

Box 1 Central Bank regulatory changes and market measures and their impact on liquidity since January 2003

The following is an overview of the main effects that Central Bank measures have had on liquidity in circulation since the beginning of 2003. Four types of measures are examined: changes in the reserve requirement, currency purchases, repos and issues of certificates of deposit (CDs).

Required reserves

In March and December 2003 the methodology for calculating the reserve requirement of credit institutions was changed. As a result of these changes, 23 b.kr. were released from the credit institutions' required deposits (8 b.kr. in March and 15 b.kr. in December 2003; see *Monetary Bulletin* 2004/1). However, the institutions' expanding balance sheets have led their

required reserves to increase again. Their reserve deposits with the Central Bank amounted to 31 b.kr. at the end of December 2003 but in September 2004 they were 11 b.kr., i.e. liquidity increased by 20 b.kr. over this period.

Central Bank currency purchases

Central Bank currency purchases over the period January 2003 to the end of October 2004 increased liquidity in the credit system by 64 b.kr. (currency amounting to 4.5 b.kr. was purchased in 2002).

Gross increase in liquidity as a result of Central Bank measures

Central Bank measures therefore resulted in a total

Chart 1

Increase in liquidity due to Central Bank measures 2003-2004

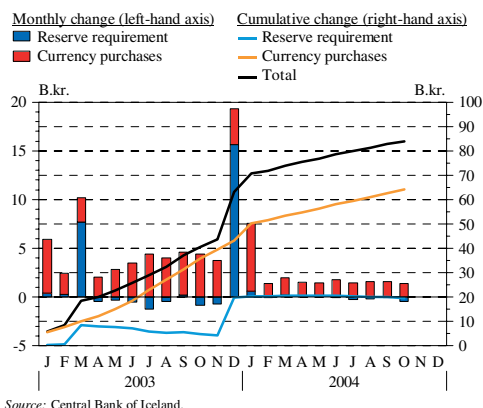
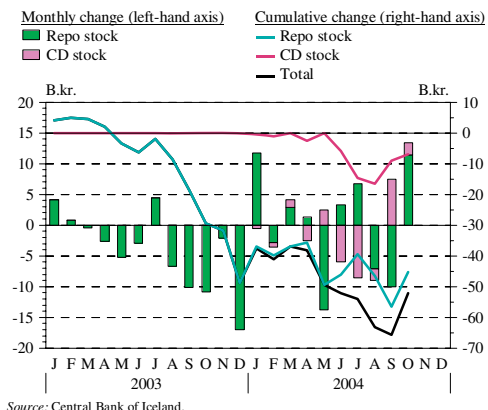


Chart 2

Decrease in liquidity due to Central Bank measures 2003-2004



increase of 84 b.kr. in credit institutions' liquidity over this period.

Repos

At the beginning of 2003, the outstanding stock of Central Bank repurchase agreements with credit institutions amounted to 74 b.kr. At the end of October 2004 the outstanding stock was 28 b.kr., a reduction of 46 b.kr.

Certificates of deposit

The Central Bank launched regular sales of CDs in the beginning of 2004. The outstanding stock of CDs was 7 b.kr. at the end of October.

Gross reduction in liquidity as a result of Central Bank measures

The decrease in repo transactions and the sale of CDs have resulted in a liquidity flow of 53 b.kr. to the Central Bank.

Net increase in liquidity as a result of Central Bank measures

These calculations imply that liquidity in circulation increased by 31 b.kr. over the period from the beginning of 2003 to the end of October 2004 as a result of Central Bank measures and changes to its rules on the reserve requirements.

Chart 3

Impact of Central Bank measures on liquidity in circulation 2003-2004

Reserve requirement, repos, CDs and currency purchases

