Liquidity Coverage Ratio (LCR) indicates the proportion of highly liquid assets held by banks to ensure their ability to meet short-term obligations. This ratio is essentially a generic stress test that aims to make sure that financial institutions possess suitable capital to ride out any short-term liquidity disruptions.

How to Calculate the Liquidity Coverage Ratio?

- The LCR is calculated by dividing a bank’s high-quality liquid assets by its total net cash flows over a 30-day stress period.
- The high-quality liquid assets include only those with a high potential to be converted easily and quickly into cash.