
Liquidity-adjusting operations

Danmarks Nationalbank manages the liquidity in the banking system through its ordinary weekly market operations. In these operations liquidity is provided via loans against collateral, and liquidity is absorbed by sale of certificates of deposit. To the extent needed Danmarks Nationalbank also conducts extraordinary open market operations in which the liquidity is managed via purchase and sale of certificates of deposit. Banks and mortgage-credit institutes exchange liquidity among themselves on the money market in order to even out differences in liquidity.

From time to time the tensions in the financial markets have impeded the exchange of liquidity on the Danish money market, like it has been the case internationally. In Denmark sluggishness in the exchange of liquidity on the money market has from time to time lead to rises in short term money-market rates. The money-market rates are determinative for the exchange rate of the krone.

In order to support the fixed-exchange-rate policy Danmarks Nationalbank supplements its monetary policy instruments with liquidity-adjusting deposit and lending operations in kroner. The operations can be used to adjust the liquidity in the money market when and to the extent needed. The rate of interest and maturity of the operations will reflect market conditions. The operations can be conducted either as deposits at Danmarks Nationalbank, lending against pledging of assets included in Danmarks Nationalbank's collateral basis, or as FX swaps, in which the collateral is foreign exchange. Danmarks Nationalbank allocates or absorbs the krone liquidity by auction or conduct bilateral transactions with individual counterparties. Such instruments are also used by other central banks in their liquidity management.

Further modalities of any such operations, including maturity and procedure, will be determined when the deposit or lending operation is conducted.