Postgraduate Certificate in Risk Management for Central Banks (Bangladesh)

# Liquidity Risk Management

Absolute Risk is the possibility that an investment's value will decrease due to market fluctuations, it is a key concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its assets and liabilities. Related terms include Relative Risk and Volatility. Absolute Risk is measured using metrics such as Value-at-Risk (VaR) and Expected Shortfall (ES), which help central banks to quantify and manage their risk exposure.

Accounting Risk is the risk that financial statements do not accurately reflect the true financial position of an institution, it is a critical concept in Liquidity Risk Management, as it affects the ability of a central bank to make informed decisions. Related terms include Financial Reporting Risk and Disclosure Risk. Accounting Risk can be managed through the implementation of robust accounting standards and internal controls, such as the use of International Financial Reporting Standards (IFRS) and the segregation of duties.

Asset Liability Management (ALM) is the process of managing an institution's assets and liabilities to achieve its financial objectives, it is a key concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Asset Management and Liability Management. ALM involves the use of techniques such as duration matching and gap analysis to manage the risk associated with an institution's assets and liabilities.

Asset Quality is the characteristic of an asset that determines its creditworthiness and potential for loss, it is a critical concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Credit Quality and Loan Quality. Asset Quality can be measured using metrics such as the non-performing loan (NPL) ratio and the provision coverage ratio, which help central banks to quantify and manage their risk exposure.

Basel Accords are a set of regulations that aim to strengthen the resilience of banks and financial institutions, they are a key concept in Liquidity Risk Management, as they affect the ability of a central bank to manage its risk exposure. Related terms include Basel I, Basel II, and Basel III. The Basel Accords require banks to maintain minimum capital requirements and liquidity buffers, which help to mitigate the risk of bank failures and financial crises.

Capital Adequacy is the ability of an institution to absorb losses and maintain its capital requirements, it is a critical concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Capital Requirement and Capital Buffer. Capital Adequacy can be measured using metrics such as the capital adequacy ratio (CAR) and the tier 1 capital ratio, which help central banks to quantify and manage their risk exposure.

Cash Flow Risk is the risk that an institution will not have sufficient cash flows to meet its financial obligations, it is a key concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Liquidity Risk and Funding Risk. Cash Flow Risk can be managed through the use of techniques such as cash flow forecasting and liquidity buffer management, which help central banks to quantify and manage their risk exposure.

Central Bank is the institution responsible for monetary policy and financial stability, it is a critical concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Monetary Authority and Financial Regulator. Central Banks use a range of tools, including interest rates and reserve requirements, to manage liquidity and maintain financial stability.

Collateral Risk is the risk that collateral will not be sufficient to cover losses in the event of a default, it is a key concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Margin Risk and Credit Risk. Collateral Risk can be managed through the use of techniques such as collateral valuation and haircut management, which help central banks to quantify and manage their risk exposure.

Contingent Liability is a potential liability that may arise in the future due to a past event or circumstance, it is a critical concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Off-Balance-Sheet Liability and Provision. Contingent Liabilities can be managed through the use of techniques such as provision accounting and contingent liability management, which help central banks to quantify and manage their risk exposure.

Credit Risk is the risk that a borrower will default on a loan or other obligation, it is a key concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Default Risk and Counterparty Risk. Credit Risk can be managed through the use of techniques such as credit scoring and loan portfolio management, which help central banks to quantify and manage their risk exposure.

Currency Risk is the risk that changes in exchange rates will affect the value of an institution's assets and liabilities, it is a critical concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Exchange Rate Risk and Foreign Exchange Risk. Currency Risk can be managed through the use of techniques such as hedging and currency diversification, which help central banks to quantify and manage their risk exposure.

Default Risk is the risk that a borrower will fail to meet its obligations, it is a key concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Credit Risk and Counterparty Risk. Default Risk can be managed through the use of techniques such as credit scoring and loan portfolio management, which help central banks to quantify and manage their risk exposure.

Deposit Insurance is a system that protects depositors in the event of a bank failure, it is a critical concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Deposit Guarantee and Bank Deposit Insurance. Deposit Insurance can help to maintain confidence in the banking system and reduce the risk of bank runs.

Derivative Risk is the risk that a derivative instrument will not perform as expected, it is a key concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Market Risk and Credit Risk. Derivative Risk can be managed through the use of techniques such as hedging and derivatives valuation, which help central banks to quantify and manage their risk exposure.

Diversification is the process of spreading investments across different asset classes to reduce risk, it is a critical concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Portfolio Diversification and Risk Diversification. Diversification can help to reduce the risk of large losses and increase the potential for returns.

Early Warning System is a system that identifies potential risks and provides early warnings to institutions, it is a key concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Risk Monitoring System and Alert System. Early Warning Systems can help institutions to respond quickly to emerging risks and reduce the impact of potential losses.

Financial Stability is the ability of a financial system to withstand shocks and maintain its functionality, it is a critical concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Systemic Stability and Macro-Prudential Stability. Financial Stability can be maintained through the use of tools such as macro-prudential policies and systemic risk management, which help central banks to quantify and manage their risk exposure.

Funding Risk is the risk that an institution will not have sufficient funding to meet its financial obligations, it is a key concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Liquidity Risk and Cash Flow Risk. Funding Risk can be managed through the use of techniques such as funding planning and liquidity buffer management, which help central banks to quantify and manage their risk exposure.

Gap Risk is the risk that an institution's assets and liabilities will not be matched in terms of duration and interest rates, it is a critical concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Interest Rate Risk and Liquidity Risk. Gap Risk can be managed through the use of techniques such as gap analysis and duration matching, which help central banks to quantify and manage their risk exposure.

Hedging is the process of reducing risk by taking a position in a derivative instrument, it is a key concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Risk Management and Derivatives Management. Hedging can help to reduce the risk of large losses and increase the potential for returns.

Inflation Risk is the risk that inflation will erode the purchasing power of an institution's assets and liabilities, it is a critical concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Price Risk and Monetary Risk. Inflation Risk can be managed through the use of techniques such as inflation targeting and monetary policy, which help central banks to quantify and manage their risk exposure.

Interest Rate Risk is the risk that changes in interest rates will affect the value of an institution's assets and liabilities, it is a key concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Yield Curve Risk and Funding Risk. Interest Rate Risk can be managed through the use of techniques such as duration matching and interest rate hedging, which help central banks to quantify and manage their risk exposure.

Liquidity Buffer is a pool of highly liquid assets that can be used to meet an institution's liquidity needs, it is a critical concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Liquidity Reserve and Emergency Fund. Liquidity Buffers can help to maintain confidence in the banking system and reduce the risk of bank runs.

Liquidity Crisis is a situation in which an institution is unable to meet its liquidity needs, it is a key concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Funding Crisis and Financial Crisis. Liquidity Crises can be managed through the use of techniques such as emergency lending and liquidity provision, which help central banks to quantify and manage their risk exposure.

Liquidity Risk is the risk that an institution will not have sufficient liquidity to meet its financial obligations, it is a critical concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Funding Risk and Cash Flow Risk. Liquidity Risk can be managed through the use of techniques such as liquidity planning and liquidity buffer management, which help central banks to quantify and manage their risk exposure.

Macro-Prudential Policy is a policy that aims to maintain financial stability by regulating system-wide risk, it is a key concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Micro-Prudential Policy and Systemic Risk Management. Macro-Prudential Policies can help to maintain confidence in the banking system and reduce the risk of financial crises.

Market Risk is the risk that changes in market prices will affect the value of an institution's assets and liabilities, it is a critical concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Price Risk and Yield Curve Risk. Market Risk can be managed through the use of techniques such as hedging and portfolio management, which help central banks to quantify and manage their risk exposure.

Micro-Prudential Policy is a policy that aims to maintain financial stability by regulating individual institutions, it is a key concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Macro-Prudential Policy and Systemic Risk Management. Micro-Prudential Policies can help to maintain confidence in the banking system and reduce the risk of financial crises.

Off-Balance-Sheet Risk is the risk that an institution's off-balance-sheet exposures will not be properly managed, it is a critical concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Contingent Liability and Provision. Off-Balance-Sheet Risk can be managed through the use of techniques such as provision accounting and contingent liability management, which help central banks to quantify and manage their risk exposure.

Operational Risk is the risk that an institution's internal processes and systems will not be properly managed, it is a key concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Management Risk and Compliance Risk. Operational Risk can be managed through the use of techniques such as internal controls and compliance management, which help central banks to quantify and manage their risk exposure.

Portfolio Management is the process of managing an institution's investments to achieve its financial objectives, it is a critical concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Portfolio Management involves the use of techniques such as diversification and hedging, which help central banks to quantify and manage their risk exposure.

Regulatory Capital is the minimum amount of capital that an institution is required to hold by regulators, it is a key concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Regulatory Capital can help to maintain confidence in the banking system and reduce the risk of bank failures.

Risk Management is the process of identifying, assessing, and managing risks, it is a critical concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Risk Assessment and Risk Mitigation. Risk Management involves the use of techniques such as risk identification and risk quantification, which help central banks to quantify and manage their risk exposure.

Settlement Risk is the risk that a transaction will not be settled as expected, it is a key concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Payment Risk and Counterparty Risk. Settlement Risk can be managed through the use of techniques such as settlement systems and payment processing, which help central banks to quantify and manage their risk exposure.

Systemic Risk is the risk that a financial institution will pose a threat to the stability of the entire financial system, it is a critical concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Macro-Prudential Risk and Micro-Prudential Risk. Systemic Risk can be managed through the use of techniques such as macro-prudential policies and systemic risk management, which help central banks to quantify and manage their risk exposure.

Value-at-Risk (VaR) is a metric that estimates the potential loss of an institution's assets over a given time horizon, it is a key concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Expected Shortfall (ES) and Stress Testing. VaR can be used to quantify and manage an institution's risk exposure, and to maintain confidence in the banking system.

Yield Curve Risk is the risk that changes in the yield curve will affect the value of an institution's assets and liabilities, it is a critical concept in Liquidity Risk Management, as it affects the ability of a central bank to manage its risk exposure. Related terms include Interest Rate Risk and Market Risk. Yield Curve Risk can be managed through the use of techniques such as duration matching and interest rate hedging, which help central banks to quantify and manage their risk exposure.