



External Relations Department

ERD/M&PRD/PR/01/2021-151

December 29, 2021

SBP Introduces Shariah Compliant Liquidity Facilities for Islamic Banking Institutions

In line with State Bank's strategic plan to improve Liquidity Management Framework for Islamic Banking Industry and enhance the effectiveness of monetary policy implementation, SBP has introduced Shariah Compliant Standing Ceiling Facility and Open Market Operations (injections) for Islamic Banking Institutions (IBIs).

As the size of the Islamic banking industry is increasing, SBP recognizes the need to introduce Shariah compliant liquidity facilities for IBIs. With a view to bring IBIs at par vis-à-vis their conventional counterparts in terms of liquidity management avenues, and to enhance SBP's tools for managing market's liquidity as part of its monetary policy objective, SBP has introduced the aforementioned facilities.

The structure and broad features of these facilities are as under:

1. Shariah Compliant Standing Ceiling Facility is a **Mudarabah based Financing Facility (MFF)** whereby SBP will provide financing to IBIs on an overnight basis against Shariah compliant collateral. IBIs shall place the funds received from SBP in a special pool consisting of high quality assets. The MFF will be offered at an 'Expected Rate' - equivalent to conventional overnight reverse repo rate – based on a Profit Sharing Ratio agreed between the SBP and IBI at the onset of the transaction.

For more details: <https://www.sbp.org.pk/dmmd/2021/C24.htm>

2. For **Shariah Compliant Open Market Operations (Injections)**, Mudarabah mode of financing will be used. It would be pertinent to mention here that this open market operations (OMO) facility will currently be available for 'injection' i.e. provision of liquidity purposes only. Similar to conventional OMOs, SBP will be conducting Shariah Compliant OMOs (Injections) based on market liquidity conditions through a multiple price competitive bidding process for tenors as announced by SBP from time to time, against collateral. Once the expected rate of return is finalized through a competitive bidding process, the funds provided by SBP shall be invested in a pool of high quality assets by the respective IBI. SBP and IBI shall agree a Profit Sharing ratio at the onset of the transaction. For more details: <https://www.sbp.org.pk/dmmd/2021/C25.htm>

Islamic banking industry in Pakistan has become systemically an important component of the banking industry registering remarkable growth over the last two decades. Currently there are five (5) full-fledged Islamic banks and seventeen (17) conventional banks operating with standalone Islamic banking branches offering a wide array of Shariah compliant financial solutions. At the end of June 2021, the market share of the Islamic banking industry assets and deposits in the overall banking sector stood at 17% and 18.7% respectively and the branch network of Islamic banking institutions comprised over 3,583 branches and 1,562 windows.



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Introduction of aforesaid liquidity facilities will bring Islamic Banking industry at par with their conventional counterparts and enable them to effectively manage their short-term liquidity. This would strengthen financial intermediation by IBIs and enable them to offer better returns and rates to their customers on deposits and loans. Further, introduction of proposed facilities will also strengthen monetary policy transmission mechanism & enhance the effectiveness of monetary policy implementation by SBP to achieve the ultimate objective of price stability.
