



CIRCULAR NO. 1

(Issued on 2nd December 2016)

All Banks
UNITED REPUBLIC OF TANZANIA

STATUTORY MINIMUM RESERVES AGAINST DEPOSITS AND BORROWINGS FROM THE GENERAL PUBLIC

In accordance with Section 44 of the Bank of Tanzania Act, 2006 all deposit taking banks in Tanzania - Mainland and Zanzibar, are required to maintain Statutory Minimum Reserves (SMR) on their total deposit liabilities and funds borrowed from the general public.

GENERAL POLICY AND IMPLEMENTATION GUIDANCE

The required SMR is an important instrument of monetary policy and financial prudence in Tanzania. Its operational framework and utilization is determined by long-term objectives of the monetary policy given the prevailing financial and economic conditions.

In order to improve the functioning of the interbank cash market, increase flexibility in liquidity management by banks and promote stability in the short-term interest rates, the Bank of Tanzania unified the SMR account with the clearing account with effect from 20th June 2016, and has further decided to adopt reserve averaging approach in the determination of SMR compliance. The objective of this Circular is therefore to provide guidance on implementation of reserve averaging framework.

1. Adoption of reserve averaging framework:

- 1.1 The compliance with SMR requirement shall be based on the average of daily balances in the clearing account for the

maintenance period of two weeks including public holidays and weekends.

- 1.2 Each bank shall be allowed to draw up to ten percent (10%) of its SMR balance to meet its daily liquidity needs, but a shortfall in the SMR balance caused by such a drawing must be offset by excess in the Clearing account balance in other day(s) during the maintenance period, such that the average of balances in the Clearing account for the entire maintenance period is at least equal to the required SMR.

2. Determination of the required SMR balance and submission of report:

The required SMR balance for each bank shall be equivalent to:

- 2.1 Ten percent (10%) of the preceding two weeks (henceforth called "the reference period") average of the domestic and foreign currency deposit liabilities of the non-central government, and borrowings from the general public, all held in domestic currency.
- 2.2 Forty percent (40%) of the preceding two weeks, average of domestic currency and foreign currency deposits of the central government, all held in domestic currency.
- 2.3 For the purpose of computation in (2.1) and (2.2) above, the balances applicable for public holidays and weekends shall be the balances of the most recent working day.

Each bank shall submit a report to the Bank of Tanzania not later than the fourth working day after the reference period. The report shall be in the format attached to this Circular as **Table 1** and entitled "Report on Minimum Reserve Requirements".

3. Computation of Compliance and Penalties

- 3.1 Each bank shall maintain at least ninety percent (90%) of the required SMR amount (calculated as the sum of (2.1) and (2.2) above) in the clearing account at the Bank of Tanzania on daily basis, but the average for the entire maintenance period must at least be equal to one hundred percent (100%) of the required SMR balance.

- 3.2 In recognition of the logistical challenges that face banks with widely spread branch network, all banks with branches in at least half of the districts in the United Republic of Tanzania shall be required to maintain at least eighty one percent (81%) of the required SMR amount (calculated as the sum of (2.1) and (2.2) above) in the clearing account at the Bank of Tanzania on daily basis, but the average for the entire maintenance period must at least be equal to ninety percent (90%) of the required SMR balance.
- 3.3 For the purpose of assessing compliance with SMR requirements, the average of daily balances in the clearing account will be computed one day after the end of maintenance period and compared with the required SMR amount.
- 3.4 Any bank which violates the requirements of this Circular shall be liable to penalties as follows:
- (a) For failure to submit the "Report on Minimum Reserve Requirements" – a penalty of one million shillings (TZS 1,000,000) per day shall be imposed for each day for which the failure occurs.
 - (b) For failure to comply with the required SMR under this Circular – a penalty shall be applied to the amount of shortfall, equivalent to the higher of the overall weighted average yield of Treasury bills obtained in the most recent auction or weighted average of the overnight Interbank Cash Market Interest rate obtained during the maintenance period, plus 500 basis points.
 - (c) Where the amount of penalty computed under (b) falls below one million shillings (TZS 1,000,000), the non-complying bank shall be required to pay a penalty of one million shillings (TZS 1,000,000).
 - (d) Any bank that fails to comply with the SMR requirement under this Circular for two consecutive maintenance periods shall not be allowed to access part of the SMR for a minimum period of one month.
 - (e) Misrepresentation or submission of incorrect "Report on Minimum Reserve Requirements" by any bank shall attract a penalty of one million shillings (TZS 1,000,000) per day of existence of such misrepresentation or submission of incorrect information.

3.5 The penalty charges imposed in section 3.4 above shall be recovered by the Bank of Tanzania by deduction from any balance of, or monies owing to, the bank concerned or recovered as a civil debt.

4. Revocation and Effective Date

4.1 Circular No.1 as amended on 30th April 2015 is hereby revoked.

4.2 This Circular shall take effect on 2nd January 2017.



Prof. Benno Ndulu
GOVERNOR

TABLE 1: REPORT ON MINIMUM RESERVE REQUIREMENTS

NAME OF REPORTING BANK:.....

DATE OF THIS REPORT: 5th January 2017

DATE OF NEXT REPORT: 19th January 2017

DATE	NON CENTRAL GOVERNMENT DEPOSITS*			BORROWINGS FROM THE GENERAL PUBLIC	TOTAL
	Domestic currency deposits		Foreign currency (equivalent in TZS)		
	Demand	Savings	Time		
19-December-16					
20-December-16					
21-December-16					
22-December-16					
23-December-16					
24-December-16					
25-December-16					
26-December-16					
27-December-16					
28-December-16					
29-December-16					
30-December-16					
31-December-16					
01-January-17					
A. AVERAGE					
B. 10% OF THE AVERAGE					

* Non-central government deposits include deposits of the private sector and local government entities

DATE	CENTRAL GOVERNMENT DEPOSITS
19-December-16	
20-December-16	
21-December-16	
22-December-16	
23-December-16	
24-December-16	
25-December-16	
26-December-16	
27-December-16	
28-December-16	
29-December-16	
30-December-16	
31-December-16	
01-January-17	
C. AVERAGE	
D. 40% OF THE AVERAGE	

REQUIRED MINIMUM RESERVES=B+D	
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MAINTENANCE PERIOD: 9th 2016 to 22nd January 2017