



**GUIDANCE NOTE ON COMPUTATION OF LIQUIDITY COVERAGE RATIO FOR
BANKS AND FINANCIAL INSTITUTIONS, 2023**

BANK OF TANZANIA

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1. Definition

Liquidity Coverage Ratio (LCR) is the ratio of high quality liquid assets to total net cash outflow over the next thirty calendar days' period. The ratio is intended to enhance the resilience of banks and financial institutions to a short term liquidity stress.

2. Objective of Introducing LCR

The main objective of introducing LCR is to ensure that every bank and financial institution maintains an adequate stock of unencumbered High Quality Liquid Assets (HQLA) to meet its liquidity needs over a 30 calendar day period. At a minimum, the stock of unencumbered¹ HQLA should enable the bank to survive until Day 30 of the stress scenario, by which time it is assumed that appropriate corrective actions can be taken by management and supervisors, or that the bank can be resolved in an orderly way. Furthermore, it gives the Central Bank additional time to take appropriate measures, should they be regarded as necessary.

3. Calibration of the LCR metric

3.1 Computation of the LCR

The LCR is calculated as:

$$\frac{\text{Stock of high quality liquid assets}}{\text{Net cash outflows over the next 30 calendar days}} \geq 100\%$$

The LCR should be no lower than 100 percent i.e. the stock of high-quality liquid assets should at least equal total net cash outflows over the next thirty calendar days. The amount of inflows that can be used to offset outflows has been capped in the denominator of the LCR. Thus a bank or financial institution must maintain a minimum stock of liquid assets equal to at least 25 percent of the outflows and ensure that banks and financial institutions cannot rely solely on anticipated inflows to meet their liquidity requirement.

3.2 Components of the LCR

The LCR has two components:

- Stock of high-quality liquid assets; and
- Net cash outflows over 30 days

3.2.1 Stock of high-quality liquid assets (HQLA)

The numerator of the LCR is the “stock of high-quality liquid assets” (HQLA). Banks and financial institutions must hold a stock of unencumbered high-quality liquid assets to cover the total net cash outflows (as defined below) over a 30-day period. To qualify as a “high-quality liquid asset”,

¹ Unencumbered here means not pledged (either explicitly or implicitly) to secure or collateralize any transition

assets should be liquid in markets during a time of stress and be central bank eligible. While the fundamental characteristics of these assets include low credit and market risk; ease and certainty of valuation; low correlation with risky assets and listing on a developed and recognized exchange market, the market related characteristics include active and sizeable market; presence of committed market makers; low market concentration and flight to quality (tendencies to move into these types of assets in a systemic crisis).

HQLA consist of both Level 1 assets and Level 2 assets. Level 1 assets can be included without limit. In the case of Tanzania, Level I assets include

HQLA	CONVEVRSION FACTOR
Cash	100%
Balances with Bank of Tanzania to the extent that these balances can be drawn down in times of stress ²	100%
Balances with Other banks and Interbank Loan Receivable callable on demand or with a maturity of less than 30 days	100%
Government securities maturing within 1 year	95%
Government securities maturing after year	80%

Level 2 assets can only comprise of up to forty Percent of the stock of HQLA. For the time being there are no assets falling under this category in Tanzania.

While LCR is expected to be met and reported in Tanzanian shillings, banks are expected to be able to meet its liquidity needs in each currency and maintain HQLA consistent with the distribution of their liquidity needs by currency.

3.2.2 Net cash outflows

Total net cash outflows are defined as the total expected cash outflows minus total expected cash inflows for the subsequent 30 calendar days.

Total expected cash outflows are calculated by multiplying the outstanding balances of various categories or types of liabilities and off-balance sheet commitments by the rates at which they are expected to run off or be drawn down. In Tanzania, the following are the expected cash outflows and their corresponding draw down rates:

S/n.	Cash Outflows	Expected draw down rate
1.	Demand deposits	10%
2.	Savings deposits	10%
3.	Time deposits (maturing greater than 30 days)	0%

² Balances with Bank of Tanzania excluding SMR

S/n.	Cash Outflows	Expected draw down rate
4.	Deposits from banks and financial institutions (maturing in 30 days)	100%
5.	Derivatives cash outflows (sum of all net cash outflows due within 30 days)	100%
6.	All other contractual cash outflows (maturing in 30 days)	100%
7.	Undrawn and unexpired overdrafts	30%
8.	Undrawn balances of loans	10%
9.	Other contingent funding liabilities (such as guarantees and letters of credit)	5%

Total expected cash inflows are calculated by multiplying the outstanding balances of various categories of performing contractual receivables by the rates at which they are expected to flow in under the stress scenario up to an aggregate cap of 75 percent of total expected cash outflows.

Banks and financial institutions are not permitted to double count items – i.e. if an item is included as part of the “stock of high-quality liquid assets” (i.e. the numerator), the assets cannot also be counted as cash inflows. In Tanzania, the following are the expected cash in-flows and their corresponding flow-in rates:

Cash Inflows	Expected flow-in rates
Performing loans and advances (maturing within 30 days)	50%
Due from banks and financial institutions (maturing in 30 days)	100%
All other contractual cash inflows (maturing in 30 days)	100%
Net derivatives cash inflows ³	100%

4. Frequency of calculation and reporting

BOT FORM 16-1 Schedule 16 (vii): Computation of Liquidity Coverage Ratio (LCR) should be:

- (i) submitted on monthly basis, within seven days following the end of the reference month; and
- (ii) submitted through Electronic Data Interchange (EDI).

³ Net Derivative means Derivative Inflow Less Derivative Outflow.