Educational

Liquidity Management by the CBN

Liquidity management involves the supply/ withdrawal from the market the amount of liquidity consistent with a desired level of short-term interest rates or reserve money. It relies on the daily assessment of the liquidity conditions in the banking system, so as to determine its liquidity needs and thus the volume of liquidity to allot or withdraw from the market. The liquidity needs of the banking system are defined by the sum of reserve requirements imposed on banks, excess reserves, i.e. funds held in excess of these requirements, autonomous factors, i.e. a set of items on the central bank balance sheet which have an impact on banks' liquidity needs but are not under the direct control of the central bank (e.g. banknotes in circulation, government deposits or net foreign assets). Liquidity management is supported by daily liquidity forecasting of the central bank balance sheet to guide the Bank’s management on the expected level of liquidity in the system over a period of time from the current period so that appropriate measures are taken to prevent undesirable market developments, that may negatively impact on the objective of price stability.