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A Brief Glance at Total Value Locked (TVL) In DeFi

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What Is Total Value Locked?

Since decentralized finance ([DeFi](#)) boomed in 2020, financial market experts have embraced a new type of investment and examined ways to measure its performance. In addition to market capitalization, trading volume, and total and circulating supply, total value locked (TVL) is a crypto metric that is popular among DeFi investors to assess the total value of assets (in U.S. dollars or any fiat currency) deposited across all DeFi protocols or in a single DeFi project.

DeFi assets include rewards and interest, coming from typical services such as lending, [staking](#) and [liquidity pools](#), provided in the form of smart contracts. TVL in staking, for example, is a particularly useful indicator for investors looking to support the DeFi platforms with the highest rewards. It is the total value locked in the DeFi staking protocols and represents the amount of assets deposited by the liquidity providers.

In 2022, TVL has reached nearly \$2 billion globally, growing from \$400 million in the previous two years. With the increasing popularity and value of DeFi in the cryptocurrency space, TVL has become an essential metric for investors who want to assess if the whole ecosystem or a single protocol is healthy and worth investing in.

While TVL is simply defined as the total value of cryptocurrency locked in a smart contract, there are underlying conditions that may affect the value of DeFi projects.

Various elements concur on TVL's worth other than deposits, withdrawals and the amount a protocol is actually holding. The TVL also changes with the value of the fiat currency or the native token. Some protocols' deposits may be denominated in the project's native token, so its TVL varies with its value. If a specific token grows in value, so does the protocol's TVL, too.

Why TVL Is Important in DeFi?

For DeFi platforms to function, they require capital to be deposited as loan collateral or liquidity in trading pools. TVL matters because it indicates the capital's impact on DeFi applications' profits and usability for traders and investors.

When the TVL of a DeFi platform rises, it is followed by an increase of liquidity, popularity and usability. These factors contribute to the project's success. A higher TVL means more capital is locked in DeFi protocols, with participants enjoying more considerable benefits and proceeds. A lower TVL implies lower availability of money, resulting in lower yields.

DeFi protocols' market share can be easily identified through analytics firms' platforms like DeFi Pulse and DefiLlama, which provide data on the amount of crypto assets locked in their respective smart contracts.

DeFi participants who track down TVL on DeFi Pulse must know that the platform monitors protocols' smart contract movements on the Ethereum [blockchain](#) only by extracting the total balance of Ether (ETH) and ERC-20 tokens. DefiLlama, on the other hand, calculates the TVL by extracting the total balance of all of the DeFi chains combined or each individual platform separately.

How to Calculate Crypto TVL?

Due to ceaseless new protocols emerging in the DeFi space, it may be challenging to establish the exact TVL of the overall market and determine if a specific DeFi platform is a safe option for end-users.

However, participants can opt for more established protocols using a TVL metric of \$1 billion, which should be a secure enough prospect. A higher TVL is better, as it should indicate a healthy platform in high demand with a strong developers team and a valuable use case. All of which should attract more participants and investors, contributing to the project's rise of the TVL.

On the other hand, a red alert should be raised when DeFi protocols with lower TVL are offering high yields. These might well be promotions, for example, for new platforms that want to gain market shares, but could also be scams because little or no participants have trusted them with their assets.

It is straightforward to calculate the crypto TVL. First, the market cap of an asset has to be found by multiplying the DeFi project's supply by the current price. Then, dividing the market cap by the

maximum circulating supply, the TVL is revealed.

When dividing the total market cap of a locked asset by the total value locked, we obtain the TVL ratio. The TVL ratio can help determine if a DeFi asset is undervalued or overvalued. If the ratio is under 1, the asset is usually undervalued and more attractive to investors. When the market cap exceeds the TVL in crypto, the asset might be overvalued, leaving little to no room for growth.

Which Cryptocurrency Features the Highest TVL?

Due to the exceptional growth of DeFi in 2020, the combined TVL of all DeFi protocols increased fast and considerably by the end of 2021.

At the beginning of 2020, the combined TVL across all DeFi platforms was around \$630 million, according to DefiLlama. In the first quarter of 2022, it had already reached over \$172 billion in value.

More than half of that was in one protocol, MakerDAO, which remained one of the most prominent protocols together with Curve and Aave. Curve is the crypto with the highest TVL and portion of the market with 9.7% of market share and \$17 billion TVL, followed by Lido with a \$15.4 billion TVL, Anchor at \$12.6 billion and MakerDao at \$11.5 billion.

DeFi TVL Largest Network

In 2022, Ethereum appeared as the largest network by DeFi TVL, accounting for over half of the total DeFi volume worldwide.

To give some perspective, the Ethereum DeFi network includes just under 500 protocols. It has a TVL of approximately \$73 billion, with 64% of the market share, compared with BNB Smart Chain, which is the second-highest TVL at \$8.74 billion in value at 7.7% of the market share, Avalanche with \$5.21 billion and 4.5% of the market share and Solana with \$4.19 billion and 3.68% of the market share.

It's very easy to read a TVL crypto chart. It represents the TVL for the entire DeFi market is expressed in USD, with the percentage of movement in the last 24 hours and the crypto with higher dominance.

The total value locked metric across all chains clearly indicates that Ethereum is the network with

the highest TVL. In essence, TVL is an excellent indicator for the DeFi area of cryptocurrency and probably the most utilized to assess the health and growth of the market. While TVL growth signals a positive outlook for the market, however, its reliability must be taken prudently, as it is nearly impossible to interpret the indicator with precision.

Market volatility is one of the main variants that can highly influence the value of locked assets, starting with the price of ETH, whose platform is where most of the assets are located. The significant increase in the value of ETH prices has inevitably affected the TVL of DeFi since 2020, but this means that the total value locked can increase without any new users or funds entering DeFi.

In addition, due to the nature of the DeFi service, funds can easily move around and be counted multiple times, thus miscalculating the liquidity capacity of the protocol. As with every metric, TVL is only an estimate of market conditions and, due to its shortcomings and approximations, it should not dictate investor's strategy.