

***“Liquidity Management Practices in Islamic Banks: A  
Case of Pakistan”***



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## ABSTRACT

This thesis aims to identify current liquidity management practices of Pakistan's Islamic banks. The research further investigates the extent to which existing liquidity management practices are in accordance with Sharia laws. Liquidity management is crucial for banking sector. Literature reveals that due to Sharia limitations, liquidity management is more challenging for Islamic banks than Conventional banks. It is, therefore, important to understand the existing liquidity management practices of Sharia banks and to come up with more innovative liquidity management solutions. Data has been collected from both primary and secondary sources through e-mails, interviews, and various published sources respectively. Qualitative research has been carried out through content analyses method based on deductive approach. Analyses of available instruments in the light of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards reveal that *GOP Ijara, Mudaraba, and Musharakah* instruments are Sharia compliant where as there are issues regarding *Commodity Murabaha* instrument of Islamic banks. The article proposes the use of *Musharakah Sukuk* and *Mudaraba Sukuk* as an alternative instrument for managing liquidity. It further suggests the involvement of Central bank as an investor in current *Musharakah* and *Mudaraba* instrument to make it more effective.

**Keywords:** Liquidity Management tools, Shariaprinciples, Riba (interest), Islamic banks, Central bank, *Ijara, Sukuk, Mudaraba, Musharakah, Commodity Murabaha*

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