

## **Directive No. SBB/45/2008**

### RESERVE REQUIREMENT (4th Replacement)

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;

Whereas, liquidity in the banking system remained relatively high;

Whereas, commercial banks have strong incentive to enhance profitability through credit extension;

Whereas, it has been found necessary to check monetary growth so as to avoid risk of high inflation and ensure a stable macroeconomic environment for a healthy economic growth;

Now, therefore, the National Bank of Ethiopia has issued these directives pursuant to the authorities vested in it by Article 41 of Monetary and Banking Proclamation No. 83/1994 and article 16 of Licensing and Supervision of Banking Business Proclamation No. 84/1994.

#### 1. Short Title

These Directives may be cited as " Reserve Requirement - 4th Replacement " Directives No. SBB/45/2008.

#### 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 reserve account shall exclusively be used to maintain the reserve balance stated under article 2 of these directives;

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

##### 2.2 Payments and Settlement Account

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

### 3. Requirement

Any bank operating in Ethiopia shall at all times maintain in its Reserve Account stated under article 2.1 of these directives 15% (fifteen percent) 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

4.1 Cash items in process of collection, if included under deposits, shall be deducted therefrom 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 required 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. Reserve Deficiencies

5.1 Deficiencies in reserve balance are subject to a penalty;

5.2 The penalty shall be assessed at a rate twice the current average rate of interest on loans and advances charged by banks computed on the amount of the deficiency in reserve and multiplied by the number of days over which the reserve account remained deficient;

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

### 6. Reports

For the purpose of determining strict compliance with the reserve requirement stated under article 2 of these Directives, properly checked and signed reports, showing balances as of each Wednesday, shall be submitted to the Supervision Department of the National Bank of Ethiopia. The reports shall be submitted not later than Tuesday of the following week and shall show the balance of each type of deposit under article 2 herein above, reserve balance with National Bank of Ethiopia and the excess/shortfall in reserves.

### 7. Repeal

Directives No. SBB/42/2007 is hereby repealed and replaced by these Directives.

### 8. Effective Date

These Directives shall enter into force as of the 7th day of April 2008.