COLLATERAL FRAMEWORK

BANK OF TANZANIA

FOREWORD

The Collateral Framework (CF), 2025 guides the Bank towards achieving objectives of preserving the Bank's financial integrity by requiring all Bank lending to be backed by adequate and high-quality collateral. It also ensures consistency, transparency, and fairness in the eligibility, valuation, and management of collateral assets. Lastly, it supports market development and prudent bank behaviour by promoting a level playing field across asset classes.

The Collateral Framework is designed to safeguard the Bank's balance sheet, support effective monetary policy implementation within the Bank's Interest-rate Based Monetary Policy Framework, and ensure prudent credit risk management in the provision of liquidity to financial institutions. Uncollateralized loans can expose the Bank to the risk of credit losses, particularly in the event of default by a borrowing institution. As such, the framework establishes a structured approach to the use of collateral, balancing access to liquidity with risk mitigation.

The Framework aligns with international best practices while responding to domestic financial system dynamics. It enhances the Bank's capacity to provide liquidity responsibly, supports monetary policy transmission, and strengthens financial stability safeguards. The Framework will also be used to develop appropriate Policies and Guidelines. Therefore, compliance with this Framework, Policies, and Guidelines thereof shall be enforced to obtain value and improve the successful realization of outcomes.

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ABBREVIATIONS

ABBREVIATION	DESCRIPTION
CF	Collateral Framework
IBCM	Interbank Cash Market
CBR	Central Bank Rate

DEFINITION OF TERMS

TERM	DEFINITION
Bank	The Bank of Tanzania
Credit risk	Risk of counterparty default leading to loss in the event of collateral enforcement.
Eligibility	Refers to the set of criteria or conditions that an asset must meet to be accepted as collateral in the Bank operations or other secured transactions.
Legal risk	Risk related to enforceability of collateral claims
Liquidity risk	Risk that collateral assets cannot be liquidated in a timely and cost-effective manner.
Market risk	Risk of decline in the market value of collateral assets during the tenor of the Bank operations.
Market value	Means the estimated value of assets which are collaterals, obtained from debt settlement, provision of security for credits granted or purchased from a public auction agreed on by a willing seller and a willing buyer on the date of valuation under normal trade condition that the seller and buyer have no related interests, whereby the assets have been offered for sale for a reasonable period of time and both parties have agreed to transact with full awareness and free of duress.
Price stability	Means a low and stable inflation, measured as an annual change in the consumer price index.
Valuation	Means an opinion as to the market value of assets which are collaterals obtained from debt settlement, provision of security for credits granted or purchased from a public auction, by following proper steps and procedures on valuation to estimate the realizable value of assets pledged as collaterals when they are sold in the market in a transparent manner, and their characteristics and relevant market condition have been taken into account.

1.0 INTRODUCTION

The Bank of Tanzania (the Bank) implements monetary policy by targeting the money market interest rate along with the Central Bank policy rate. The Bank provides liquidity during normal times as part of the Bank's standard operational framework. It does so by lending against collateral, that is, an asset held as security by the cash lender. If the borrower cannot repay the loan, the lender can sell the collateral and minimise the risk of financial loss.

In the domestic market operations, the Bank may provide its counterparties such as banks and financial institutions with cash in return for collateral of sufficient quality and value. The Bank takes collateral to reduce the risk of financial losses in the event that a counterparty was to default. Unless it is bound by specific laws or regulations, the Bank generally determines its own principles and criteria for what constitutes collateral of sufficient quality and value. These principles and criteria are set out in its collateral framework, which determines the policies for choosing and managing collateral.

The framework has considered, an eligibility process, as well as the daily processes for managing the risks that come with holding collateral namely credit, liquidity and market risk. This framework ensures prudent risk management and financial stability, particularly during open market operations, rediscount window lending, and standby facilities.

Thus, this framework outlines standards on how the Bank chooses and manages its collateral, focussing on the Bank's Collateral Framework to secure liquidity support offered to commercial banks and participants in the financial system.

2.0 SCOPE OF APPLICATION

i. The framework prescribes the principles concerning collateral eligible for the Bank's provision of credit related to implementation of monetary policy.
ii. Therefore, this framework is applicable to all banks and financial institutions who participate in the Interbank Cash Market (IBCM).
iii. It is intended to ensure the appropriateness and enhance the efficiency in the treatment of eligible collateral and the transparency of the Bank's business operations.

3.0 OPERATIONAL FRAMEWORK

The Bank implements monetary policy using among others, reverse repo and standing facilities with the goal to steer short-term interest rates around the Central Bank Rate (CBR).

This Collateral Framework is applicable to the following:

i. Reverse repo operations: The Bank conducts reverse repo operations to provide liquidity to the market in line with the Monetary Policy stance.

ii. Standing facilities: The Bank provides Lombard (overnight lending facility) and Intraday Facility to its counterparties (licensed banks). The facility is accessible by all counterparties provided enough collateral are mobilized.

4.0 COLLATERAL FRAMEWORK

4.1 MANDATE

The Bank of Tanzania Act 2006, Part IV, Article 40.– (1) provides the legal basis for the Bank to conduct credit operations against eligible collateral.

i. The Act specifies that the Bank can "… grant loans and advances to banks and financial institutions for a period not exceeding three months against the collateral of: (a) credit instruments […] (b) Treasury bills […]; or (c) other credit instruments or securities prescribed by the Bank …".

ii. The Bank Guideline for Monetary Policy Framework (June 2023) define "eligible securities" broadly as "Treasury bills or Treasury bonds with remaining days to maturity of more than the maturity of the principal loan.".

4.2 OBJECTIVES OF THE COLLATERAL FRAMEWORK

The framework prescribes the principles concerning collateral eligible for the Bank's provision of credit related to implementation of monetary policy. It is intended to ensure the appropriateness and to enhance the efficiency in the treatment of eligible collateral and the transparency of the Bank's business operations. The specific objectives of this Framework are to:

i. Support monetary policy implementation: Facilitate the effective transmission of monetary policy by providing a reliable mechanism for injecting and withdrawing liquidity in the banking system.

ii. Safeguard Bank funds (Risk mitigation): Ensure that all liquidity-providing operations are fully secured with high-quality collateral, thereby minimizing credit and counterparty risk to the Bank.

iii. Promote financial system stability: Enhance the resilience of the financial system by ensuring that emergency and standard liquidity support is provided under transparent rule-based conditions.

iv. Encourage sound risk management by banks: Incentivize counterparties to maintain high-quality assets and prudent liquidity planning through the requirement of eligible and enforceable collateral.

v. Ensure operational efficiency and legal clarity: Provide a consistent, enforceable, and operationally effective framework for collateral acceptance, valuation, custody, and enforcement.

4.3 POLICY STATEMENTS OF THE COLLATERAL FRAMEWORK

i. The Bank shall collateralize all lending operations to reduce risk. Because using assets as collateral entails risks that vary depending on the type of asset, risk mitigation measures shall be calibrated so that the Bank faces similar levels of risk across each eligible asset class.

ii. The collateral framework shall be based on well-defined eligibility criteria and risk mitigation measures. The risk mitigation measures address mainly market and liquidity risks, whereas eligibility criteria aim at mitigating credit, legal, and operational risks.

iii. Both eligibility criteria and risk mitigation measures shall be appropriately calibrated so that risks are contained within the defined level of the bank's risk tolerance, that is, the type and amount of risks the Bank is willing to accept to ensure its credibility and policy solvency.

iv. The publication of the framework contributes to the overall transparency of the operational framework.

v. The Bank shall assess the suitability of individual asset types and the associated risks and operational costs to maximize collateral availability and trade-off between collateral availability, risk and efficiency.

vi. The Bank shall monitor potential counterparty liquidity needs across different segments (for example, large versus small banks, or foreign versus domestic banks), recognizing the heterogeneous amounts and range of assets held across the segments.

4.4 PRINCIPLES CONCERNING ELIGIBLE COLLATERAL

Given the limited scope, eligibility of collateral shall be based on the following principles.

i. Maintaining the soundness of the Bank's assets: With a view to maintaining the soundness of the Bank's assets, the Bank shall only accept collateral with sufficient creditworthiness and marketability. Moreover, there should be no obstacles to Bank's exercising of its rights including the security interest.

ii. Ensuring smooth business operations of the Bank and efficient use of collateral: The Bank shall give proper consideration to smooth operations of its business and efficient use of collateral.

iii. Utilizing market information: To utilize market mechanism, the Bank shall make effective use of market information, such as ratings by rating agencies or internal assessments where applicable in assessing the eligibility of collateral, market prices in determining collateral prices.

4.5 COLLATERAL ELIGIBILITY CRITERIA

To ensure adequate protection of the Bank resources and maintain financial system integrity, collateral submitted under the framework must meet the following eligibility criteria:

i. The Bank shall accept Treasury Bills and Treasury Bonds issued by the United Republic of Tanzania (URT) as eligible collateral for granting loans to commercial banks.
ii. Instruments issued by other issuers are not eligible.

iii. Collateral must be readily marketable and traded in sufficiently active secondary markets, enabling timely liquidation if required (market liquidity).

iv. The remaining maturity of the collateral must exceed the duration of the liquidity facility and operation.

v. Collateral must be denominated in Tanzanian Shillings (TZS) unless otherwise approved under specific cross-border arrangements (currency denomination).

vi. The collateral must be freely transferable and legally enforceable under Tanzanian law. There must be no third-party claims or encumbrances on the pledged assets.

vii. Custody and registration of the collateral must be held in a recognized Central Depository Securities (e.g., CDS). Proper documentation of ownership and pledge must be completed before eligibility is confirmed.

4.6 COLLATERAL VALUATION

i. The Bank's lending operations shall always be fully collateralized, which requires the daily valuation of all mobilized collateral.

ii. Valuations shall be based on market prices and the Bank shall ensure the market prices used are not outdated.

iii. The Bank shall use theoretical pricing model to value individual assets which are temporarily illiquid when market prices are outdated.

iv. The Bank shall introduce margin calls (the right of the Bank to receive additional collateral) to be applied in case operations turn undercollateralized. Generally, under-collateralization can occur during the lifetime of the liquidity providing operation as their price deteriorates.

4.6.1 CATEGORIES AND PRICES OF ELIGIBLE COLLATERAL

The categories and prices of eligible collateral, according to its residual maturity, shall be calculated by multiplying market prices, face values or outstanding principal balances by the margins calculated through (i) to (ii) below.

i. The margins for collateral whose market price can be obtained shall be calculated based on historical market price fluctuations over the period of time necessary for the Bank to exercise its rights including the security interest on it.
ii. The margins for collateral whose market price cannot be obtained shall be calculated based on theoretical price fluctuations over the period of time necessary for the Bank to exercise its rights including the security interest on it.

v. The margins calculated in (i) and (ii) shall be adjusted when necessary to ensure consistency in the margin table as a whole in light of creditworthiness and marketability of the collateral.

4.7 RISK CONTROL AND APPLICATION OF HAIRCUTS

The collateral framework shall contain rules on the application of risk mitigation measures.

i. The haircuts shall be applied as a deduction (in percent) of the market price of the financial instrument.
ii. Haircuts are calibrated to effectively protect the Bank's balance sheet while achieving risk equivalence across asset classes. The calibration follows a model featuring key components of the financial risks, including liquidity risk, market risk and credit risk.

4.7.1 HAIRCUTS

The collateral shall be accepted at market price subject to a haircut.

The categories and prices of eligible collateral, according to its residual maturity, as per Haircut Model shall be as follows:

Residual Maturity (Years)	Haircut
[0 - 0.5]	0.5%
[0.5 - 1]	1%
[1 - 3]	3%
[3 - 5]	5%
[5 - 7]	8%
[7 - 10]	10%
[10 - 15]	15%
[15 - 20]	20%
[20 - 25]	25%

4.7.2 FREQUENCY OF REVIEW

The haircuts of eligible collateral prescribed in (4.7.1) shall be reviewed every two years.

5.0 REVIEW AND EFFECTIVENESS

i. This Framework may be reviewed every two years or when deemed necessary.

ii. The valuation and new haircuts are envisaged to come into effect 1st September 2025.

APPENDIX 1: COLLATERAL FRAMEWORK

Item	Description
Bank of Tanzania liquidity providing operations: • Reverse Repo • Intraday and Lombard Facilities	Eligible collateral: • Treasury Bills and Treasury bonds issued by the United of Republic of Tanzania (URT).
Valuation (Pricing of collateral)	Collateral valued against market prices or theoretical valuation.
Risk Control (Collateral haircuts)	• 0.50% for Treasury bills and bonds with not more than 6 months to maturity. • 1% for Treasury bills and bonds with time to maturity of more than 6-mths but less than 1year. • 3% for Treasury bonds with time to maturity of more than 1year but less than 3 years. • 5% for Treasury bonds with time to maturity of more than 3 years but less than 5 years. • 8% for Treasury bonds with time to maturity of more than 5 years but less than 7 years. • 10% for Treasury bonds with time to maturity of more than 7 years but less than 10 years. • 15% for Treasury bonds with time to maturity of more than 10 years but less than 15 years. • 20% for Treasury bonds with time to maturity of more than 15 years but less than 20 years. • 25% for Treasury bonds with time to maturity of more than 20 years.