

**OPEN MARKET OPERATIONS AND THEIR SUITABILITY WITH  
ISLAMIC BANKS**

عمليات السوق المفتوح ومدى ملائمتها مع البنوك الإسلامية

**Sami Tawfiq Omar Ghaben**

Istanbul Sabahattin Zaim University (Türkiye)

[samighabin@gmail.com](mailto:samighabin@gmail.com)

**Received:**27/02/2026

**Accepted:**04/06/2026

**Published:** 09 / 07 /2026

**Abstract:**

This study examines the feasibility of using Islamic sukuk for open market operations in Palestine. It finds that asset-based and ijara sukuk offer a Shariah-compliant liquidity management tool. However, the absence of a national currency, limited monetary authority, weak legal frameworks, and underdeveloped financial markets constrain their effective implementation.

**Keywords:** Palestine, Islamic banks, Islamic sukuk, monetary policy, open market activities

ملخص:

تهدف الدراسة إلى تحليل ملائمة الصكوك الإسلامية لعمليات السوق المفتوحة في فلسطين. وتخلص إلى أن صكوك الإجارة تمثل أداة متوافقة مع الشريعة لإدارة السيولة، إلا أن غياب العملة الوطنية، وضعف الإطارين القانوني والمؤسسي، ومحدودية السوق المالية تحدّ من إمكانية تطبيقها بفاعلية. الكلمات المفتاحية: عمليات السوق المفتوحة، الصكوك الإسلامية، السياسة النقدية، البنوك الإسلامية، فلسطين.

الكلمات المفتاحية: عمليات السوق المفتوحة، الصكوك الإسلامية، السياسة النقدية، البنوك الإسلامية، فلسطين.

**Corresponding author:** Sami Ghaben, e-mail: [samighabin@gmail.com](mailto:samighabin@gmail.com)

## **1. Introduction**

Many believe open market operations to be one of the most significant constituents of modern-day monetary policy. Whenever central banks purchase or sell government bonds, they vary the money supply in the market. Such changes in liquidity can be reflected in the short-term interest rates, the ease with which banks are able to provide money, and, eventually the stability of the entire financial system, as mentioned by Mishkin (2019). In standard systems of money, open market processes are more than just technical tools. Also, these are the main way that central banks show which way their policies are going, whether they want to make the economy more active or keep inflation under control.

Open market operations are founded on interest-paying treasury bills and government bonds issued in the national currency. You can purchase these instruments in capital markets, and you are also free to sell them there. Most of the time, they bear various dangers, yields, and maturities. Money of this kind facilitates the task of central banks in altering the available quantity of money. The purchase of securities increases the reserves of the banking system, while their sale diminishes cash. Such a procedure will function properly if a few simple things are true.

The system needs to have enough money to take care of its own business, and it needs to be able to trade stocks in its own country. It also needs to have a national currency and a local securities market that is well developed. It is very important for commercial banks to help open market processes happen. They own the most qualified securities most of the time, and they are the main people who do business with the central bank. Any change in liquidity that these processes cause in the economy is shown in banks' balance sheets and lending decisions.

This is why open market operations have a lot to do with the way normal banks are set up, how they keep track of their money, and how they run their businesses (Ghosh, Ostry, & Qureshi, 2018). More Islamic banks are entering the market, and they are not allowed to deal with interest, which makes things more difficult.

Shariah rules say that *riba* is not allowed and so are deals with too much danger or uncertainty. Because of this, Islamic banks cannot use treasury bills or government bonds that are normal when they need to handle their daily cash flow.

This limitation has made the need for policymakers and regulators to find Shariah-compliant tools that can do the same things as those used in traditional open market activities even stronger (IFSB, 2018). Most people think that *sukuk*

## OPEN MARKET OPERATIONS AND THEIR SUITABILITY WITH ISLAMIC BANKS

---

is the best choice out of all the choices. This is mostly because sukuk are built on owning real assets or the money they make, not on fixed interest payments on debt (AAOIFI, 2020).

In the last three decades, Islamic banking has grown much bigger, while its growth has made more central banks and financial regulators pay more attention to it. Many countries, particularly those from the Arab and Islamic world, have come to realize that without available Islamic liquidity tools, money management would be more challenging and unstable to the economy. Because of this, sukuk has gradually gained importance. They are no longer viewed as mere money-generating tools for governments and companies. They also see them to improve monetary policy in areas where Islamic and non-Islamic banks are working together (Hasan, Paltrinieri, Dreassi, & Miani, 2020).

The Palestinian money system is a really weird thing. Palestine does not possess a national money of its own. It has dozens of local currencies, but the Israeli shekel, Jordanian dinar and United States dollar are used most frequently. In this context, it's worth reminding that the US is not the only outside player...

The Bank of Israel and the Central Bank of Jordan have together some strong strengths to move Palestinian money around. Palestinian choice is significantly circumscribed by the monetary policy or interest rates chosen by these institutions and Palestinian leadership has little if any room for autonomous manoeuvre (Barnett, 1998).

Many instruments of monetary policy are ill-suited to Palestine, because it lacks its own national currency. Often, either regular open-market operations or policy interest rates are not provided at all, or they are not effective as standard tools. The PMA is critical for monitoring and regulation but the monetary authority there cannot conduct full-fledged monetary operations or create money like central banks (Palestinian Monetary Authority, 2021). This structural challenge that makes it more difficult for monetary policy to conduct countercyclical stabilization of the economy, cannot help it along in terms of growth and improve its instinctual reaction to real economic shocks.

When open market operations, whether they are traditional or Islamic, are done in a clear legal setting and institutions can talk to each other easily, they work well. In most cases, this means that the Ministry of Finance (the country's central bank), along with the people in charge of capital markets and securities dealing, work together closely. But in Palestine, it is difficult to get this level of cooperation. It is hard to carry out policy because legal rules, political conditions,

and present-day ways of doing business all make it hard to set up a unified system of money.

It has become even more important to have Shariah-compliant tools for handling liquidity now that Islamic banks are growing in Palestine, even though there are some issues. Because Islamic banking is growing and it is not easy for people to get traditional tools, a practical and policy-relevant question arises: can sukuk be used in deals that are similar to open market operations? If the right legal, institutional, and market conditions can be created, sukuk are the most viable option for Islamic banks. In traditional systems, the most popular type of investment is still bonds that pay interest. In this case, the present paper studies how suitable Islamic sukuk would be as tools for open market activities in Palestine. The study's goal is to find out if sukuk can help with managing money in a situation where there are not a national currency and monetary sovereignty is limited, by looking at theoretical frameworks, how institutions can be limited, and specific foreign examples.

## **2. Research Problem, Objectives, and Research Questions**

### **2.1 Research Problem**

For most modern economies, the conduct of monetary policy is considered to be most effectively and widely used through open market operations. According to Mishkin (2019), central banks use OMOs to alter short-term interest rates, regulate the amount of money in the banking system, and support the overall economy by stabilizing prices and making the financial system resilient. In practice, however, open market operations can be conducted only under certain conditions regarding institutional and structural prerequisites. This requires a national currency and an independent monetary authority. It also requires government bonds being traded in the financial markets of the country and being denominated in that currency (Bindseil, 2014).

Much of the older writing on monetary policy takes these things for granted. Thus, most judgments regarding open market operations are based upon what has occurred in countries with monetary authority and well-established government bond markets. That concept just does not apply in Palestine. Palestine does not have its own money. Multiple different currencies are in use there, but the Israeli shekel, the Jordanian dinar, and the U.S. dollar are the most important. In this case, the Palestinian Monetary Authority does not have the essentials it needs to conduct normal monetary policy, such as policy interest rates and regular open market operations (Barnett, 1998).

## OPEN MARKET OPERATIONS AND THEIR SUITABILITY WITH ISLAMIC BANKS

---

Since Palestine does not have its own money, it is hard to run an independent monetary policy. Decisions made outside of the country have a big impact on how much cash is available in the local banking sector, particularly those made by the United States, the Bank of Israel, and the Federal Reserve.

When interest rates go up or down or when cash gets tighter or looser in these economies, Palestine feels the effects right away, and there are no useful local tools to soften or counteract these effects (Palestinian Monetary Authority, 2021). In this case, monetary officials cannot easily respond to unexpected events or quick needs for cash, and they cannot help keep the economy stable either.

Over the past two decades, the Palestinian banking system has undergone many changes. For example, the market in Islamic banks has become larger. These days, Islamic banks work with normal banks and conduct a lot of business. Regarding liquidity management, traditional banks can rely on foreign interest-bearing assets, while Islamic banks cannot due to Sharia. This therefore makes it difficult to manage the cash of the banking system and to develop monetary policy tools that can be used by all banks (IFSB, 2018).

In this case, Islamic sukuk are referred to in the literature as the most Shariah-compliant alternative for conventional notes. Sukuk are designed to represent an ownership right over an asset, usufruct, or business venture. The income derived from them is directly linked to the performance of those objects and not to a predetermined interest return rate (AAOIFI, 2020). Sukuk have been a subject of great research as instruments of finance for both governments and corporations. Nonetheless, their application as monetary policy instruments, particularly in open market operations, is rather less discussed.

Most of the research that has been done to date focuses on how sukuk have influenced the growth of capital markets and on their structures, prices, and risks (Ben Amara, 2001; Jouria, 2009). Only a few texts look at the use of sukuk and other Islamic instruments to regulate liquidity in fully fledged Islamic financial systems, such as in the case of Sudan (Nasser & Ben Zaid, 2012). Despite the increased popularity of Islamic financial instruments, there is also a dearth of research into whether sukuk can be employed in open market operations when monetary sovereignty does not exist and rules are very strict..

One of the most serious examples of these problems is the case of Palestine. There is no national currency, and legal, political, and economic factors all affect the money and capital markets. The Palestinian Monetary Authority is an important supervisor and manager, but it does not have all the powers that a

normal central bank has. Also, even though there are laws in place for capital market activities, the country's own securities market is still small, shallow, and undeveloped. All these things make us wonder if sukuk can really be used as tools for open market operations.

Given this information, the study's major research question in simple words is this: in an economy like Palestine, where there are not a national currency and monetary sovereignty is very limited, can Islamic sukuk be used as a useful and functional tool for open market operations? This is not a matter of technical planning, or financial engineering. It discusses larger challenges related to Islamic finance's role within monetary policy and the political- and institutional-related influencing factors on nonstandard monetary systems.

But dealing with it does not involve trotting out conventional ideas about money and consulting Islamic finance, foreign cases and the political economy of countries that do not control their own money.

## **2.2 Research Objectives**

Most significantly, the question we discussed above that this study attempts to answer is can Islamic sukuk be actually utilized by a place like Palestine for liquidity-based transactions. The main goal is to find out the applicability of sukuk as Islamic financial instruments in open market operations. That means asking a few simple but big questions.

Its second goal is to derive an understanding of how the Monetary Policy setting of Palestine functions, considering that there is no national currency, indeed multiple currencies in one system, and that not much is done by the Palestinian Monetary Authority. These are not considered trivial concerns but rather important constraints that shape what is and is not possible to do with money and liquidity.

The study also seeks to identify whether sukuk can be used in practice as an instrument of liquidity management within the Palestinian banking sector and not just theoretically applied. This section focuses on the daily challenges that Islamic banks encounter while discussing issues such as the regulations they must comply with, the market structures in place, and how Shariah governance gets involved in approving and monitoring financial assets.

This paper also seeks to draw from those countries that have already employed sukuk or other Islamic-based assets for liquidity management. The situations of Sudan and Malaysia are examined in detail, not as case studies for emulation but those that illustrate when sukuk have been placed successfully.

# **OPEN MARKET OPERATIONS AND THEIR SUITABILITY WITH ISLAMIC BANKS**

---

The research also aims to offer practical policy advice, keeping in mind the constraints of Palestinian reality. These recommendations are not the final word, or a perfect solution, to the money problems. They have chosen to concentrate on the possible restricted, realistic instruments for liquidity management that might be expected to function in a tight money environment.

## **2.3 Research Questions**

There are numerous broad questions that keep the study on track in its effort to meet these goals. First, it considers what open market operations really require in standard monetary systems both in theory and fact. This provides the means with which other tools can be compared to this tool.

It then assesses whether Islamic sukuk can indeed respond to those needs in a manner compliant with the principles of Islamic law and that also makes business sense. Equally fundamental is the question about what legal, institutional, and structural problems are involved in preventing Palestine from using standard open market processes.

It also explores how other countries with either pure Islamic banking or dual systems of banking have dealt with similar situations. Lastly, the paper raises the following question: under what conditions, in the real world, sukuk could contribute somehow to alleviate the liquidity problem of the Palestinian financial system.

## **2.4 Significance of the Study**

This makes the research important in that it relates a number of subjects that are usually discussed independently. The Islamic finance literature will be enriched in the context of studying sukuk differently from the traditional view of viewing it merely as a loan and considering its use for monetary and liquidity operations. It provides further insight into the argument regarding monetary systems operating under strict regulations, with Palestine acting as one example of an economy where almost nobody has authority over their money.

The study should be of interest to various participants who must operate under challenging institutional settings, including regulators, policy makers, and financial institutions. The tools of funding that are in compliance with Shariah law become all the more imperative as the Islamic banking sector in Palestine expands; thus, the findings of this study could show ways toward operating liquidity for Islamic banks and major banks in a realistic and inclusive manner while preventing both from getting all the instruments they require for proper monetary policy.

### **3. Conceptual and Theoretical Framework**

#### **3.1 Open Market Operations in Traditional Monetary Theory**

This makes the research important in that it relates a number of subjects that are usually discussed independently. The Islamic finance literature will be enriched in the context of studying sukuk differently from the traditional view of viewing it merely as a loan and considering its use for monetary and liquidity operations. It provides further insight into the argument regarding monetary systems operating under strict regulations, with Palestine acting as one example of an economy where almost nobody has authority over their money.

The study should be of interest to various participants who must operate under challenging institutional settings, including regulators, policy makers, and financial institutions. The tools of funding that are in compliance with Shariah law become all the more imperative as the Islamic banking sector in Palestine expands; thus, the findings of this study could show ways toward operating liquidity for Islamic banks and major banks in a realistic and inclusive manner while preventing both from getting all the instruments they require for proper monetary policy.

The idea behind this system is that there is a little bit of monetary freedom. If a monetary authority cannot set its own interest rates or print its own money, the reasons for open market operations are weakened. This problem is especially clear in places that use more than one currency or allow people to choose which currency to use, since governments in those places have very little power over the first creation of cash (Barnett, 1998).

#### **3.2 The Role of Open Market Operations and Central Bank Mandates**

Central banks normally have a few very important jobs. These include making sure that prices do not change too much, supporting the overall health of the economy, and making certain that payment systems work well. These goals are helped by open market operations, which allow the central bank to control short-term liquidity in a way that is normally clear and predictable (Mishkin, 2019).

In advanced monetary systems, open market processes cannot be done on their own. They are a part of a larger policy framework that has reserve requirements, standing facilities, and policy rate corridors as well. These deals are based on government bonds given out in the local currency. When sovereign debt markets are deep and liquid, open market processes tend to work better. This is

# OPEN MARKET OPERATIONS AND THEIR SUITABILITY WITH ISLAMIC BANKS

---

because market prices make policy messages clearer and transaction costs are lower (Bindseil, 2014).

The monetary authority's job is very different in places where there are more rules. Open market operations cannot be the main constituent of monetary policy when the government is either unable or considerably limited in its ability to print money. They may only be able to assist in liquidity management at the very end. This difference is extremely significant to the Palestinians because the Palestinian Monetary Authority lacks full central banking powers to exercise control over the monetary policy of the country but nonetheless has to oversee and regulate a long list of other things (Palestinian Monetary Authority, 2021).

### **3.3 Monetary Instruments and Islamic Finance Principles**

Islamic finance is based upon a system of Shariah principles. There are several rules, but the most significant is the prohibition of *riba*. Islamic banking also tends to dislike *gharar* excessive uncertainty or actions likely to cause harm. It is more about asset-based deals, risk sharing, and actual economic dealing (El-Gamal, 2006). Based on these concepts, it is possible to develop financial instruments and determine whether conventional monetary policy instruments can be applied to Islamic banking systems.

When it comes to monetary policy, the major problem is very easy to see. In normal open market operations, government bills and bonds that pay interest are the most common things used. Islamic banks cannot use these tools. This rule makes it harder to control liquidity, so policymakers and regulators are looking for other tools that can do the same things without breaking Shariah rules (IFSB, 2018).

Many researchers argue that Islamic interest rates should rely more on amount and assets and less on interest (Chapra, 1996). In this case, Shariah-compliant tools, like *sukuk*, could be a good way to control liquidity if they are made and supported by organizations that can issue and trade them well.

### **3.4 Islamic Sukuk: Theoretical Underpinning**

AAOIFI (2020) describes *sukuk* as certificates of equal value representing shared ownership of assets, rights of use of assets, services, or businesses. It is important because *sukuk* should not create a debtor-creditor relationship that guarantees a fixed payment or interest, rather, it should relate to the performance of the underlying assets or operations and any risks that accrue with such operations should be borne by *sukuk* holders. *Sukuk* could also be structured in various ways depending on the kinds of contracts upon which they are created.

Such contracts include Muharrara (leasing), mudharabah (profit-sharing), musharakah (partnership), salam (forward sale), and istisna' (manufacturing or construction). Ijarah sukuk are considered the most liquid since they offer more stable cash flows and are comparatively easier to trade than all other forms of sukuk (IFSB, 2018).

This asset-backed nature nevertheless tends to make sukuk generally impracticable to execute in reality. Most issuance would entail the identification of tangible assets, clarification regarding the ownership of the assets, and rigorous documentation such that rights are enforceable. These steps could make things clearer and bring money closer to real action but might simultaneously add complication and costs (El-Gamal, 2006).

### **3.5 Sukuk and Liquidity Management: Theoretical Connections**

Sukuk can help with managing liquidity if certain realistic conditions are met. First, sukuk needs to be made the same and be easy to buy and sell so that they can be sold often in secondary markets. Second, they need a legal and regulatory system that makes sure disputes are settled quickly, investors are safe, and Shariah government is credible. Third, the person or group that issues it, which could be a central bank or the government, needs to be trustworthy enough to keep the market's trust (Hasan et al., 2020).

In various Islamic systems, tools that are like sukuk have been used to manage cash and do things that are like OMOs. People often do this in Sudan because that is where they made the first Shariah-compliant certificates for managing central bank liquidity within a system that was entirely Islamic (Nasser & Ben Zaid, 2012). In countries with dual systems, like Malaysia, sukuk are used together with regular financial goods. Islamic banks can use this method to get money without having to deal with interest-paying stocks (Samour, 2007).

Merely designing sukuk is not sufficient. How effectively sukuk can function as OMO tools greatly depends on prevailing economic circumstances. If any country lacks monetary sovereignty, it would be all right to issue sukuk in order to handle the liquidity at the bank level; however, it will not make a major impact at the aggregate economy level. For this reason, the test should be regarded as more than a mere formal backdrop.

### **3.6 Conceptual Framework**

There are three parts to the framework of this study, and they are all linked to each other. The first part is about structural monetary restrictions, the second is about the ability of institutions and regulations, and the third is about the design

# OPEN MARKET OPERATIONS AND THEIR SUITABILITY WITH ISLAMIC BANKS

---

characteristics of Islamic financial instruments, or sukuk. The important point is that the interaction of these three things will show if sukuk is appropriate for OMO-type tasks.

In Palestine, the range of monetary policy tools is limited by structural issues. Sukuk can only be issued, governed, and traded if there is enough institutional ability to do so. If the market and the conditions for institutions are right, sukuk might still be a way to control how easily money can be exchanged. This model makes it easier to think about policy options, how useful these examples from other countries are, and what actions can be taken when looking at real-world examples from other countries later.

## **4. Research Model**

Model-based research links the structural limitations of money to the effectiveness of sukuk as a means of carrying out OMO-style actions for making liquid assets available. The model is meant for unusual situations involving money, where normal ideas about making money and government debt markets do not work.

Standard monetary analysis thinks that open market operations are useful because central banks can change how much money is available by buying and selling their own country's government assets (Bindseil, 2014). Because Palestine has a different kind of money system, its process is different. Because of this, the study does not use an econometric identification method. It does not do that, though. It uses a qualitative, institution-focused model that looks at legal, operational, and market factors to see if something is possible.

### **4.1 The Model's Variables**

This study begins with the structural monetary limitations that describe the Palestinian monetary environment. These problems mostly have to do with not having a national currency, having to use a lot of different foreign currencies at once, and the fact that local officials cannot make base money. All these factors make it very hard to use standard monetary policy tools. A lot of the literature on money says that when you do not have monetary sovereignty, traditional ways of doing things do not work as well as they do in normal situations (Barnett, 1998; Mishkin, 2019).

Simultaneously, these structural restrictions do not operate in a vacuum. The surrounding institutions have a profound impact on their efficiency. For this reason, the study explores institutional and regulatory capability as a means of

influencing the relationship between other variables. This encompasses the actual powers entrusted to the Palestinian Monetary Authority, laws, and regulations that impact the activity of the capital market, the extent to which Shariah governance functions effectively, and the level of coordination between the Ministry of Finance, the Capital Market Authority, and other key public bodies. Many studies have already documented how well-designed financial instruments function less effectively under conditions of low or incomplete institutional support (IFSB, 2018).

The key question of this study is the extent to which sukuk can meaningfully be employed for activities similar to open market deals. Other than looking at this as a matter of technical feasibility, this study focuses on a few practical aspects. Some of these are whether it can be employed to add or absorb liquidity, whether they could be traded and used by different market players without big problems, and whether their structure stayed in line with both Shariah and current legal requirements. Based on these specific monetary and institutional conditions in Palestine, these factors give a good basis through which one can judge how much sukuk can help in liquidity management (AAOIFI, 2020; Bindseil, 2014).

#### **4.2 The Model's Analytical Logic**

The main idea of this theoretical framework is to explain how the deep-rooted problems in the Palestinian monetary system limit the ability of open market operations to achieve their objectives. When the state does not have control over its national currency, traditional monetary policy tools become inapplicable in the usual manner. However, the framework assumes that institutions and regulatory bodies are still required to perform their roles. If there is an authorized legal entity, a legitimate issuance mechanism, and market infrastructure, Sharia-compliant instruments, such as sukuk, may be used to contribute to liquidity management – albeit within a limited scope. That is, sukuk may be useful even in the absence of monetary sovereignty, but they will not provide comprehensive solutions.

Instead of relying on formal statistical tests, this framework depends on qualitative review and comparative analysis of institutions. This approach was chosen because traditional quantitative methods do not fit the Palestinian reality, due to institutional constraints and the absence of conventional monetary policy tools. This approach aligns with previous studies that addressed monetary policy

# OPEN MARKET OPERATIONS AND THEIR SUITABILITY WITH ISLAMIC BANKS

---

in unconventional contexts, where priority is given to understanding the nature of institutional operations over pure quantitative economic analysis (Ghosh et al., 2018).

## 5. Review of the Literature

There was more literature on sukuk emerging because more research was happening on Islamic banking. Most of the literature was on how sukuk is different from conventional loans and the definitions. At this stage, the key was for all to understand the concepts in the policy, irrespective of the applications. As cited by Ben Amara in 2001, sukuk can be described as documents that comply with the Shariah law and represent the claim for ownership in projects/\_assets, turning the claim for ownership into transferable securities. It helps more for peoples' money through non-debt based on interests.

Later research considered a wider concept of growth and the economy in their study to comprehend the concept of sukuk. Jouria (2009) states that the issuance of sukuk can assist in beneficial economic activity and also assist in the growth of financial markets. Based on the study, the issuance of sukuk by the government can assist in funding infrastructure development and provide additional locations where Islamic banks can invest their funds. This study, however, does not specifically explore the utilization of sukuk in monetary policy. Islamic banks have actual issues that other researches examine basically concerning how they handle money. As there are few products that correspond to Sharia rules, Islamic banks still experience problems with money liquidity; this is seen in research done in Jordan by Fayyad and Al-Aabna in 2013. Many believe that money markets within Islamic banks are not that effective and that the central bank should help ensure that there are enough instruments available concerning money liquidity.

There is another component of the text that describes the risks associated with sukuk. Nasser and Ben Zaid (2012) analyzed what is happening in the situation of Sudan and identified several kinds of risk, which include market risk, credit risk, operating risk, and Shariah risk. The sukuk is associated with assets and is based on debt in most instances. There are some distinctions in this aspect since it is not like ordinary bonds.

Theoretically-oriented scholars such as Chapra (1996) and Worship (2011) observe that Islamic monetary policies should use instruments related to quantity and assets rather than instruments tied to the interest rates. A sukuk appears to be

the right choice when it comes to operations requiring liquidity. They seem effective provided the proper setting is established.

Recent research papers concentrated on Islamic financial instruments and how they influence financial stability. According to these papers, risk-sharing mechanisms such as sukuk and their equivalents ought to increase financial stability, while speculation ought to deter. Right calibration of sukuk within the management of liquidity and macroprudential policies might just keep financial stability on course.

One of the issues with this body of knowledge is that it requires money for sovereignty indirectly and indirectly states so. Most new research entails a situation where the state and the central banks possess more power than necessary for the creation of money and national debt. An economy under conditions which are not working in its favor is less interesting than others. In the Palestinian environment, little has been given to the potential roles that financial instruments with Islamic principles may carry in the discussions around the economic areas (Palestinian Monetary Authority, 2021).

The underlying reason and/or justification for conducting the research rest upon a lacuna that exists within the literature that currently exists. The topic of the research shall thus try to fulfill the need that currently exists within the literature with respect to the topic of sukuk through the use of theories that are associated with Islamic finance.

## **6. International Experiences with Sukuk-Based Financial Instruments**

### **6.1 Sudan: Sukuk in a Fully Islamic System**

Sudan is often cited in various scholarly articles as one of the few cases where there was a need for implementing purely interest-free monetary policies following the full Islamization of the banking system in the country. The above changes, therefore, meant that the Central Bank of Sudan had to resort to finding other instruments compliant with Sharia Law that would suit the macroeconomic objectives for liquidity management (Central Bank of Sudan, 2020).

To counter this, new tools were developed, which include the issuance of Government Participation Certificates (Shahama), Government Investment Sukuk, and the ijara-based certificates issued by the central bank. The design of these tools is based on Islamic contracts of musharaka, mudaraba, and ijara, which made possible the accrual of income through profit-sharing or rental income as opposed to interest income. Essentially, the tools allowed the central bank to

## OPEN MARKET OPERATIONS AND THEIR SUITABILITY WITH ISLAMIC BANKS

---

manage liquidity in the economy by purchasing and selling the certificates in the market, which worked virtually in the same manner as the conventional open market operations (Nasser & Ben Zaid, 2012).

The evidence at hand also proves that these tools contributed to the good management of liquidity, in addition to the needs of government financing. Notwithstanding, these tools were not problem-free. Problems continued to exist, particularly with the shallowness of the secondary markets, the efficiencies of pricing, as well as the concerns regarding Shariah governance (Nasser & Ben Zaid, 2012). Regardless, the case of Sudan clearly stands out with respect to an exceedingly significant aspect: the significance of monetary sovereignty as the key facilitating the successful functioning of the sukuk-based tool.

### **6.2 Malaysia: Sukuk in a Two-Party System**

Unlike the general practices adopted by the rest of the world regarding the use of Sukuk, the Malaysian model is quite exceptional. The Malaysian model permits the integration of Islamic and conventional financing within one region of policy management rather than treating them as two separate entities. The regulating agencies, including the Sharia law advisory panels of the Securities Commission, have been strongly behind the Islamic capital market. They have established guidelines that will offer confidence to those who use them (Securities Commission Malaysia, 2021).

One very crucial aspect, though, is that the sukuk does not aim to replace the conventional open market operation, as the sukuk is supplementary to the conventional government securities. Regarding fulfilling the liquidity need of the Islamic banks, the sukuk satisfies this need, and the Bank Negara Malaysia employs the Islamic and conventional mechanisms within the same operating framework. Therefore, the Islamic banks contribute to the management of liquidity while being Shariah-compliant, thus ensuring the overall system remains harmonious and healthy (IFSB, 2018).

The Malaysian experience also illustrates that there must be a deep market and extensive trade activity. This has been handled well by Sukuk markets because Sukuk are standardized instruments and there is a vibrant secondary market in these instruments. These factors help in easy pricing and facilitation of trade in these instruments and their usage in managing short-term liquidity positions. On a broader level, however, the Malaysian framework has helped in initiating debates regarding the need for global uniformity in Shariah practices (El-Gamal, 2006). At this stage in history, it has been seen that Sukuk markets in

Malaysia are among the most effective examples regarding their usage in a well-structured environment in managing liquidity.

### **6.3 Lessons from International Experiences**

Sukuk can be used for liquidity operations in Malaysia and Sudan, but the setting is very important for success. Sudan was a country on its own with a government that was completely Islamic. Malaysia had strong institutions, clear rules, and big markets in a dual system. These experiences show that sukuk-based OMOs are feasible in contexts where sovereignty is present or where institutional and market infrastructure is strong.

Palestine lacks numerous factors that aid processes; consequently, teachings must be modified rather than replicated. The point is important for realistic policy talk.

## **7. The Palestinian Situation**

### **7.1 Money Situation**

Palestine has a very limited system and does not have its own currency. It uses the shekel, dinar, and U.S. dollar instead. This makes it harder for domestic officials to systematically change liquidity, interest rates, or the money supply (Barnett, 1998).

External monetary changes are successfully imported. Changes in U.S. and Israeli monetary policies go straight into the Palestinian banking system, yet there are not many ways for Palestinians to deal with these changes (Palestinian Monetary Authority, 2021).

### **7.2 PMA ROLES**

PMA does licensing, oversight, payment systems, and stability tasks, but it is not a central bank for a country. It cannot make money or do full-scale monetary actions (PM Law No. 2 of 1997; Palestinian Monetary Authority, 2021). For this reason, regular OMOs cannot really be used to make decisions about internal policy.

### **7.3 Islamic Banking and Problems with Liquidity**

Here is another issue for Islamic banks: they cannot use goods that earn interest. Palestine does not have many Shariah-compliant money market tools, so when Islamic banks do need to make money, they usually must depend on narrow interbank options and liquidity buffers. This can make them less efficient and cost effective (Palestinian Monetary Authority, 2021). This issue gets worse because there is no sukuk market in the country.

# OPEN MARKET OPERATIONS AND THEIR SUITABILITY WITH ISLAMIC BANKS

---

## 7.4 Legal and Institutional Framework

There are significant regulations for money, but Palestine lacks comprehensive regulations toward the issuance of sovereign sukuk and the use of sukuk-based instruments for liquidity. The issuers or those following the Shariah Law regulation are unclear; thus, these regulations are lacking too. The relevant institutions do not have extensive collaboration with each other either. Individuals who have experience in sukuk-based liquidity instruments in other states have identified that collaboration is very significant (IFSB, 2018).

## 8. Methodology

In this research, the methods used are descriptive and analysis, which are appropriate for the topic of the research. Palestine does not have local currency and does not follow normal or united monetary policies, so the use of normal econometric models would not be appropriate here. Thus, there is nothing in the research regarding statistical testing.

On the other hand, the study applies institutional analysis, whereby we focus on crucial laws and regulations or policy documents. We could only theoretically or through numbers understand how liquidity operations are done using sukuk. At this point, we are able to test whether or not it works within the framework of existing institutions and the money supply.

### 8.1 Data Sources

This study uses a descriptive and analytical method that works well with the type of research setting. It is not right to use econometric or statistical tests here because Palestine does not have a national currency and does not follow a normal or unified monetary policy. The study, on the other hand, looks at how monetary and liquidity tools work with limited institutions. It uses the method of looking closely at government papers from the field of institutional analysis and qualitative research. The goal is to find out if it is possible to do sukuk-based liquidity operations or if it is theoretically perfect but not possible.

There are both primary and secondary texts used in the study. Secondary sources are academic papers published in peer-reviewed journals, commonly used reference materials on Islamic finance and monetary policy, and official documents from important international and domestic groups. The Islamic Financial Services Board, the Accounting and Auditing Organization for Islamic Financial Institutions, the International Monetary Fund, and the Palestinian Monetary Authority are some of the groups that contributed to these tools. Going through law and regulatory texts also helped to get a better sense of the rules that

these important institutions must follow and the limitations they have when working (Bindseil, 2014; IFSB, 2018; AAOIFI, 2020; PMA, 2021).

Semi-structured interviews with staff who do treasury duties and liquidity management at Islamic banks in Palestine were used to get primary qualitative information. It was mainly liquidity management in real life, the biggest problems banks have right now, the impact of Shariah governance on the choices people have, and whether practitioners think sukuk could actually be used as liquidity management tools in the current climate that were talked about in these meetings.

## **8.2 Analytical Framework**

The ability of Islamic sukuk to handle liquidity is assessed using three criteria from the monetary operations and Islamic finance literature:

- how sukuk can help with cash injection and absorption (Bindseil, 2014).
- the ability of the market to trade and the ability to run things flexibly (IFSB, 2018); and
- in line with Shariah law and the rules of the organization (AAOIFI, 2020).

## **9. Results**

There is more than one result from the analysis. To start, OMOs are still important for controlling how much money banks have on hand, but they can't be used in Palestine the way they're normally used because the country doesn't have a national currency or local sovereign debt instruments (Barnett, 1998; PMA, 2021).

Additionally, sukuk may be the best option for Islamic banks seeking to comply with Sharia Law, particularly for ijara schemes catering liquidity requirements (AAOIFI, 2020; IFSB, 2018).

Thirdly, it will be extremely difficult to accomplish tasks due to issues with the laws and institutions. Currently, there are no specific guidelines on national or central bank Sukuk issues that facilitate managing liquidity, and the lack of currency issues undermines the overall effects of the OMO-like measures (PMA, 2021).

Fourth, the interview data has shown the practitioners' careful curiosity. The treasury managers understand the potential advantages of managing the excess liquidity, but they continually raise their worries about not being aware of the laws, the market not being deep enough, the risk of Shariah governance, and not having a central counterparty that can conduct business at all times.

## **10. Discussion**

# OPEN MARKET OPERATIONS AND THEIR SUITABILITY WITH ISLAMIC BANKS

---

These findings are consistent with previous research that found sukuk could be considered effective to manage liquidity where there are strong institutions and laws (IFSB, 2018; Hasan et al., 2020). Sudan represents that the use of sukuk could replace more conventional forms of funds within a country that has power over its monies and has a completely Islamized banking system.

Conversely, the situation in Palestine is much different because there is not much power with respect to money. This contradicts one of the principles most widely held in the literature. For instance, the central bank enjoys absolute power to create money and functions in the domestic stock market with clearly defined rules. The situation among the Palestinians proves that the need to create financial instruments is not sufficient to overcome fundamental problems. High-quality sukuk securities are also unlikely to function effectively without solving problems related to the clarity and institutional coordination rules. This is evidence that Islamic financial instruments have much more complicated and wide relationships with the rules of politics and society, and this domain requires further investigation.

## 11. Policy Implications

There are many effects. Firstly, authorities can look at the short-term sukuk issued either by the sovereign or the quasi-sovereign. It is just for liquidity purposes and not to finance the sovereign. It is simple to buy and sell the sukuk. (IFSB, 2018)

Secondly, there needs to be more coordination between the PMA, the Ministry of Finance, and the management of the stock market. Even if a country lacks complete power, having clearer regulations and a unified government can make things more transparent.

Thirdly, the structure of the market in the secondary market is highly significant. Sukuks have nothing to offer in the matter of liquidity unless there is substantial trading on the secondary market. It requires the facilities for the settlement of trades, the ability to set up markets, and the dealer networks.

## 12. Conclusion and Suggestions

### 12.1 Conclusion

The paper examined the effectiveness of sukuk instruments as a means for conducting open market operations in the extremely limited Palestinian money market system. Sukuk are based on Shariah Law and in theory might have been very useful in this regard. However, their ineffectiveness is a result of the absence

of a national currency and the weak market structure in Palestine. The study further enriches the discourse on Islamic monetary instruments. The people of Palestine should recognize sukuk as additional means to provide funds to help them manage their partial liquidity. They are not to be considered substitutes for the traditional OMOs.

## **12.2 Suggestions**

- Investigate short-term sukuk that are only made for cash operations and see if they are feasible.
- Clearly state who is responsible for giving, managing, and supervising sukuk and Shariah.
- Improve the ability of the PMA, the Ministry of Finance, and stock market regulators to work together.
- Invest in the secondary market's facilities and people with the right skills.
- Keep discussing how to give people more financial freedom to broaden the policy options.

## **References**

- AAOIFI. (2020). *Shari'ah standards*. Manama: Accounting and Auditing Organization for Islamic Financial Institutions.
- Barnett, S. A. (1998). Monetary policy in the West Bank and Gaza Strip in the absence of national currency. *IMF Working Paper*.
- Ben Amara, N. (2001). Islamic sukuk and their role in the development of the Islamic financial market.
- Bindseil, U. (2014). *Monetary policy operations and the financial system*. Oxford: Oxford University Press.
- Central Bank of Sudan. (2020). *Open market operations*.
- Chapra, M. U. (1996). *Monetary management in an Islamic economy*. Jeddah: Islamic Research and Training Institute (IRTI).
- El-Gamal, M. A. (2006). *Islamic finance: Law, economics, and practice*. Cambridge: Cambridge University Press.
- Fayyad, S., & Al-Aabna, A. (2013). Sukuk and their impact on the operational reality of Islamic banks in Jordan.
- Ghosh, A. R., Ostry, J. D., & Qureshi, M. S. (2018). *Taming the tide of capital flows*. Cambridge, MA: MIT Press.
- Hasan, M., Paltrinieri, A., Dreassi, A., & Miani, S. (2020). Islamic finance and financial stability. *Economic Systems*, 44(2), 100-112.

## OPEN MARKET OPERATIONS AND THEIR SUITABILITY WITH ISLAMIC BANKS

---

- IFSB. (2018). *Islamic financial services industry stability report*. Kuala Lumpur: Islamic Financial Services Board.
- Jouria, O. (2009). *Investment sukuk and their role in economic development*.
- Mishkin, F. S. (2019). *The economics of money, banking, and financial markets* (11th ed.). Pearson.
- Nasser, S., & Ben Zaid, R. (2012). Management of risks of Islamic governmental sukuk: Evidence from Sudan.
- Palestinian Monetary Authority. (2021). *Annual report*. Ramallah.
- Samour, N. (2007). *Islamic stock exchange between theory and practice: The Malaysian case* (master's thesis).
- Securities Commission Malaysia. (2021). *Islamic capital market development report*.
- Worship, A. (2011). Monetary policy tools in an Islamic economy.