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Liquidity Management of Islamic Banks

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Scientific Interests: Islamic Finance

The main problem:

- Relationship between the Central Bank and Islamic Banks are based on the conventional banks management rules

and

- Liquidity Management of Islamic Banks is not Shariah-compliant

Why

Liquidity Management of Islamic Banks is not Shariah-compliant?

Liquidity Management consists of two main parts:

- to place funds
- raise funds

- In Islamic Finance the Central Bank can't use the conventional management rules. Let’s see next two slids

TO PLACE FUNDS

- IB shouldn't place funds on deposit in the Central Bank

Why:

- CB is a risk free organization.
- So, if IB do it, IB takes no risk. No risk no reward.

RAISE FUNDS

- IB shouldn't rise funds from the Central Bank

Why:

- CB should allocate funds between banks on the basis of competition
- More risk - more reward
- This means that the CB should provide funds to the bank conducting the most risky policy.
- But this is unacceptable.

- So, Islamic Community has now a whole Islamic Banking Industry but it is still like a shell without content.

- We strongly need an Islamic Liquidity Management, including first of all an Islamic Interbank Market

My offer

Let me omit justification

To build the Shariah-compliant Liquidity Management System:

1. The Central Bank shall establish a State Agency to manage liquidity of commercial banks and provide them with funding

2. Ministry of Finance shall issue long-term Sukuk with daily coupon payments

3. State Agency and Islamic Banks shall redeem Sukuk and keep them in their assets

How It Will Work

IB places funds:

- State Agency and Islamic Bank enter into repurchase agreement (REPO)
- At the first stage, the State Agency sells and the Bank buys Sukuk, while at the second - sell them back

IB raises funds:

- State Agency and Islamic Bank enter into repurchase agreement (REPO)
- At the first stage, the Bank sells and State the Agency buys Sukuk, while at the second - sell them back

- There is risk, so parties of the contract may get a reward

Thank you for your attention!

For your kind comments:

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