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CIRCULAR NO. 1
(Issued on 30th April 2015)

All Banks
UNITED REPUBLIC OF TANZANIA

STATUTORY MINIMUM RESERVES AGAINST DEPOSITS AND BORROWINGS

In accordance with Section 44 of the Bank of Tanzania Act, 2006, and Sections 4 and 71 of the Banking and Financial Institutions Act, 2006, all 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.

1. GENERAL POLICY AND IMPLEMENTATION GUIDANCE

The statutory minimum reserve requirement remains an important instrument of monetary control and financial prudence in Tanzania. However, its utilization is determined by long term objectives of monetary policy given the prevailing economic conditions.

Inflation has remained subdued at single digit level, well below the medium term target of 5 percent supported by decline in global oil prices, improvement in food supply in the EAC region and prudent monetary policy stance pursued since the end of 2011. Recently, there has been pressure on the TZS/USD exchange rate driven mostly by strengthening of USD following good performance of the US economy coupled with speculative activities in the foreign exchange market. This is likely to put upward pressure on inflation that may become more difficult to fight going forward.

Having considered these developments and the importance of low and stable inflation for sustainable growth, the Bank of Tanzania has decided to revise the **SMR** rate charged on private deposit liabilities with banks and general public from the current level of 8 percent to 10 percent.

By this Circular, therefore each bank shall be required to maintain SMR account with the Bank of Tanzania in the amount and manner in which the required cash reserves shall be calculated by banks as prescribed in this Circular. From the date this Circular becomes effective, SMR requirement for each bank shall be equivalent to:

- 1.1 Ten percent (10%) of the preceding two weeks average of the local and foreign currency deposit liabilities (of non-government and local government entities) and borrowings from the general public, all held in local currency, and
- 1.2 Forty percent (40%) of the preceding two weeks average of the local and foreign currency central government deposits, also held in local currency.
- 1.3 Under the above arrangements, cash in vault shall not form part of the available reserves in the computation of the required SMR.
- 1.4 Only balances in excess of SMR shall be available for clearing purposes. No bank shall be allowed to withdraw funds below its SMR requirement at the Bank of Tanzania to manage their liquidity shortfalls. Instead, banks are encouraged to make effective use of the inter-bank cash market and other available liquidity bridging windows at the Bank of Tanzania, namely: the intra-day loan facility, the discount window and the *Lombard* facility.

2. CALCULATION OF THE REQUIRED STATUTORY MINIMUM RESERVES, SUBMISSION OF REPORTS AND PENALTY

- 2.1 Each bank shall maintain the required amount (calculated as the sum of (1.1) and (1.2) above) in the SMR account at the Bank of Tanzania on a daily basis for the subsequent two weeks. Each bank shall submit a weekly report to the Bank of Tanzania not later than the second Monday after the reference week. Such weekly reports shall be submitted in the format prescribed in the preceding Circular Number 1, issued on 18th October 2011.
- 2.2 In recognition of the logistical challenges of transporting cash 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 keep only ninety percent (90%) of the required minimum reserves in the SMR account at the Bank of Tanzania.

- 2.3 Any bank which violates the requirements of this Circular shall be liable to penalties as follows:
- (a) For failure to submit the compliance "Report for Minimum Reserve Requirements" – a penalty of shillings one million (TZS 1,000,000) per day shall be imposed for every day in which the failure occurs.
 - (b) For failure to maintain the statutory minimum reserves required under this Circular – a penalty equivalent to the weighted average yield of all Treasury bill maturities obtained in the most recent auction shall be applied on the amount of deficiency for every day in which non-compliance occurs.
 - (c) Misrepresentation or submission of incorrect "Report for Minimum Reserve Requirements" by any bank shall attract a penalty amounting to shillings one million (TZS 1,000,000) per day of existence of such misrepresentation or submission of incorrect information.
- 2.4 The penalty charges imposed in section 2.3, sub-section (a), (b), and (c) above shall be recovered by the Bank of Tanzania from any balances of or monies owed to the bank concerned or as a civil debt.

3.0 REPEALING CLAUSE AND EFFECTIVE DATE

- 3.1. This Circular repeals Circular No.1 as amended on 26th November 2014, which became effective on 29th December 2014.
- 3.2. The Circular shall take effect on 29th May 2015.

Sincerely,



Prof. Benno Ndulu
GOVERNOR