

Central Bank of Nigeria

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CIRCULAR TO ALL DEPOSIT MONEY BANKS IN NIGERIA

MODIFICATIONS TO THE CASH RESERVE REQUIREMENT FRAMEWORK

All Deposit Money Banks are hereby notified that the framework for the computation and maintenance of Cash Reserve Requirement (CRR) has been modified as follows:

1.0 Reserve Averaging

- 1.1.** At the beginning of each maintenance period, banks will be advised of their CRR, based on a simple average of banks' daily deposit liabilities (less domiciliary account balances) of the computational period and the applicable ratio announced by the CBN.
- 1.2.** A bank will have complied with the CRR if its daily average balances in its operating accounts at the CBN (currently RTGS and T24 accounts) throughout the maintenance period, are equal to, or greater than the CRR as computed by the CBN.

2.0 Length and timing of the computational and maintenance periods

- 2.1** The computational and the maintenance periods for the CRR are increased from two weeks, to four or five weeks, depending upon the expected timing of key Government transactions.
- 2.2** The computational and maintenance periods will start on a Wednesday and finish on a Tuesday (holidays permitting) and will be announced at least two periods in advance by the CBN.
- 2.3** A maintenance period is lagged immediately by one period to the computational period.
- 2.4** A maintenance period will be for the same period as the computational period upon which the CRR is calculated for the subsequent maintenance period.

3.0 Remuneration of the CRR and Penalties for non-compliance

- 3.1** No remuneration will be paid on the CRR but the CBN may from time to time, consistent with its monetary policy stance, remunerate the balances held by banks in excess of the CRR.
- 3.2** A bank that has not maintained the required average balance in its operational accounts over the maintenance period will be considered non-compliant with the CRR and will incur a penalty.
- 3.3** The penalty will be calculated by multiplying the average daily deficit by the penalty interest rate by the number of days in the maintenance period divided by 365.

- 3.4** Where a bank has complied with its CRR in the three immediate prior maintenance periods, the penalty interest rate will be two and a half times the rate applicable on the Standing Lending Facility (SLF), otherwise it will be five times the rate applicable on the SLF.
- 3.5** Penalties, when applicable, will be automatically charged by the CBN against a bank's operational account at the CBN not later than three days after the end of the maintenance period.
- 3.6** The CBN would consider other penalties, monetary or otherwise, in circumstances where a bank repeatedly, is in non-compliance with the CRR.

4.0 Implementation and transitional arrangements

- 4.1** The first maintenance period of the new framework will be from Wednesday March 9, 2011 to Tuesday April 5, 2011.
- 4.2** The CRR for the first maintenance period will be calculated for the period 28 days immediately prior to the first maintenance period; Wednesday February 9, 2011 to Tuesday March 8, 2011.
- 4.3** On Wednesday March 9, 2011 (the first day of the new framework), balances in banks' CRR accounts will be transferred to their T24 accounts, and the CRR accounts will be immediately closed.

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