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NATIONAL BANK OF ETHIOPIA

**LICENSING AND SUPERVISION OF BANKING BUSINESS
RESERVE REQUIREMENTS (9TH-REPLACEMENT)
DIRECTIVE NO.SBB/.../2025 (DRAFT)**

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, it is found important to adopt partial reserve averaging and lagged maintenance period to enhance the functioning of interbank money market and create flexibility in liquidity management by banks;

Now, therefore, in accordance with Article 16(1(a)) and Article 27(2), of the National Bank of Ethiopia Establishment (as Amended) Proclamation No. 591/2008, and Article 20 (3), Article 20(4) and Article 59(2) of Banking Business Proclamation No. 592/2008 (as amended by Proclamation No. 1159/2019), the National Bank has issued this Directive.

1. Short Title

This Directive may be cited as "Reserve Requirements — 9th Replacement Directive No. SBB/.../2025."

2. Definitions

For the purpose of this Directive, unless the context provides otherwise:

- 2.1 “**Bank**” shall mean a private or state-owned entity, licensed by the National Bank to undertake banking business.
- 2.2 “**Cash Items in Process of Collection**” means financial items that are being processed for payment but the transactions have not yet been fully completed at the end of working day.
- 2.3 “**National Bank**” means the National Bank of Ethiopia.
- 2.4 “**Payment and Settlement Account**” means an account opened by a bank with the National Bank to maintain a minimum reserve requirement and carryout daily transactions.
- 2.5 “**Reserve Base**” means all forms of domestic and foreign currency deposit liabilities held by a bank in the form of demand/current, saving and time deposits.
- 2.6 “**Reserve Maintenance Period**” means the period over which a bank is required to maintain statutory reserve requirement with the National Bank.

3. Scope of the Directive

This Directive shall apply to all commercial banks that collect customer deposits and operate in Ethiopia.

4. Opening of Account with the National Bank

4.1 A bank operating in Ethiopia shall open and maintain Payment and Settlement Account in Birr with the National Bank.

4.2 Notwithstanding sub-article 4.1 hereinabove, Reserve Account, which was previously opened with the National Bank in line with the now repealed Directive, shall merge with Payment and Settlement Account and thus Reserve Account shall be closed.

5. Statutory Reserve Requirements

5.1 A bank shall maintain a minimum daily reserve balance of 5% (five percent) of its reserve base throughout the reserve maintenance period. This required reserve balance shall be calculated based on the daily average reserve base of the bank for the previous calendar month that concludes prior to the applicable reserve maintenance period.

5.2 The daily minimum reserve requirement specified under sub-article 5.1 hereinabove, shall be blocked in the bank's Payment and Settlement Account maintained with the National Bank throughout the reserve maintenance period.

5.2.1 If the blocked reserve balance in the bank's Payment and Settlement Account exceeds the requirement under article 5.1 at the beginning of the reserve maintenance period, the National Bank shall automatically lift restriction of the excess balance and make it available to the bank's use.

5.2.2 If the blocked balance in the bank's Payment and Settlement Account falls short of the daily reserve requirement specified under article 5.1 at the

beginning of the reserve maintenance period, the shortfall amount shall be automatically retained and blocked by National Bank towards fulfillment of the reserve requirement. However, if there is insufficient balance in the Payment and Settlement Account that allows the National Bank to do so, the bank shall be subject to penalties stipulated under article 8 of this Directive.

5.3 Notwithstanding the provisions of articles 5.1 and 5.2, a bank shall be required to maintain in its Payment and Settlement Account an average reserve of 7% (seven percent) of its previous calendar month average daily reserve base by the end of the reserve maintenance period.

6. Calculation of Reserve Requirements

6.1 Cash items in process of collection, if included under deposits, shall be deducted from computing the balance of the total reserve base.

6.2 Cash items in process of collection through the National Bank shall not be considered as reserve until credited to the Payment and Settlement Account.

6.3 The daily average reserve base shall be calculated on a monthly basis taking the balance of the calendar month. In case of public holidays and weekends, the balance of the most recent working day shall be carried forward.

6.4 The reserve maintenance period starts on the first Thursday of the calendar month following the month in which the reserve base is calculated and ends on the first Wednesday of the subsequent month. If either of these days is not a working day, the next working day shall be used.

6.5 The statutory reserve required to be maintained by a bank over the reserve maintenance period i.e., 5% (five percent) and 7% (seven percent) requirements shall be calculated based on the daily net average balance of the reserve base, excluding cash items in process of collection.

7. Reporting Requirements

7.1 A bank shall submit monthly reserve base report to the National Bank, on the first working day after the end of specific calendar month as outlined in Annex 1 herewith, which shall be part of this Directive.

7.2 A bank shall also submit a statutory reserve requirement report to the National Bank, on the following day after the end of maintenance period in accordance with Annex 2 attached herewith, which shall be part of this Directive.

8. Penalties

8.1 A bank that fails to meet the minimum daily reserve requirement specified under article 5.1 shall incur a financial penalty calculated as the National Bank's Standing Lending Facility rate on that specific date, plus an additional 3 percentage points, applied to the deficiency amount multiplied by the number of days the reserve account remained deficient.

8.2 A bank that does not meet the average reserve requirement stipulated under article 5.3 of this Directive by the end of the reserve maintenance period shall incur a financial penalty. This penalty shall be calculated based on the National Bank's Standing Lending Facility rate on the last day of the reserve maintenance

period, plus an additional 3 percentage points. The total penalty shall be applied to the deficient amount and multiplied by the number of days in that specific reserve maintenance period.

8.3 Failure to submit the required report as per Article 7 of this Directive shall result in a penalty of Birr 20,000 for each day of delay.

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

9. Repeal

9.1 Reserve Requirement - (8th Replacement) Directive No. SBB/84/2022 is hereby repealed and replaced by this Directive.

10. Effective Date

10.1 This Directive shall come into effect on -----, 2025.