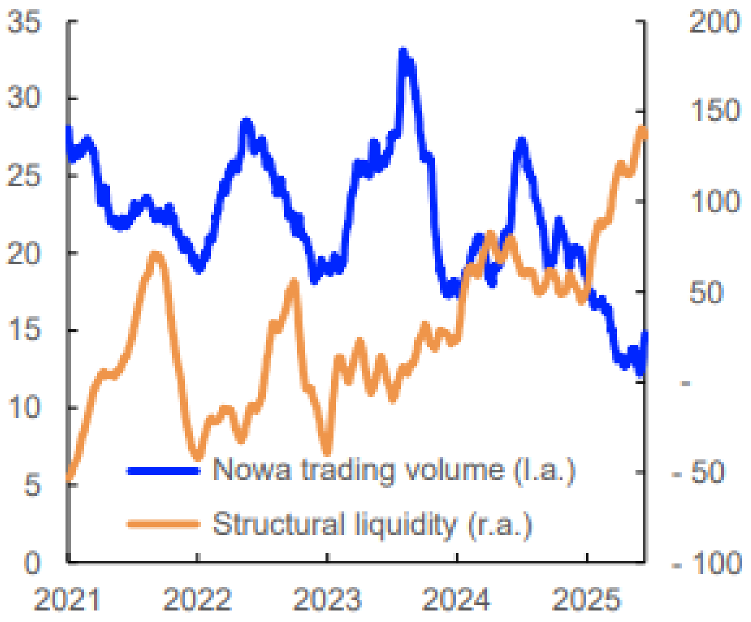
Bank buying means the effects on money market term premiums may be limited

REDUCED IMPACT ON TERM PREMIUM

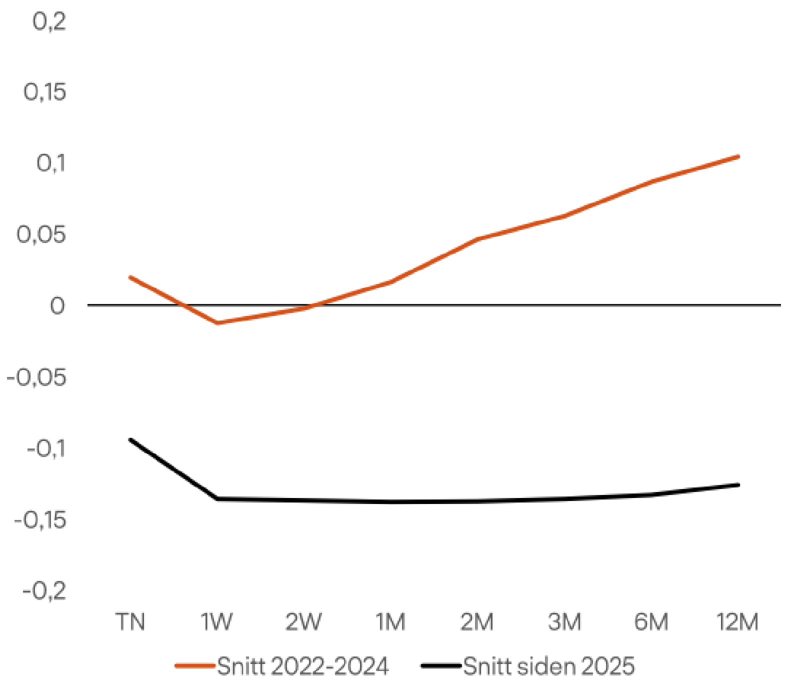
- If banks buy the majority of certificate issuance:
  - Little impact on LCR despite the drop in reserves
  - Which implies little need for banks to “cover” the drop in reserves in term FX swap markets
  - And a limited direct impact on money market term premiums (FX basis, NIBOR premium etc)

- This is not to say that certificates will have no effect:
  - Domestic banks may have less «excess» NOK to invest/lend in short-dated markets after buying certificates (FX swaps, repo, NOWA etc)
  - If reserves fall enough, and funding markets are not efficient, this may lead to higher short-end funding rates
  - Higher short-date funding levels could eventually feed down the curve

NOWA TURNOVER VS STRUCTURAL LIQUIDITY



OIS-BASIS IN FX SWAPS, JAN22-JAN26



So we might end closer to the orange line than the green line?

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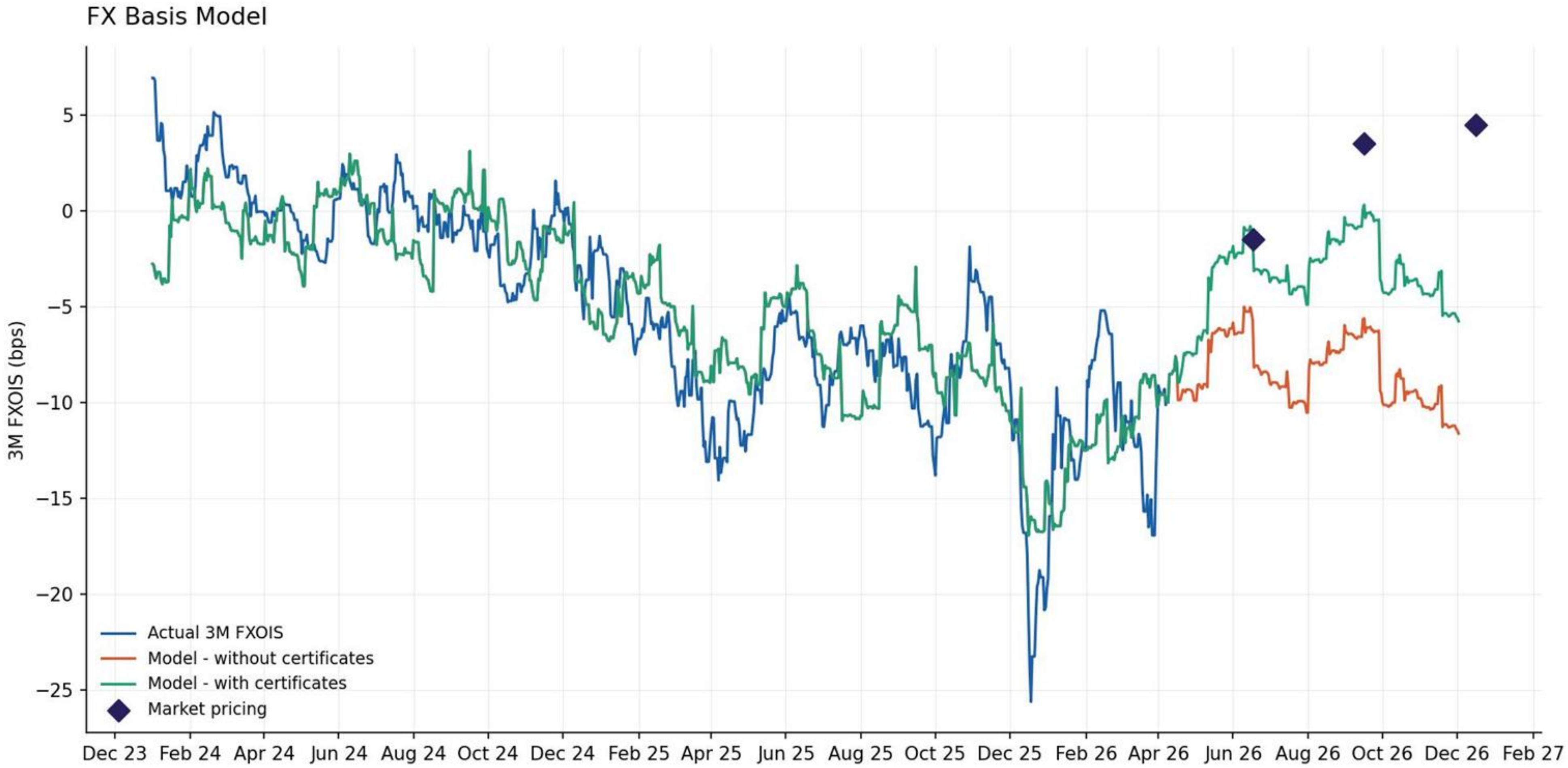


Is this an issue?

- Norges Bank has said "It is not a goal for us that the certificates should be purchased by non-banks. However, the fact that they get an alternative to deposits, on equal terms with the banks, may have effects on price formation through increased competition for deposits."

- But certificates - as designed - are likely to be more attractive to banks than other investor groups. This means we should not expect the drop in reserves to have as powerful impact on money markets as historical correlations might suggest.

- This means that the market phenomena identified by Norges Bank as being a consequence of excessively high strucutral liquidity might not «resolve» themselves:

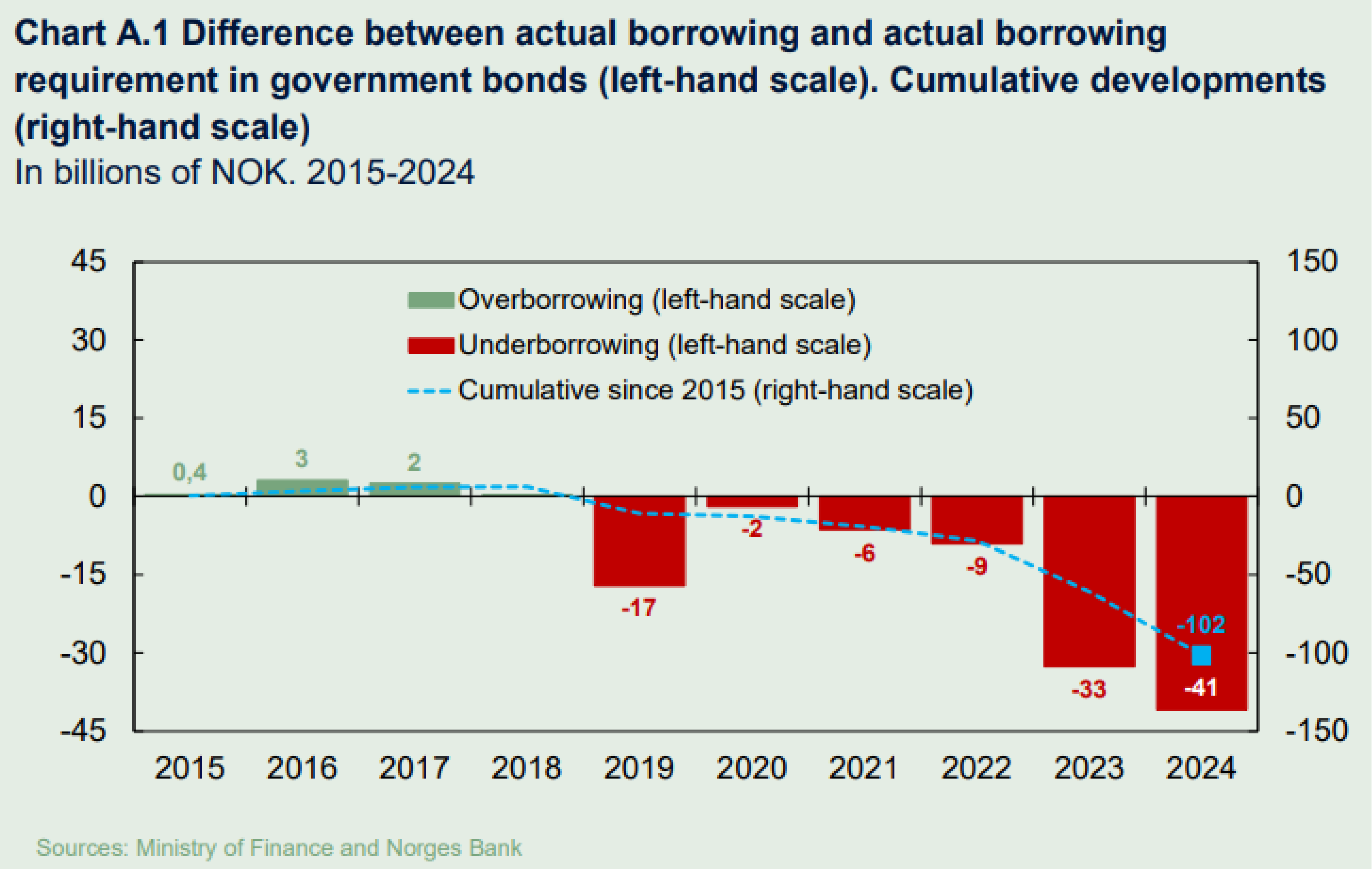
  1. Lower NOWA volumes
  2. Lower money market spreads (i.e. lower NIBOR premium)
  3. Lower, flatter and less volatile FX basis curve
  4. Lower credit spreads on short-dated highly-rated paper

- To make certificates more relevant for non-banks we would need:
  - A rating
  - Secondary market liquidity
  - Time

- Or alternatively…

Treasury Bills

TOO LITTLE GOVERNMENT BORROWING IS THE PRIMARY SOURCE OF EXCESS STRUCTURAL LIQUIDITY



GOVERNMENT BORROWING

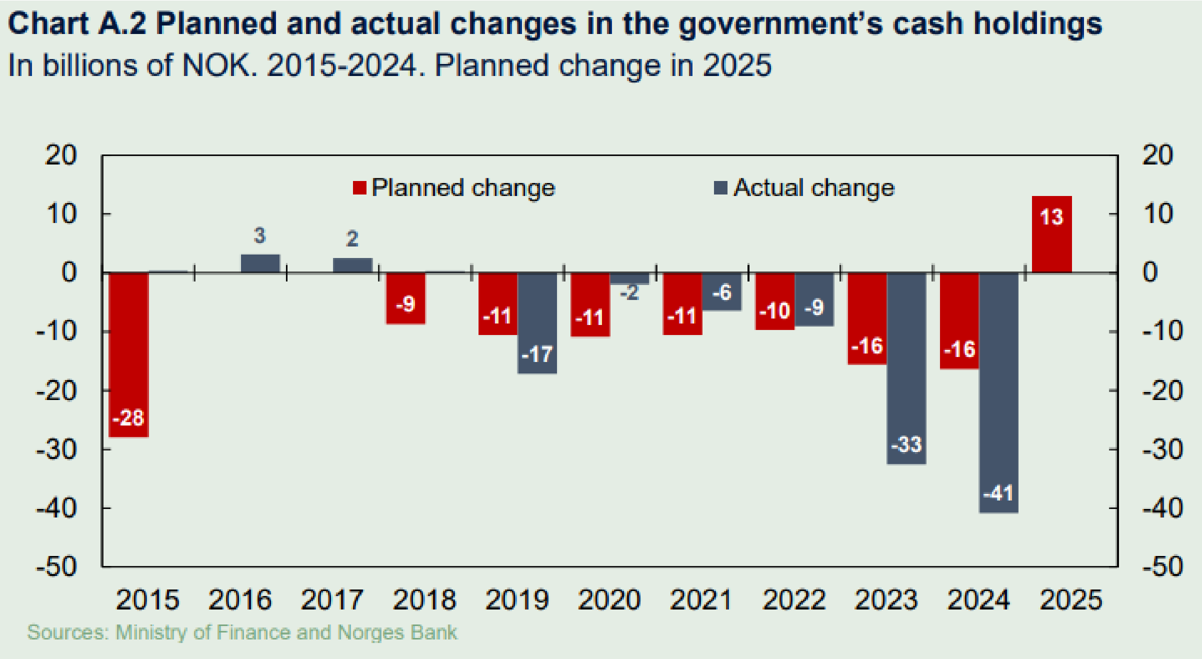
- Government debt issuance has been substiantially less than the borrowing requirement in recent years
- That there is some flexbility to build/draw the government account to smooth borrowing is sensible
- But should this flexibility extend so far as to create liquidity management problems?
- If deviations between issuance amounts and the forecast borrowing requirment had to be funded with bills - or at least some threshold for the deviation was introduced – this would resolve substantially all of the current excess liquidity issues

Treasury Bills

ADVANTAGES OVER CERTIFICATES

- The «correct» entity is footing the bill for draining liquidity
- Reduced fluctuations in liquidity due to planned over/under-borrowing
- No need for a new instrument: Treasury Bill market and associated infrastructure is well-established with a broad investor base & liquid secondary market
- Other efficiencies:
  - No duplication of roles/infrastructure
  - Less segmentation
  - Reduced conflicts of interest

THE PLANNED CHANGES IN THE GOVERNMENT'S CASH HOLDING HAVE BEEN SUBSTANTIAL



Conclusion

- The end-buyer of certificates has substantial implications for their effects on money markets
- As designed, certificates seem likely to be substantially held by banks
- Two questions for Norges Bank:

1. What are the goals of the certificate program and how will these be measured?
2. Why choose central bank certificates over tweaks to Treasury issuance mandate?

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