



Mandatory Long-Term Deposits (MLD)

1. Introduction

To achieve its monetary policy operational target (effective overnight rate), Banco de México may use the following instruments to manage the financial system's liquidity:

- Long-term instruments:
 - Sales and purchases of debt securities
 - Mandatory long-term deposits
 - Long-term liquidity window
- Short-term instruments:
 - [Open market operations](#)
 - Credit and deposit facilities
 - Short-term liquidity windows

2. Mandatory Long-Term Deposits

Under normal circumstances, a central bank seeks to balance the excess or lack of liquidity¹ to avoid an impact on money market interest rates and eventually on inflation.

Short-term instruments are not as effective when there is a large amount of liquidity to be withdrawn from the market. In this case Banco de México uses mandatory long-term deposits (MLD²). MLDs are long-term instruments that the financial institutions maintain at the central bank.

Usually, MLDs do not have a defined maturity, in other words, they do not have an expiration date thus, banks cannot withdraw them, but they are remunerated.

A similar instrument to the long-term deposits used by other central banks is the reserve requirement². This instrument is used to withdraw liquidity for longer periods of time. However, unlike reserve requirements, MLDs are not continuously adjusted to match the fluctuations in the banks' liabilities used for the MLDs

¹ Under a monetary policy implementation context, the term liquidity refers to the balance held in the banks' accounts at the Central Bank (these accounts are also known as current accounts in Spanish). For example, if a commercial bank requires bills and coins to distribute to its customers, Banco de México provides them, and, at the same time debits their current accounts. If the commercial bank does not have any balances in its account it will have an overdraft with Banco de México, in other words, it has a lack of liquidity.

² The term "reserve requirements" refers to the proportion of liabilities that banks as a whole must keep at the central bank.

calculations. Banco de México sets the MLD of the system according to the amount of liquidity needed to be withdrawn, the amount each bank will have to deposit is calculated based on certain liabilities used as reference (for example: total amount of bank deposits) at a particular date.

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