Reserve Requirement (Directive No. 827/2021)

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National Bank of Ethiopia

September 01, 2021

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LICENSING AND SUPERVISION OF BANKING BUSINESS

Reserve Requirement - 7th Replacement

Directive No.827/2021

Whereas, the National Bank of Ethiopia is vested with powers, duties and responsibilities of monetary management and regulation and supervision of banks.

Whereas, statutory reserve requirement, which obliges banks to hold a proportion of their deposit balance with the National Bank of Ethiopia, is one of the important monetary policy instruments and prudential regulation tools.

Now, **therefore**, the National Bank has issued this Directive pursuant to the powers vested in it by Article 16(1) (a) of the National Bank of Ethiopia Establishment (as Amended) ProclamationNo.591/2008, and 59(2) of Banking Business Proclamation No. 592/2008 as amended by Banking Business (Amendment) Proclamation No.1159/2019.

1) Short Title

This Directive may be cited as "**Reserve Requirement–7th Replacement Directive No.827/2021".**

2) Opening Accounts with the National Bank of Ethiopia

Banks operating in Ethiopia shall open two separate Birr accounts with the National Bank of Ethiopia to be used as follows:

2.1) **Reserve Account**

(a) A reserve account shall exclusively be used to maintain the reserve balance stated under **Article 3** of this Directive.

(b) No bank shall withdraw any money from its reserve account without prior approval of the Bank Supervision Directorate of the National Bank of Ethiopia.

(c) A bank can request for transfer to Payment and Settlement Account maintained with the National Bank, if daily reserve ratio is **above 5%.** But a bank must ensure that average reserve ratio of a calendar month is **10%** at minimum, calculated as per **article 3** of this Directive.

2.2) **Payments and Settlement Account**

A payment and settlement account shall be used to carry out all day-to-day transactions of banks through the National Bank of Ethiopia.

3) Reserve Requirement

3.1) A bank operating in Ethiopia shall maintain in its Reserve Account stated under **Article 2.1(a)** of this Directive **10%** (**Ten percent**), on average in every calendar month, of all Birr and foreign currency deposit liabilities held in the form of demand/current deposits, saving deposits and time deposits.

3.2) Notwithstanding sub-article **3.1** hereinabove, a bank, at all times, shall maintain a minimum of **5%** of all Birr and foreign currency deposit liabilities held in the form of demand/current deposits, saving deposits and time deposits.

4) Computation of Reserve Balance

4.1) Cash items in process of collection, if included under deposits, shall be deducted there from in computing the balance of total deposits for reserve purposes.

4.2) Cash items in process of collection through the National Bank of Ethiopia shall not be acceptable as reserve until credited to the reserve account.

4.3) The reserve requirement shall be computed on the net deposit balance, i.e., excluding cash items in process of collection, shown at the end of each reporting week.

5) <u>Transition Period</u>

5.1) A bank shall ensure increase of monthly average reserve ratio to 10% within 3 months period, from effective date of this Directive.

5.2) During transition period, a bank shall maintain above 5% for requesting transfer to Payment and Settlement Account, but must ensure that average reserve ratio of a calendar month, at minimum, is:

a) 6.5% for the month of September;
b) 8% for the month of October; and
c) 10% for the month of November calculated as per **article 3** of this Directive.

6) <u>Reporting Requirements</u>

6.1) For the purpose of determining strict compliance with the reserve requirement stated under Article 3 of this Directive, a bank shall submit properly checked and signed weekly report, showing balances as of each Wednesday, not later than Tuesday of the following week, to the Bank supervision Directorate of the National Bank, as per **Annex I**.

6.2) Notwithstanding sub-article **6.1** hereinabove, a bank shall submit a monthly report showing each day′s reserve ratio and monthly average reserve ratio, to the Bank supervision Directorate of the National Bank, as per **Annex II**.

6.3) Both weekly and monthly reports shall show the balance of each type of deposit, reserve balance with National Bank and the excess/shortfall over reserve requirement.

7) Penalty on Incompliance with Reserve Requirement

7.1) Deficiency in reserve balance is subject to a penalty; and the penalty shall be assessed at a maximum lending interest rate on loans and advances charged by the bank breaching the requirement, and computed on the amount of the deficiency in reserve and multiplied by the number of days over which the reserve account remained deficient.

7.2) The penalty for late reporting of weekly and monthly reports shall be as per NBE Directive No.SBB/35/2004, or its revised version thereof.

7.3) The National Bank of Ethiopia may waive the penalty stated herein above on grounds it considers acceptable.

8) Repeal

Reserve Requirement Directives **No.600/2021** is hereby repealed and replaced by this Directive.

9) Effective Date

This Directive shall enter into force as of the **1st** day of **September 2021**.

Annex 1

Name of the Bank…………………………………

Month Ended………………………………………

Weekly Reserve Requirement Report

(Amount in Millions of Birr)

Code	Description	Amount
1	Deposits (1.1+1.2+1.3)	
1.1	Demand/Current Deposits	
1.2	Saving Deposits	
1.3	Time Deposits	
2	Deductions (2.1+2.2)	
2.1	Un-cleared Checks paid-local	
2.2	Un-cleared effects- foreign	
3	Net Deposits Balance (1 minus 2)	
4	Reserve Requirement (5% of 3)	
5	Reserve account with NBE	
6	Payment and Settlement account with NBE	
7	Currency Issue Account Balance	
8	Deposit with NBE (5+6+7)	
9	Excess/Deficiency (5 minus 4)	
10	**Reserve Ratio (5/3*100)**	
Note: Only Wednesday′s Position		

Annex 2

Name of the Bank…………………………………

Month Ended………………………………………

Monthly Reserve Requirement Report

(Amount in Millions of Birr)

Code	**Description**	**Day 1**	**Day 2**	**Day 3**	**Day 4**	**Day 5**	**Day 6**	**Day 7**	**Day 8**	**Day 9**	**Day 10**	**Day 11**	**Day 12**	**Day 13**	**Day 14**	**Day 15**	**etc**	**Monthly Average**
1	Deposits (1.1+1.2+1.3)																	
1.1	Demand/Current Deposits																	
1.2	Saving Deposits																	
1.3	Time Deposits																	
2	Deductions (2.1+2.2)																	
2.1	Un-cleared Checks paid-local																	
2.2	Un-cleared effects- foreign																	
3	Net Deposits Balance (1 minus 2)																	
4	Reserve Requirement (5% of 3)																	
5	Reserve account with NBE																	
6	Payment and Settlement Account with NBE																	
7	Currency Issue Account Balance																	
8	Deposit with NBE (5+6+7)																	
9	Excess/Deficiency (5 minus 4)																	
10	**Reserve Ratio (5/3*100)**																	

Note: - Consider only each day's position
- Use excel sheet and consider average amounts for "monthly average column" and drag for ratio/calculate