ISSUANCE OF CENTRAL BANK CERTIFICATES

Consultation Response – DNB Carnegie

Summary

In its consultation note "Issuance of central bank certificates" dated 10 October 2025, Norges Bank asked for input from market participants on the final design of the program. Adding to the broader input from Finance Norway, this is DNB Carnegie's technical input on the matters listed in the consultation note relevant to our role as a market maker in the Norwegian fixed income markets.

Norges Bank's consultation note states that the "issuance of central bank certificates entails Norges Bank issuing tradable securities that both banks and the general public can purchase". We interpret "general public" to mean all non-bank sectors and see a significant difference in the amount of infrastructure required if it is important that the non-bank sector is to be a significant participant in the market. This difference stems primarily from the importance of secondary market liquidity for non-bank participants, and the amount of new infrastructure required to facilitate a functioning secondary market.

We note that central bank certificates are likely to require higher yields than the current practice of using short-maturity F-deposits to drain liquidity. We also note some potential challenges in having a government bill program and a central bank certificate program operating in parallel in a similar part of the curve.

Certificates

Maturities

We have no strong view on which maturities should be included. We note that very short maturities are likely less appealing to non-bank customers due to the need for frequent rolling of investments. Longer maturities, on the other hand, restrict flexibility for both bank and non-bank investors– especially if there is no liquid secondary market - and would likely demand some term premium.

Listing at exchange

This is unlikely to be important for bank participation but may be a factor for some non-bank investors.

Credit rating

This is not important for bank participation but would be a requirement for some non-bank investors (particularly international investors), as well as some repo market participants.

Interest rate type

We believe fixed rate instruments are the most market-friendly choice. There are currently no floating rate instruments that trade referencing overnight rates, such that a floating rate instrument would offer less transparency and a create significantly higher hurdle for investor participation, with potential mandate and system issues that would need to be overcome. Fixed rate instruments may have the added benefit of boosting participation and liquidity in the NOWA Overnight Index Swap (OIS) market.

Day count convention

For transparency purposes we recommend the *ACT/365 Fixed* day count convention to align with the existing government bill, OIS and F-deposit/loan markets.

Settlement days

We recommend T+2 settlement to align with the existing fixed income securities markets, particularly if secondary market liquidity is desirable.

Outstanding volumes and issuance

Outstanding volume concentrated in one maturity or a larger range of maturities with smaller volumes

We recommend maintaining a set of certificates that are issued and tapped over time, such that outstanding volume is concentrated in a small number of outstanding securities. We have no strong opinion on which maturities should be selected, but some suggestions might be monthly maturities for the next 3-6 months if a short maturity program is desired, or a maturity each quarter for the next four quarters if a long maturity program is desired. Maturity dates could be IMM dates, to best align with other money market instruments, or alternatively a "neutral" date in each month (i.e. a date without any other large factors influencing structural liquidity like petroleum taxes, VAT etc). We recommend at least 6bio outstanding in each security at all times, if secondary market liquidity is desirable.

Stable or fluctuating outstanding volume throughout the year

Large swings in outstanding volumes should be avoided if non-bank sector participation is desirable, but small fluctuations should be unproblematic.

Predictable issuance volumes

It is important that the issuance schedule is known well in advance both for liquidity management purposes and to help facilitate a secondary market. The auction schedule for the entire year would ideally be published in December of the prior year, and anticipated liquidity effects should be included in the published structural liquidity projections. The schedule for the upcoming quarter could be reaffirmed at the end of the March/June/September quarters, with Norges Bank reserving the right to make ad-hoc changes if required.

Auction frequency

Optimal auction frequency depends on the overall size of the program but should be tailored such that auction sizes are reasonable and take into account maturities. For example, auctions of 2-4bio when not aligned with maturities, and 6-8bio when aligned with maturities seem reasonable. We recommend single security Dutch auctions and auction dates that are coordinated with the existing government bills program to avoid multiple auctions on the same day.

Distribution, sales platform and secondary market

Auction platforms and how they affect participation in auctions

If banks are the target market, then the choice of auction platform is not particularly important. If direct non-bank participation in auctions is desirable, Norges Bank must decide on some kind of accreditation process to allow investors to participate, with the added complication that many investors may want to allocate trades to several different entities/funds. However, our discussions with non-bank investors indicate a strong preference to place bids via banks (similar to how they currently place bids via primary dealers in government bill auctions), rather than bid directly. There must also be clear rules about what happens in the event of a failed auction, and whether Norges Bank can choose not to accept bids it deems unsatisfactory.

Factors that are important for the proper functioning of the secondary market for central bank certificates (e.g. institutional conditions and technical solutions)

As mentioned previously, a limited number of securities with a reasonable amount outstanding in each is important for secondary market liquidity (at least 6bio outstanding for each line). In addition, an auction schedule that is known in advance is important for dealers in their inventory management.

The biggest hurdle when it comes to secondary market liquidity is the need to establish some kind of "primary dealer" system.

1. For a liquid secondary market there must be dealers that are willing and able to make two-way prices in central bank certificates throughout the day. Dealers must therefore have access to some kind of repo facility with Norges Bank, such that they are able to show offers for certificates that they do not currently hold in inventory (as naked short selling is not permissible).

2. A liquid secondary market should also have publicly observable and tradeable prices throughout the business day. A "primary dealer" agreement could ensure this by obligating primary dealers to show live bid and ask prices for each certificate throughout the trading day in an agreed upon volume and at an agreed upon spread. There should be some flexibility for these volumes and/or spreads to be adjusted to reflect market conditions.

3. The prices published by dealers in (2) should ideally be published on a common trading platform, such that a best bid/offer can be easily observed, positions can be marked-to-market, and dealers are able to trade with one another at the published prices.

Our discussions with investors indicate that without a transparent, liquid secondary market, non-bank participation in the Norges Bank certificate market is likely to be extremely limited. Without a primary dealer program like that described above, it is likely that Norges Bank certificates will largely be held by domestic banks, with very limited secondary market trading.

Other feedback

Investor interest

Even if steps are taken to ensure a transparent and liquid secondary market, our discussions with investors still indicate that non-bank appetite for central bank certificates may be limited, at least initially. Many international investors anticipate a relatively long approval / onboarding process for a new instrument by a new issuer.

Most investors also indicated their participation would largely depend on what yields the certificates offered versus other alternatives. The most obvious alternative for bank treasuries is to continue to place excess liquidity in F-deposits. Buying central bank certificates may offer some benefits over F-deposits, but also reduces flexibility, particularly if the secondary market is ineffective. In environments with lower structural liquidity, this reduction in flexibility may outweigh any other benefits, and we therefore expect that central bank certificates may need to offer a yield greater than what can be achieved by rolling F-deposits in order to be an attractive alternative, especially for longer maturities. Another alternative for both bank and non-bank investors is the government bill market, where we note that yields have often been higher than matched maturity OIS rates in periods of lower structural liquidity.

A smaller investor base and the supply of extra collateral to the market means that withdrawing liquidity via the issuance of central bank certificates is likely to require higher yields than those associated with the current practice of using short-term F-deposits.

Norges Bank certificates versus government bills

We note the potential conflict between the existing government bill program and central bank certificates. Two different state institutions issuing in the same part of the curve risks creating confusion, as it may be difficult for some market participants to distinguish between the two programs and their explicitly different aims. Situations could arise where the issuance needs from the two programs move in opposite directions, potentially leading to confusion, volatility and increased funding costs.

Even in normal market conditions, bifurcating liquidity in this part of the curve between the two markets risks making both markets less liquid, potentially leading to higher funding costs. Additionally, there can be challenges associated with managing conflicts of interest surrounding the timing of auctions, issuance volumes and so on.

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