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Liquidity management policies: funding and investment approaches in Tanzanian banking sector.

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Striking a balance between profitability and liquidity risk appetite is one of the most challenging issues to bank managers. The purpose of this study was to investigate liquidity management policy orientation in terms of funding and investment in the Tanzanian banking sector. Another aim was to find out the stability of liquidity management policies in both facets of the balance sheet over time. Both quantitative and qualitative methods were applied. Questionnaires were administered to six banks and such financial ratios as Liquid Asset to Total Assets and Total Demand Liabilities to Total Assets from the same banks were computed and treated in one-way Analysis of Variance, Regression and Spearman Rank Order Correlation to arrive at a conclusion. The study unveiled that liquidity management policies in terms of funding and investment in the Tanzanian banking sector are built on similar approaches. It was further found that policies under study are not stable over time. The principal conclusion was that in the recent five years Tanzanian banks have been following a relatively aggressive approach in both funding and investment. It was the author's recommendation that the Bank of Tanzania has to set a substantial attention to banks' liquidity risk management now more than ever before as far as commercial banks are taking a more aggressive approach.