

Quarterly Report on Islamic Banking in Bangladesh¹

April-June 2023



**Islamic Banking Wing
Research Department
Bangladesh Bank**

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Quarterly Report on Islamic Banking in Bangladesh
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Highlights: Quarterly Report on Islamic Banking in Bangladesh

April-June 2023

Total Deposits	Total deposits of Islamic banking system reached to BDT 4,280.00 billion at the end of June 2023 with an increase of BDT 163.69 billion or 3.98 percent as compared to the end of March 2023. It was also higher by BDT 156.59 billion or 3.80 percent as compared to the same quarter of the last year. The share of total deposits of Islamic banks accounted for 25.37 percent of total deposits of the entire banking sector during the period under report.
Total Investment	Total Investment (loans & advances) of Islamic banking system increased by BDT 90.80 billion or 2.20 percent to BDT 4,214.77 billion at the end of June 2023 as compared to the end of March 2023. It was also higher by BDT 396.48 billion or 10.38 percent as compared to the same quarter of the last year. The share of total investment of Islamic banks accounted for 29.18 percent of total loans & advances of the whole banking sector at the end of June 2023.
Investment-Deposit Ratio	At the end of June 2023, Investment-Deposit Ratio (IDR) of the Islamic banks stood at 0.91(excluding EDF and refinance). It was 0.92 both at the end of March 2023 and at the end of June 2022.
Excess Liquidity	Excess liquidity of Islamic banks increased by BDT 9.82 billion or 12.75 percent to BDT 86.90 billion at the end of June 2023 from BDT 77.08 billion of end March 2023. But it was lower by BDT 173.19 billion or 66.59 percent than that of the same period of the last year.
Exports	Total exports receipts by the Islamic banks increased by BDT 83.23 billion or 28.45 percent to BDT 375.75 billion during April-June 2023 from BDT 292.53 billion of January-March 2023. But it has decreased by BDT 25.15 billion or 6.27 percent than that of the same quarter of 2022.
Imports	Total Imports payments by the Islamic banking system was higher by BDT 59.53 billion or 14.30 percent at BDT 475.85 billion during April-June 2023 as compared to January-March 2023. But it was lower by BDT 214.34 billion or 31.06 percent than that of the same quarter of 2022.
Total Remittances	Total remittances mobilized by the Islamic banks decreased from BDT 306.09 billion to BDT 221.92 billion which around 27.50 percent less than that of previous quarter. But it was higher by BDT 64.76 billion or 41.20 percent than that of the same quarter of 2022.
Branches	The number of branches of Islamic banks including Islamic branches of conventional commercial banks extended to 1694 at the end of June 2023. It was 1684 at the end of the March 2023 and 1624 at the end of June 2022.
Manpower	Total employment in the Islamic banks stood at 50019 at the end of June 2023. It was 50143 at the end of March 2023 and 48728 at the end of June 2022 respectively.

Quarterly Report on Islamic Banking in Bangladesh

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Islamic financial sector is now considered as a global financial industry in terms of its assets like Islamic banks, Islamic bonds, Islamic mutual fund and Islamic insurance etc. The sector is growing globally based on its risk sharing optimism, inclusiveness and real asset backed transaction features. In line with global trends, Islamic banking in Bangladesh has also been witnessing a robust growth due to its strong public demand and policy supports from the Bangladesh Bank.

Brief overview on Islamic Banking

At the end of June 2023, there were 10 full-fledged Islamic banks in Bangladesh operating with 1671 branches while there were total 11,177 branches in the whole banking system. In addition with this, 23 Islamic banking branches of 11 conventional commercial banks and 588 Islamic banking windows of 14 conventional commercial banks are also providing Islamic financial services in Bangladesh.

Table-1: Number of Islamic Banks, Branches and Windows

SL	Full-fledged Islamic Banks	No. of Branches	Conventional Banks having Islamic Branches	No. of Branches	Conventional Banks having Islamic Windows	No. of Windows
1	Islami Bank Bangladesh Limited	394	The City Bank Limited	1	Sonali Bank PLC	58
2	ICB Islamic Bank Limited	33	AB Bank Limited	1	Janata Bank Limited*	
3	Social Islami Bank Limited	179	Dhaka Bank Limited	2	Agrani Bank Limited	60
4	Al-Arafah Islami Bank Limited	212	Premier Bank Limited	2	Pubali Bank Limited	17
5	EXIM Bank Limited	148	Prime Bank Limited	5	Trust Bank Limited	30
6	Shahjalal Islami Bank Limited	140	Southeast Bank Limited	5	Bank Asia Limited	5
7	First Security Islami Bank Limited	209	Jamuna Bank Limited	2	Standard Chartered Bank	1
8	Union Bank Limited	112	Bank Alfalah Limited	1	Mercantile Bank Limited	46
9	Standard Bank Limited	145	NRB Bank Limited	1	Midland Bank Limited	1
10	Global Islami Bank PLC	99	One Bank Limited	2	NRBC Bank Limited	296
11			United Commercial Bank PLC	1	One Bank Limited	14
12					Meghna Bank Limited	10
13					Mutual Trust Bank Limited	15
14					Premier Bank Limited	25
15					United Commercial Bank PLC	10
Total	10	1671	11	23	14	588

Sources: Data of respective banks. *Janata Bank Limited has obtained permission for starting Islamic Banking window from Bangladesh Bank, but not yet started operation.

1.1 Activities of Islamic Banking in Bangladesh: April-June 2023

Islamic Banking has significant contributions towards the growth and economic development of Bangladesh. The system seems progressively attractive and profitable compare to conventional banks for their lower Statutory Liquidity Ratio (SLR) and higher Investment-Deposit Ratio (IDR). It is evident that, the system has experienced phenomenal growth and expansion in the country as the deposits and investments have increased significantly over the time. Basic information on Islamic banking has been given in Table-2 and is briefly discussed below:

Total deposits in Islamic banking reached to BDT 4280.00 billion at the end of June 2023 with an increase of BDT 163.69 billion or 3.98 percent as compared to the end of March 2023. It was also higher by BDT 156.59 billion or 3.80 percent as compared to the same quarter of the last year.

Total investment (loans & advances in conventional banking) of Islamic banking system stood at BDT 4214.77 billion at the end of June 2023. It was higher by BDT 90.80 billion or 2.20 percent from BDT 4123.97 billion of the end of March 2023. It was also higher by BDT 396.48 billion or 10.38 percent as compared to the same quarter of the last year.

Investment-Deposit ratio of the Islamic banks decreased to 0.91 (excluding EDF and refinance) from 0.92 of end March 2023. It was also 0.92 at the end of June 2022.

Excess liquidity of Islamic banks stood at BDT 86.90 billion at the end of June 2023. It was higher by BDT 9.82 billion or 12.75 percent as compared to BDT 77.08 billion of the end of March 2023. But it was lower by BDT 173.19 billion or 66.59 percent than that of the same quarter of the last year.

Total exports receipts by the Islamic banks stood at BDT 375.75 billion during April-June 2023. It was higher by BDT 83.23 billion or 28.45 percent as compared to BDT 292.53 billion of the end of March 2023. But it was lower by BDT 25.15 billion or 6.27 percent than that of the same quarter of the last year.

Total imports payments by the Islamic banking system stood at BDT 475.85 billion during April-June 2023. It was higher by BDT 59.53 billion or 14.30 percent as compared to BDT 416.32 billion of the end of March 2023. But it was lower by BDT 214.34 billion or 31.06 percent than that of the same quarter of the last year.

Total remittances mobilized by the Islamic banks stood at BDT 221.92 billion during April-June 2023. Although it was lower by BDT 84.17 billion or 27.50 percent as compared to BDT 306.09 billion of the end of March 2023, but it was higher by BDT 64.76 billion or 41.20 percent than that of the same quarter of last year.

The number of branches of Islamic banking including Islamic branches of conventional commercial banks extended to 1694 at the end of June 2023. It was 1684 at the end of March 2023 and 1624 at the end of June 2022. At the same time, the number of Islamic banking windows of conventional commercial banks extended to 588 at the end of June 2023 from 550 of end March 2023. It was 502 at the end of June 2022.

Total employment in the Islamic banking sector stood lower at 50019 at the end of June 2023. It was 50143 at the end of March 2023 and 48728 at the end of June 2022 respectively.

Table-2: Basic information on Islamic Banking: April-June 2023**(In Billion BDT)**

Indicators of Islamic Banking	April-June 2023 ^P	January-March 2023	April-June 2022	Changes		Changes(%)	
				Quarterly	Annual	Quarterly	Annual
1. Total Deposits*(Outstanding)	4,280.00	4,116.31	4,123.41	163.69	156.59	3.98	3.80
a) Full-fledged Islamic Banks	3,931.56	3,795.24	3,849.46	136.32	82.10	3.59	2.13
b) Islamic Banking Branches of CB	166.42	153.80	131.99	12.62	34.44	8.21	26.09
c) Islamic Banking Windows of CB	182.02	167.27	141.96	14.75	40.06	8.82	28.22
2. Total Investment* (Outstanding)	4,214.77	4,123.97	3,818.29	90.80	396.48	2.20	10.38
a) Full-fledged Islamic Banks	3,957.76	3,881.01	3,610.27	76.75	347.49	1.98	9.63
b) Islamic Banking Branches of CB	134.40	129.85	115.63	4.54	18.76	3.50	16.23
c) Islamic Banking Windows of CB	122.61	113.11	92.39	9.51	30.22	8.40	32.71
3. Investment-Deposit ratio[#]	0.91	0.92	0.92	-0.01	-0.01	-1.35	-1.35
a) Full-fledged Islamic Banks	0.92	0.94	0.93	-0.02	-0.01	-2.02	-1.37
b) Islamic Banking Branches of CB	0.77	0.73	0.88	0.04	-0.10	5.51	-11.92
c) Islamic Banking Windows of CB	0.64	0.65	0.65	-0.01	-0.01	-1.33	-1.34
4. Liquidity (Excess (+) / Shortfall (-))	86.90	77.08	260.09	9.82	-173.19	12.75	-66.59
a) Full-fledged Islamic Banks	24.93	19.90	210.09	5.03	-185.16	25.29	-88.13
b) Islamic Banking Branches of CB	21.59	19.26	16.72	2.33	4.87	12.08	29.11
c) Islamic Banking Windows of CB	40.38	37.92	33.28	2.47	7.10	6.50	21.33
5. Total Exports	375.75	292.53	400.91	83.23	-25.15	28.45	-6.27
a) Full-fledged Islamic Banks	333.33	271.91	367.36	61.42	-34.03	22.59	-9.26
b) Islamic Banking Branches of CB	31.50	13.32	24.80	18.17	6.70	136.43	27.01
c) Islamic Banking Windows of CB	10.93	7.30	8.75	3.63	2.18	49.79	24.90
6. Total Imports	475.85	416.32	690.19	59.53	-214.34	14.30	-31.06
a) Full-fledged Islamic Banks	417.94	378.90	633.64	39.04	-215.70	10.30	-34.04
b) Islamic Banking Branches of CB	31.16	16.64	32.55	14.53	-1.38	87.31	-4.25
c) Islamic Banking Windows of CB	26.75	20.79	24.01	5.96	2.74	28.66	11.42
7. Total Remittances	221.92	306.09	157.17	-84.17	64.76	-27.50	41.20
a) Full-fledged Islamic Banks	220.20	304.33	155.10	-84.13	65.10	-27.64	41.97
b) Islamic Banking Branches of CB	0.89	1.14	1.29	-0.25	-0.40	-21.82	-31.01
c) Islamic Banking Windows of CB	0.83	0.62	0.77	0.21	0.05	33.28	7.09
8. Total Number of Branches	1,694	1,684	1,624	10	70	0.59	4.31
a) Full-fledged Islamic Banks	1,671	1,661	1,601	10	70	0.60	4.37
b) Islamic Banking Branches of CB	23	23	23	0.00	0.00	0.00	0.00
9. Islamic Banking Windows of CB	588	550	502	38	86	6.91	17.23
10. Total Number of Manpower	50,019	50,143	48,728	-124	1291	-0.25	2.65
a) Full-fledged Islamic Banks	48,709	48,844	47,555	-135	1154	-0.28	2.43
b) Islamic Banking Branches of CB	502	495	415	7	87	1.41	20.96
c) Islamic Banking Windows of CB	808	804	758	4	50	0.50	6.60

Source: Respective Banks, * = Excluding inter-bank items, P= Provisional, CB= Conventional banks, # = Excluding EDF and Refinance.

1.2: The Market Share of Islamic Banks

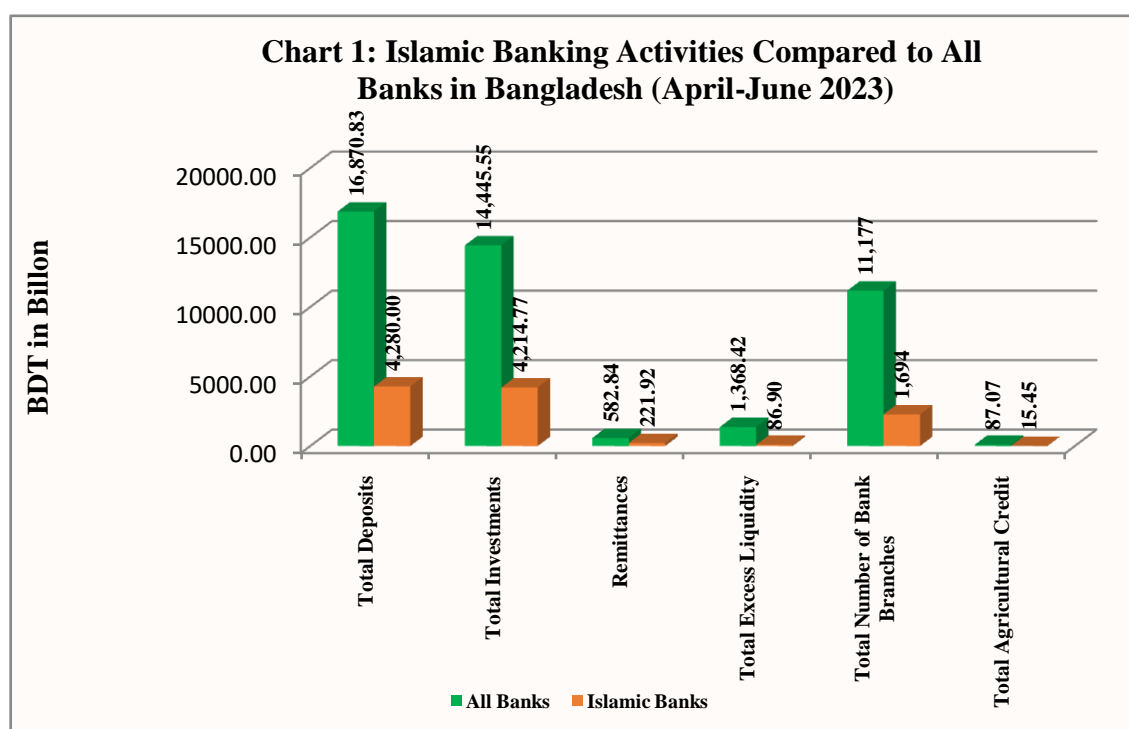
The market share of Islamic banks is successively increasing over the time. At the end of June 2023, Islamic banks represents 25.37 percent share in terms of deposits and 29.18 percent share in terms of investments in the total banking industry which was 27.02 percent and 28.15 percent respectively at the end of March, 2023 [Table-3 and Chart 1].

Table-3: Performances of Islamic Banks Compared to All Banks in Bangladesh

(In Billion BDT)

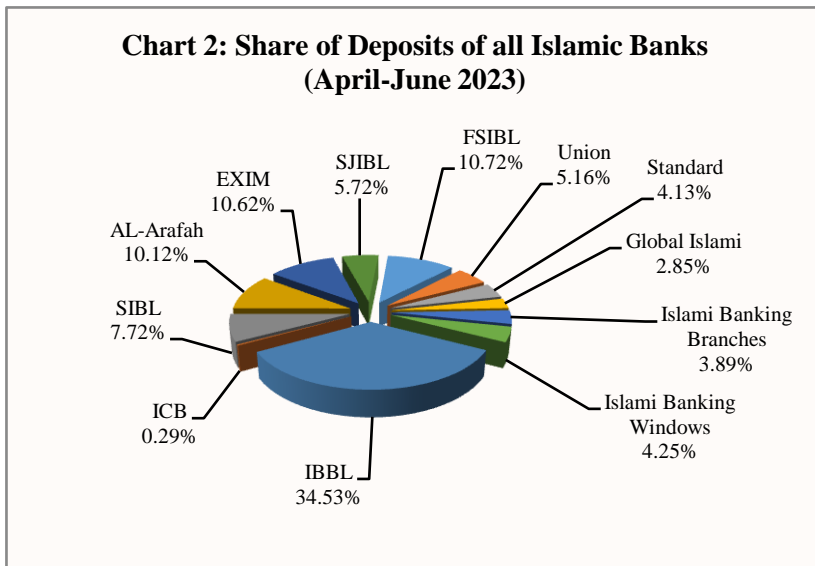
Items	April-June 2023 ^P			January-March 2023
	All banks	Islamic banks	Share of Islamic banks among all banks (percent)	Share of Islamic banks among all banks (percent)
	1	2	3=(2/1*100)	4
Total deposits	16,870.83	4,280.00	25.37	27.02
Total investment (loans & advances in conventional banking system)	14,445.55	4,214.77	29.18	28.15
Remittances	582.84	221.92	38.08	54.76
Total excess liquidity	1,368.42	86.90	6.35	5.63
Total number of bank branches	11,177	1,694*	15.16	15.08
Total agricultural credit	87.07	15.45	17.74	20.78

Source: Statistics Department, MPD, BRPD and ACD, Bangladesh Bank. Note: Stock figures are provided on end period basis.*= Including Islamic Banking branches of Conventional Banks. P=Provisional.



2. Mobilization of Deposits by Islamic Banking

Total deposits in Islamic banking system reached at BDT 4,280.00 billion at the end of June 2023 with an increase of BDT 163.69 billion or 3.98 percent as compared to the end of March 2023. It was also higher by BDT 156.59 billion or 3.80 percent as compared to the same quarter of the last year. Among the total deposits, demand deposit was BDT

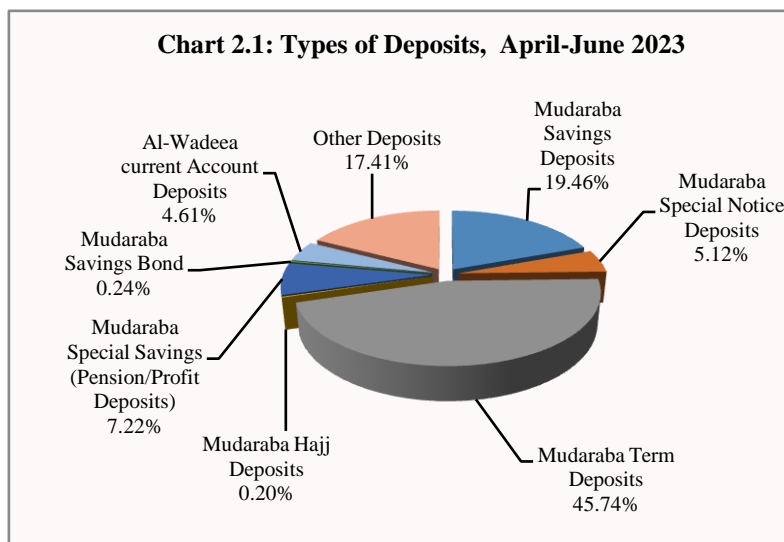


614.69 billion and time deposit was BDT 3,665.31 billion. The share of total deposits of Islamic banks accounted for 25.37 percent among whole banking sector at the end of June 2023.

Deposits of 10 full-fledged Islamic banks stood at BDT 3931.56 billion, windows of conventional banks 182.02 billion and branches of conventional banks 166.42 billion at the end of June 2023. Total deposits of the 10 full-fledged Islamic banks accounted for 91.86 percent of deposits of the Islamic banking system. Among all Islamic banks, Islami Bank Bangladesh Limited (IBBL) received the highest amount of deposits (34.53%) followed by First Security Islami Bank Ltd. (10.72%), EXIM Bank Ltd. (10.62%), Al-Arafah Islami Bank Ltd. (10.12%), Social Islami Bank Ltd. (7.72%), Shahjalal Islami Bank Ltd. (5.72%), Union Bank Limited (5.16%), Standard Bank Ltd. (4.13%), Islamic banking windows (4.25%), Islamic banking branches (3.89%), Global Islami Bank PLC (2.85%) and ICB Islamic Bank Limited (0.29%) [Chart-2].

2.1: Types of Deposits

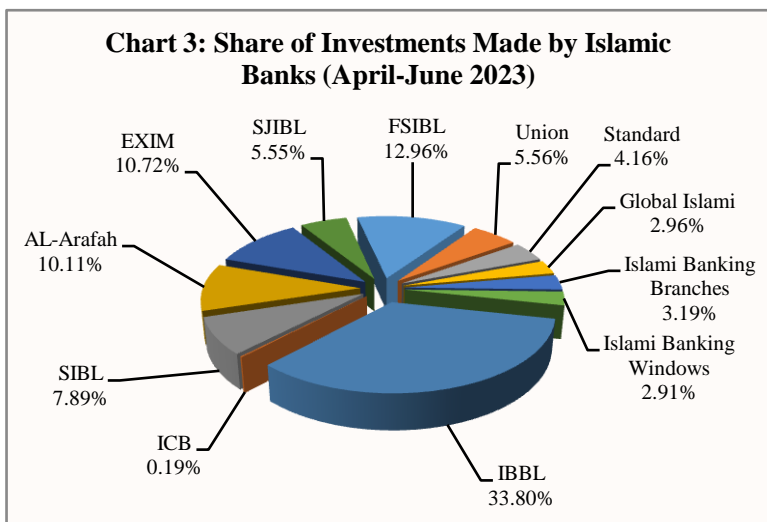
Among different types of deposits of the Islamic banking system, Mudaraba Term Deposits (MTD) secured the highest position (45.74%) followed by Mudaraba Savings Deposits (MSD) (19.46%), Other Deposits (17.41%), Mudaraba Special Savings (pension/profit) Deposits (7.22%), Mudaraba Special Notice



Deposits (5.12%), Al-Wadeeah Current Account Deposits (4.61%), Mudaraba Savings Bond (0.24%) and Mudaraba Hajj Deposits (0.20%) during April-June 2023 [Chart-2.1].

3. Investments of Islamic Banking

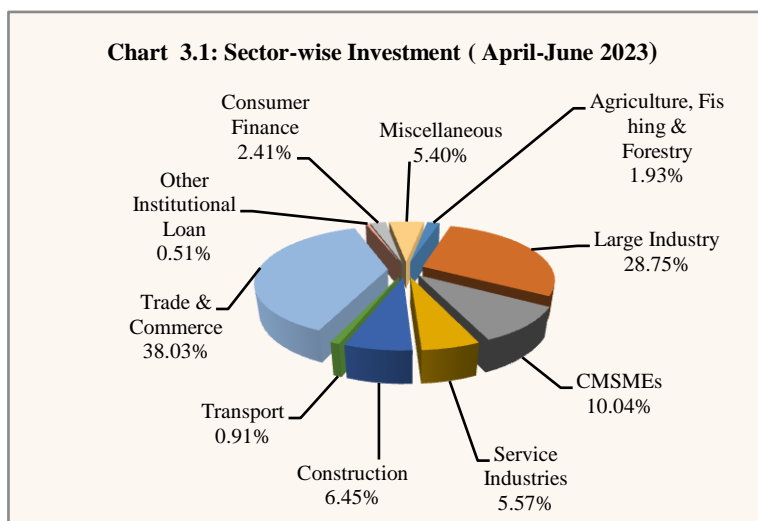
Total investment (loans & advances) of Islamic banking system stood at BDT 4,214.77 billion at the end of June 2023. It was higher by BDT 90.80 billion or 2.20 percent as compared to BDT 4,123.97 billion of end March 2023. It was also higher by BDT 396.48 billion or 10.38 percent as compared to the same quarter of the last year. The share of total investment of Islamic banks accounted for 29.18 percent among total loans & advances of entire banking industry.



Out of total investment of Islamic banking system, 93.90 percent was materialized by 10 full-fledged Islamic banks, 3.19 percent by the Islamic banking branches of conventional banks and the rest 2.91 percent by the Islamic banking windows of conventional banks. Among the 10 full-fledged Islamic banks, Islami Bank Bangladesh Ltd. affixed the highest investment (33.80%) at the end of June 2023 followed by First Security Islami Bank Ltd. (12.96%), EXIM Bank Ltd. (10.72%), Al-Arafah Islami Bank Ltd. (10.11%), Social Islami Bank Ltd. (7.89%), Union Bank Ltd. (5.56%), Shahjalal Islami Bank Ltd. (5.55%), Standard Bank Ltd. (4.16%), Global Islami Bank PLC (2.96%) and ICB Islamic Bank Ltd. (0.19%) [Chart-3].

3.1: Sector-wise Investment

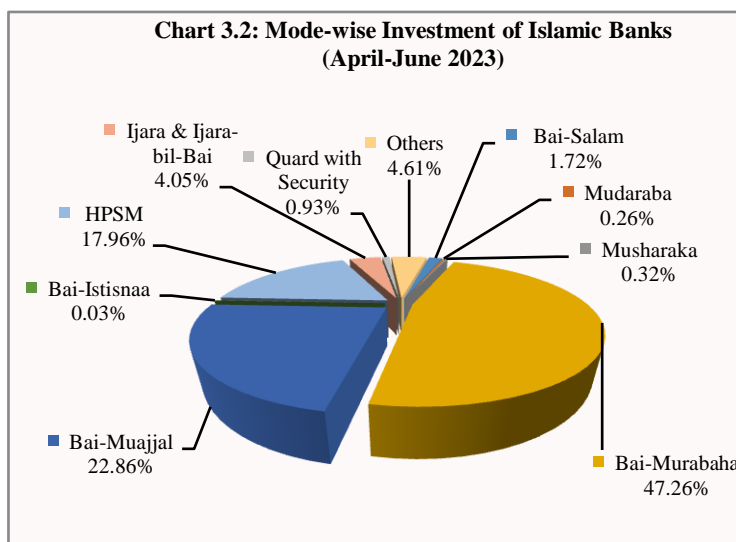
In case of the sector-wise investment, Trade and Commerce sector was secured the highest position (38.03%) among all sectors at the end of June 2023 followed by Large Industry (28.75%), CMSMEs (Cottage, Micro, Small and Medium Enterprises (10.04%), Construction (6.45%),



Miscellaneous (5.40%), Services Industry (5.57%), Consumer Finance (2.41%), Agriculture, Fishing and Forestry (1.93%), Transport (0.91%) and Other Institutional Loan (0.51%), [Chart-3.1].

3.2: Mode-wise Investments

The analysis of mode-wise investment revealed that the highest investment was materialized through Bai-Murabaha (47.26%) at the end of June 2023 followed by Bai-Muajjal (22.86%), HPSM (17.96%), Ijara & Ijara-bil Bai (4.05%), Bai-Salam (1.72%), Quard with Security (0.93%), Musharaka (0.32%), Mudaraba (0.26%), Bai-Istisnaa (0.03%) and Others (4.61%) [Chart-3.2].



3.3: Investment in the Agricultural Sector

Islamic banking system has made significant contributions to financing different sub-sectors of agricultural and rural credit programs. During April-June 2023, investment in agricultural sector financed by the Islamic banking system reached to BDT 20.23 billion. It was higher by BDT 2.26 billion from BDT 17.98 billion of January-March 2023. It was also higher by BDT 2.89 billion of the same quarter of the last year. The share of total agricultural credit of Islamic banks accounted for 17.74* percent among all banks during the quarter under report (Table-3). Summary of investments in agricultural sector under the Islamic banking framework is provided in Table-4.

Table-4: Summary of Investment in Agricultural Sector

Period	Investment in Agricultural Sector (In Billion BDT)						
	Investment Target	Actual Investment Disbursement	Target Achieved (%)	Recovery	Outstanding Investment	Overdue Investment	Classified Investment
1	2	3	4	5	6	7	8
April-June 2023 ^P	22.63	20.23	89.42	19.04	52.03	23.50	21.09
January-March 2023	20.13	17.98	89.29	17.64	49.02	22.90	21.21
April-June 2022	18.62	17.34	93.15	15.88	52.30	21.20	21.00
Quarterly Changes	2.50	2.26	-	1.40	3.01	0.59	-0.12
Annual Changes	4.01	2.89	-	3.16	-0.27	2.30	0.09

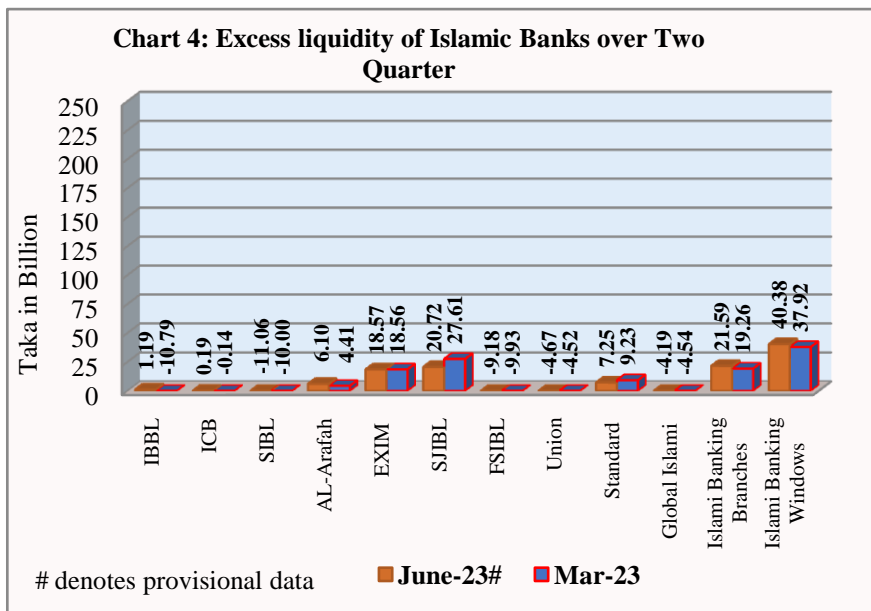
Source: Islamic banks, branches and windows of conventional banks.

*= Excluding Islamic banking branches and windows of conventional banks.

P= Provisional.

4. Liquidity Situation of Islamic Banking

Excess liquidity of Islamic banking system stood at BDT 86.90 billion at the end of June 2023 which was higher by BDT 9.82 billion or 12.75 percent as compared to the end of March 2023. But it was lower by BDT 173.19 billion or 66.59 percent than that of the same quarter of the last year. The excess liquidity of full-fledged Islamic banks,

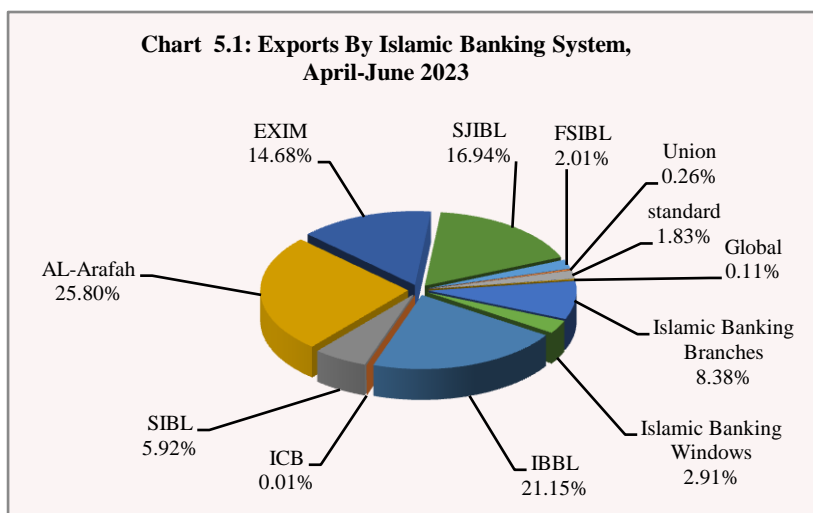


Islamic banking branches and windows of conventional banks stood at BDT 24.93 billion, 21.59 billion and 40.38 billion respectively. Summary of liquidity situation of Islamic banking system is shown in chart-4.

5. Foreign Exchange Dealings and Remittance Mobilizations by Islamic Banking

5.1: Exports

Total exports receipts by the Islamic banks increased by BDT 83.23 billion or 28.45 percent to BDT 375.75 billion during April-June 2023 from BDT 292.53 billion of January-March 2023. But it was somewhat lower by BDT 25.15 billion or 6.27 percent than that of the same quarter of 2022. Among the Islamic banking

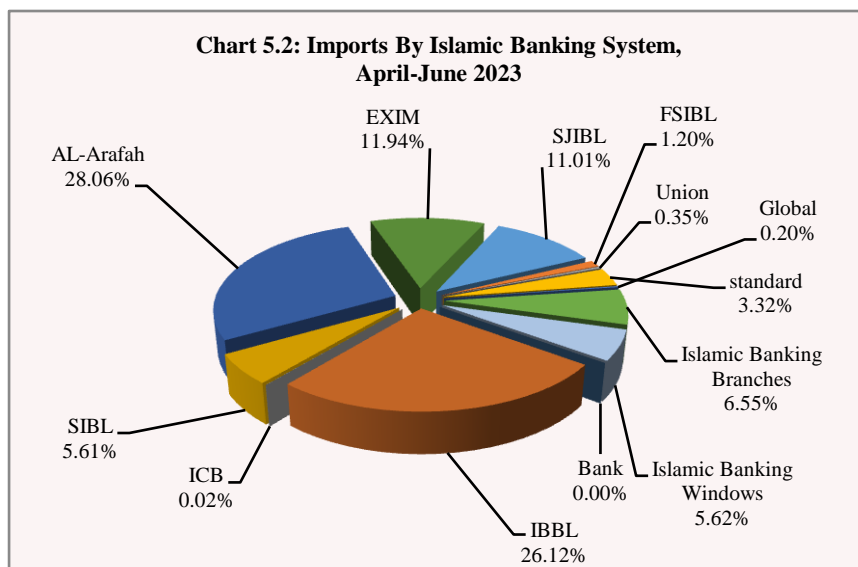


system, Al-Arafah Islami Bank Ltd. secured the top position (25.80%) in exports earning during April-June 2023, followed by Islami Bank Bangladesh Ltd. (21.15%), Shahjalal Islami Bank (16.94%), EXIM Bank Ltd. (14.68%), Islamic banking branches of conventional banks (8.38%), Social Islami Bank Ltd (5.92%), First Security Islami Bank Ltd (2.01%), Islamic banking windows

(2.91%), Standard Bank Ltd. (1.83%), Union Bank Ltd (0.26%), Global Islami Bank PLC (0.11%) and ICB Islamic Bank (0.01%) [Chart-5.1].

5.2: Imports

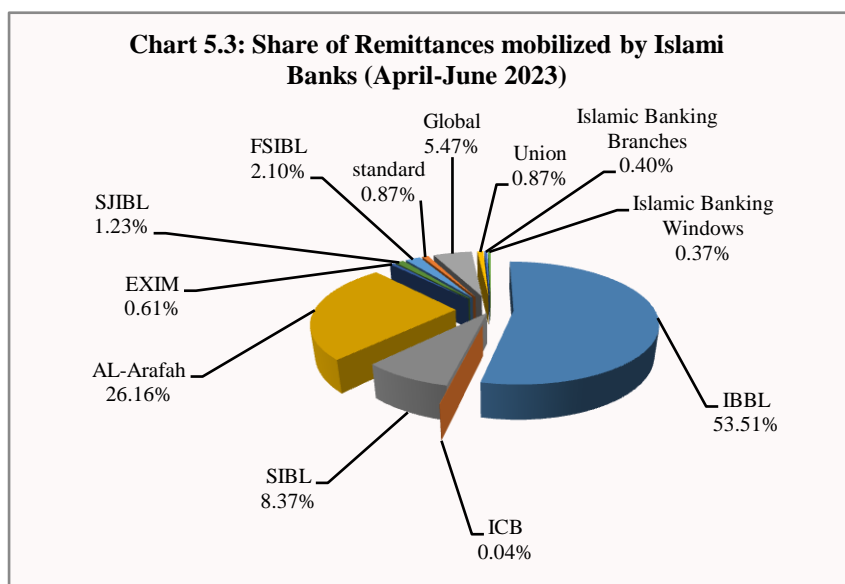
Total Imports payments by the Islamic banking system stood higher by BDT 59.53 billion or 14.30 percent to BDT 475.85 billion during April-June 2023 from BDT 416.32 billion of January-March 2023. But it was lower by BDT 214.34 billion or 31.06 percent than that of the same quarter of 2022. Among the Islamic



banking system, Al-Arafah Islami Bank Ltd. secured the top position (28.06%) in Imports payments during April-June 2023, followed by Islami Bank Bangladesh Ltd. (26.12%), EXIM Bank Ltd. (11.94%), Shahjalal Islami Bank (11.01%), Islamic banking branches of conventional banks (6.55%), Islamic banking windows (5.62%), Social Islami Bank Ltd (5.61%), Standard Bank Ltd. (3.32%), First Security Islami Bank Ltd (1.20%), Union Bank Ltd (0.35%), Global Islami Bank PLC (0.20%) and ICB Islamic Bank (0.02%) [Chart-5.2].

5.3: Remittance Mobilizations

Islamic banking sector is playing a vital role in collecting foreign remittances and distributing it among beneficiaries across the country. Total remittances mobilized by the Islamic banks decreased by BDT 84.17 billion or 27.50 percent to BDT 221.92 billion during April-June 2023 from



BDT 306.09 billion of January-March 2023. But it was higher by BDT 64.76 billion or 41.20 percent

than that of the same quarter of 2022. Among the Islamic banking system, Islami Bank Bangladesh Ltd. secured the top position (53.51%) in remittance mobilization during April-June 2023, followed by Al-Arafah Islami Bank Ltd. (26.16%), Social Islami Bank Ltd (8.31%), Global Islami Bank PLC. (5.47%), First Security Islami Bank Ltd (2.10%), Shahjalal Islami Bank Ltd. (1.23%), Union Bank Ltd (0.87%), Standard Bank Ltd. (0.87%), EXIM Bank Ltd. (0.61%), Islamic banking branches of conventional banks (0.40%), Islamic banking windows (0.37%) and ICB Islamic Bank Ltd. (0.04%) [Chart-5.3].

6. Corporate Social Responsibility (CSR) of Islamic Banking

Islamic banks undertake and implement various types of social programs under Corporate Social Responsibility (CSR) activities. Sources of funds of Islamic banks available for CSR activities include *Zakat*, compensation charges (penal charges from defaulting investment clients), and Shariah-permitted other sources of earnings. These funds are spent among different types of education, training, health, and charity-based organizations in Bangladesh. Islamic banks serve the deprived and disadvantaged people those who are remain outside the purview of the conventional banking system due to extreme poverty. The Islamic banks always try to make financial transactions based on human necessities and embark upon productivity-oriented projects or activities to reduce the incidence of poverty. Expenditure on CSR activities during April-June 2023 stood at BDT 1.23 billion which was BDT 0.70 billion in January-March 2023 and BDT 2.14 billion in April-June 2022.

7. Sustainable and Green financing

The Government of Bangladesh introduced the Green Financing Policy and encouraged banks and FIs to participate in offering green financing to promote environment-friendly economic activities for sustainable economic development in Bangladesh. In line with government's efforts BB has also been directed all banks and FIs to accommodate Environmental, Social and Governance (ESG) issues in their financing portfolio and credit/investment management through its policies and regulations.

Along with conventional banks, Islamic banks in Bangladesh are also playing the crucial role in promoting green financing, which refers to financial products and services to support environmentally sustainable projects and initiatives. Green financing of the Islamic banking system stood at 157.18 billion at the end of June 2023, which was 3.73 percent of their total financing. It was 154.83 billion at the end of March 2023 and 129.35 billion at the end of June 2022, which shown in Table -5.

Table-5: Green Financing by Islamic Banks

(In Billion BDT)

Name of Banks	June-2023	March -2023	June-2022
A) Full-fledged Islamic Banks			
Islami Bank Bangladesh Limited	105.90	105.81	102.01
ICB Islamic Bank Limited	0.00	0.00	0.00
Social Islami Bank Limited	1.58	0.00	8.95
Al-Arafah Islami Bank Limited	6.24	6.18	5.24
EXIM Bank Limited	36.96	36.78	11.34
Shahjalal Islami Bank Limited	0.72	0.43	0.59
First Security Islami Bank Limited	0.18	0.12	0.10
Union Bank Limited	0.00	0.18	0.00
Standard Bank Limited	1.16	1.17	1.08
Global Islami Bank PLC	4.30	4.09	0.00
Sub Total	157.06	154.76	129.31
B) Islamic Branches of CBs	0.02	0.02	0.02
C) Islamic Windows of CBs	0.10	0.05	0.02
Total (A+B+C)	157.18	154.83	129.35

Source: Islamic banks, branches and windows of conventional banks.

CB = Conventional Banks.

8. Islamic Securities

This section focuses on Bangladesh Government Islamic Securities comprise of Sovereign Investment Sukuk and Bangladesh Government Islamic Investment Bond (BGIIB).

8.1: Sovereign Investment Sukuk

Bangladesh Bank on behalf of the Government has issued maiden sovereign investment Sukuk on 28 December, 2020 to raise BDT 80.00 billion for the implementation of the safe water supply project across the country. The overall cost of the project was estimated at BDT 88.51 billion of which BDT 8.51 billion has been provided by the Government². The Ministry of Finance and Bangladesh Bank are playing the role of originator and the special purpose vehicle (SPV) respectively for the Sukuk. In first phase, the Government collected BDT 40.00 billion for the projects through the auction held on 28 December, 2020 at 4.69 percent profit rate. The second auction was held in 9 June, 2021 to raise the remaining amount of the fund worth BDT 40.00 billion at 4.69 percent profit rate .

For implementation of the “Need Based Infrastructure Development of Government Primary Schools Project (1st Phase)” the third auction of Sukuk was held in 29 December, 2021 to raise BDT 50.00 billion at 4.65 percent profit rate. The fourth auction of Sukuk was held in 20 April, 2022 to raise BDT 50.00 billion for “Important Rural Infrastructure Development Project on Priority Basis (IRIDP-3)” at 4.75 percent profit rate .

The total amount of Sukuk issued stood at BDT 180.00 billion till end of June 2023.

Profits of the Sukuk are paid to the investors on a half-yearly basis. An investor needs to invest a minimum of BDT 10,000 in this security and there is no upper limit. Banks, corporate institutions and individuals are permitted to invest in the Sukuk and it matured in five years.

²https://www.bb.org.bd/mediaroom/notice/sukuk_prospectus.pdf

8.2: Bangladesh Government Islamic Investment Bond (BGIIB)

Bangladesh Government Islamic Investment Bond (BGIIB) introduced in 2004. It was the only approved Shariah compliant securities other than the newly issued Sukuk to maintain the SLR by the Islamic banks. However, the limitation of the BGIIB is that Government cannot borrow from BGIIB fund due to absence of Shariah compliant projects. Given this, only Islamic banks can borrow from this fund in case of liquidity shortage which is mobilized through selling of the BGIIB securities based on mudarabah principle. Islamic banks avail this fund at a provisional rate of profit based on its mudarabah short notice deposit accounts which are adjusted after finalization of accounts and rate of profit of the concerned Islamic banks. Table-6 shows the trend of sale, financing and net balance of BGIIB from FY10 to FY23.

Table-6: Bangladesh Government Islamic Investment Bond

(In Billion BDT)

Year	Sale	Financing	Net Balance
FY23*	81.36	72.04	9.32
FY22	86.64	33.49	53.14
FY21	170.21	12.74	157.47
FY20	131.88	67.82	64.06
FY19	107.11	84.80	22.31
FY18	92.95	81.20	11.75
FY17	84.01	54.70	29.31
FY16	122.94	37.80	85.95
FY15	135.84	25.40	110.44
FY14	121.34	24.37	96.96
FY13	107.13	67.78	39.35
FY12	31.48	31.26	0.22
FY11	25.30	22.80	2.50
FY10	23.40	15.40	8.00

Source: Annual Report, Bangladesh Bank, Various issues.

*= Monetary Policy Department, Bangladesh Bank.

9. Major Initiatives Taken by Bangladesh Bank for Development of Islamic Banks and Islamic Financial Institutions during April-June 2023

- In order to maintain the momentum in financial activities by keeping all businesses in operation including manufacturing and service sectors, BB has recently introduced new loan repayment schedule and policy guidelines considering the difficulties faced by the borrowers due to price hike of all commodities caused by prolonged global war situation (BRPD Circular No. 11, Dated: 20/06/2023)³.
- For ensuring efficient debt management and to introduce a market based interest/profit rate system for bank loans BB has introduced the following guidelines:
 - i) A reference rate will determine by Bangladesh Bank on the basis of the market interest of 182-days Treasury Bills which will be called SMART (Six-Months Moving Average Rate of Treasury Bill). This SMART index determined by the Debt

Management Department of BB will publish on the BB website on the first working day of every month.

- ii) Banks can add maximum 3% margin with SMART to determine their interest/profit rate of loans.
- iii) In case of Agricultural and rural credit maximum 2% margin can be added with SMART.
- iv) In case of CMSME, personal and auto loans under consumer financing, banks can be changed 1% supervision charge in addition with the above interest/profit rate on yearly basis.

Along with all scheduled banks, Shariah based Islamic banks may follow the said margin in their investments (BRPD Circular No. 09, Dated: 19/06/2023)³.

- In order to continue the ongoing expanding trend of the country's export-oriented industry, an Export Facilitation Pre-financing Fund (EFPF) amounting BDT100.00 billion is introduced for liquidity support of this sector. In this regard, all scheduled banks including Islamic banks have been suggested to follow the guidelines issued through BRPD (BRPD Circular Letter No-11, Date: 25/4/2023)³.
- Government issued 5-years IZARA SUKUK amounted BDT 80 billion for “safe water supply in the whole country” on 23 December 2020 which was tradable only at the face value. Now BB has allowed to trade it in the secondary market at an agreed price according to the conditions of the prospectus as the project has already been implemented of its one-third portion (DMD Circular Letter No-04, Date: 30/04/2023)³.

10. Concluding Remarks and Recommendations

Islamic banking system has been playing significant role in mobilizing deposits and financing in various economic activities in Bangladesh since its inception. At present, Islamic banking system has been representing more than 25 percent share of deposit and 29 percent share of investment of the total banking sector. The other systems of Islamic financial sector such as Islamic capital market, Islamic insurance (Takaful) and microfinance sector may also flourish systematically if supportive policies are adopted and implemented.

³ For details: https://www.bb.org.bd/mediaroom/circulars/circular_letters.pdf

Although Islamic banking activities are growing in Bangladesh, the number of rural branches of full-fledged Islamic banks has not kept pace with demand. They should also focus more on expanding their outreach into rural areas.

Islamic banks should invest more in socially beneficial industries, particularly in agriculture and small businesses. The investments made by Islamic banks in ideal Islamic modes like Mudaraba and Musharaka are still at a minimal level. Given this, Islamic banks should pay more attention to develop proper guidelines and policies to promote investments under Mudaraba and Musharaka modes. Islamic banks may also explore new customers in microfinance projects, supporting woman entrepreneurs and meeting the financial needs for government agencies. This will give Islamic banks a great advantage to flourish.

To make efficient use of excess liquidity of the Islamic banking sector, more innovative Islamic money market and capital market products should be introduced. As Islam prohibits Riba (interest), Islamic banks cannot invest in interest-bearing government treasury bills and bonds currently existing in the market. So, the recent introduction of Sukuk and its huge responses from the investors indicate that it will facilitate smooth liquidity management of Islamic banks which may also help deficit financing of the government budget and promote Islamic capital market in the long run.

The needs for creating new Islamic financial instruments and modes, and developing the current ones can only be met by amelioration of employee's skills and knowledge through scientific research and training. So, Islamic banks should strongly focus on these issues. Efforts also need to be intensified professionally to further enhance its competitiveness to occupy larger share in the local as well as global financial markets.

The amount of green financing of Islamic banking system is not significant relative to their total financing. In order to contribute in green financing efficiently, Islamic banks in Bangladesh may align their strategies and operations with environmental sustainability goals of the government and properly follow the guidelines of BB as well.

Expenditures on CSR activities of Islamic banks are still not impressive. So, Islamic banks should enhance their CSR activities for socio-economic development aiming to serve humanity through different philanthropic activities giving emphasis on health, education, disaster management, rehabilitation, poverty eradication and so on.