

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



معهد المصارف الإسلامية  
**Institute of Islamic Banking**

# LIQUIDITY MANAGEMENT IN ISLAMIC BANKS

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**A thesis submitted in partial fulfilment of the requirements for the  
MS degree in Islamic Banking and Finance**



**University of Management  
and Technology**



**School of Advanced Studies**  
*- The Cutting-Edge of Knowledge*



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## **CERTIFICATE OF APPROVAL**

The thesis entitled *Liquidity management in Islamic Banks* has been accepted in partial fulfilment of the requirements for the degree of MS in Islamic Banking and Finance by the Institute of Islamic Banking, School of Advanced Studies, University of Management and Technology, Lahore, Pakistan.

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## **DECLARATION**

I hereby declare that no portion of the work that appears in this study has been used in support of an application for another degree in qualification to this or any other University or institution of higher learning.

This thesis is a presentation of my original research work. Wherever contributions of others are involved, every effort has been made to indicate this clearly, with due reference to the literature and acknowledgement of collaborative research and discussions.

The work was done under the guidance of my supervisor

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In my capacity as supervisor of the candidate's thesis, I certify that the above statements are true to the best of my knowledge.

\_\_\_\_\_  
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## **DEDICATION**

This thesis is dedicated to my wife and kid, for their love, endless support and encouragement.

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## **ABSTRACT**

Liquidity Management, undoubtedly, is among the most imperative areas for any bank. Its importance multiplies manifold in an Islamic Bank (IB) as compared to a Conventional Bank, based on the fact that an Islamic Bank is conditioned to invest just in real assets. Thus, continuous creation of assets is vital for an IB. Moreover, IBs suffer from the absence of a mechanism programmed to divert surplus liquidity towards an IB faced with a liquidity crunch. Consequently, surplus funds in an IB multiply expense and liability until and unless these funds are put to investment. As an outcome, there may also be a compromise on *Shariah* guidelines,

like investment in products such as Commodity *Murabah* which do not enjoy consensus of varied Islamic schools of thought. At the same time, an IB undergoing a liquidity crunch has to enhance profit rates to attract more deposit or to present a call option for adjustment of financing, in order to maintain balance in assets and liabilities. Resultantly, whichever of the two situations is being faced, bank profitability suffers a negative impact. A clearly defined mechanism among Islamic Banks, seemingly absent, can be helpful for a bank to manage liquidity crunch and aid another one in handling surplus liquidity, so that shortfall and surplus within the banking industry may be adjusted. There is also a dearth of money market instruments in the market, complying with the *Shariah* standards, to absorb excess liquidity of an Islamic bank. Similarly, there is an apparent paucity of money market tools or mechanism to bail the bank out of a liquidity crunch.

The research analyzes the position of Islamic banks in Pakistan with regards to liquidity management and puts forth proposals for multiple systems of Liquidity Management with the intention that surplus liquidity may be adjusted to compensate shortfall in liquidity within the Islamic Banking Industry.

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