

**CIRCULAR NO. 1**  
**(Issued on 26<sup>th</sup> November 2014)**

**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 policy and financial prudence in Tanzania; and its utilization is determined by long term objectives of monetary policy given the prevailing economic conditions.

Inflation has remained subdued at single digit level, with core inflation reaching its historical low, supported by softening of supply side shocks and prudent monetary policy. Inflation is projected to moderate further in the near term towards the medium term target of 5 percent. Having considered these developments and the need to increase capacity of banks to support economic activity, the Bank of Tanzania has decided to revise the SMR rate charged on private deposit liabilities with banks and borrowings from the general public from the current level of 10 percent to 8 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 Eight percent (8%) 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 Circular Number 1, issued on 18<sup>th</sup> October 2011.
- 2.2 In recognition of the logistical challenges of transporting cash that banks face 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 that 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 one million shillings (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 19<sup>th</sup> November 2012, which became effective on 24<sup>th</sup> December 2012.
- 3.2. The Circular shall take **effect** on 29<sup>th</sup> December 2014.

Sincerely,



Prof. Benno Ndulu  
**GOVERNOR**