

Quarterly Report on Islamic Banking in Bangladesh¹

January-March 2023



Islamic Banking Wing
Research Department
Bangladesh Bank

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Quarterly Report on Islamic Banking in Bangladesh

January-March 2023

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Highlights: Quarterly Report on Islamic Banking in Bangladesh

January-March 2022

Total Deposits	Total deposits of Islamic banking system reached to BDT 4116.31 billion at the end of March 2023 with an increase of BDT 16.82 billion or 0.41 percent as compared to the end of December 2022. It was also higher by BDT 119.51 billion or 2.99 percent as compared to the same quarter of the last year. The share of total deposits of Islamic banks accounted for 27.02 percent of total deposits of the entire banking sector during the period under report.
Total Investment	Total Investment (loans & advances) of Islamic banking system stood at BDT 4123.97 billion at the end of March 2023 which went up by BDT 71.95 billion or 1.78 percent and BDT 517.48 billion or 14.35 percent as compared to the end of December 2022 and the end of same quarter of the last year respectively. The share of total investment of Islamic banks accounted for 28.15 percent of total loans & advances of the whole banking sector.
Investment-Deposit Ratio	At the end of March 2023, Investment-Deposit ratio of the Islamic banks stood at 0.92 (excluding Export Development Fund (EDF) and refinance) which was same at the end of December 2022 but higher than 0.90 of end March 2022.
Excess Liquidity	Excess liquidity of Islamic banks stood at BDT 77.08 billion at the end of March 2023 which was lower by BDT 51.64 billion or 40.12 percent and BDT 222.91 billion or 74.31 percent than that of the end of December 2022 and the same period of the last year respectively.
Exports	Total exports earned by the Islamic banks stood at BDT 292.53 billion during January-March 2023, which was lower by BDT 48.45 billion or 14.21 percent and BDT 37.98 billion or 11.49 percent than that of the previous quarter and the same quarter of 2022 respectively.
Imports	Total Imports payments by the Islamic banking system stood at BDT 416.32 billion during January-March 2023, which was higher by BDT 38.08 billion or 10.07 percent but lower by BDT 135.88 billion or 24.61 percent than that of the previous quarter and the same quarter of 2022 respectively.
Total Remittances	Total remittances mobilized by the Islamic banks stood at BDT 306.09 billion during January-March 2023, which was higher by BDT 49.19 billion or 19.15 percent and BDT 171.39 billion or 127.24 percent than that of the previous quarter and the same quarter of 2022 respectively. Islamic banks have contributed 54.76 percent share of total remittances mobilization by the entire banking sector during January-March 2023.
Branches	The number of branches of Islamic banks including Islamic branches/windows of conventional commercial banks extended to 2234 at the end of March 2023 which was 2217 at the end of December 2022 and 2154 at the end of March of the last year.
Manpower	Total employment in the Islamic banks stood at 50143 at the end of March 2023 which was 49851 at the end of December 2022 and 47927 at the end of March 2022.

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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 strong public demand and policy supports from the Bangladesh Bank.

Brief overview on Islamic Banking

At the end of March 2023, there are 10 full-fledged Islamic banks in Bangladesh operating with 1661 branches while there were total of 11165 branches of the whole banking system. In addition, 23 Islamic banking branches of 11 conventional commercial banks and 550 Islamic banking windows of 13 conventional commercial banks are also providing Islamic financial services in Bangladesh.

Table 1: Number of Islamic Banks, Branches and Windows

Bank Name Branches	Full-fledged Islamic Banks	Islamic Banking Branches in Conventional Banks	Islamic Banking Windows in Conventional Banks
1	Islami Bank Bangladesh Limited (394)	The City Bank Limited (1)	Sonali Bank Limited (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 (209)	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 (138)	NRB Bank Limited (1)	Midland Bank Limited (1)
10	Global Islami Bank Limited (99)	One Bank Limited (2)	NRBC Bank Limited (268)
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)

Sources: Data of respective banks. Note: Figure in parentheses shows number of branches and windows of Islamic 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: January-March 2023

Islamic Banking has significant contributions towards the growth and economic development of Bangladesh. The system seems progressively attractive and profitable 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 1.1 and is briefly discussed below:

Total deposits in Islamic banking stood at BDT 4116.31 billion at the end of March 2023 with an increase of BDT 16.82 billion or 0.41 percent as compared to the end of December 2022. It was also higher by BDT 119.51 billion or 2.99 percent as compared to the same quarter of the last year.

Total investment (loans & advances in conventional banking) of Islamic banking stood at BDT 4123.97 billion at the end of March 2023 which went up by BDT 71.95 billion or 1.78 percent and BDT 517.48 billion or 14.35 percent as compared to the end of December 2022 and the end of same quarter of the last year respectively.

Investment-Deposit ratio of the Islamic banks stood at 0.92 at the end of March 2023(Excluding Export Development Fund (EDF) and refinance) which was same at the end of December 2022 but higher than 0.90 of end March 2022.

Excess liquidity of Islamic banking stood at BDT 77.08 billion at the end of March 2023 which was lower by BDT 51.64 billion or 40.12 percent and BDT 222.91 billion or 74.31 percent than that of the end of December 2022 and the same period of the last year respectively.

Total exports receipts by the Islamic banks stood at BDT 292.53 billion during January-March 2023, which was lower by BDT 48.45 billion or 14.21 percent and BDT 37.98 billion or 11.49 percent than that of the previous quarter and the same quarter of 2022 respectively.

Total imports payments by the Islamic banking stood at BDT 416.32 billion during January-March 2023, which was higher by BDT 38.08 billion or 10.07 percent but lower by BDT 135.88 billion or 24.61 percent than that of the previous quarter and the same quarter of 2022 respectively.

Total remittances mobilized by the Islamic banking stood at BDT 306.09 billion during January-March 2023, which was higher by BDT 49.19 billion or 19.15 percent and BDT 171.39 billion or 127.24 percent than that of the previous quarter and the same quarter of 2022 respectively.

The number of branches of Islamic banking including Islamic branches and windows of conventional commercial banks extended to 2234 at the end of March 2023 which was 2217 at the end of December 2022 and 2154 at the end of March of the last year.

Total employment in the Islamic banking stood at 50143 at the end of March 2023 which was 49851 at the end of December 2022 and 47927 at the end of March 2022.

Table 1.1 Basic information on Islamic Banking : January-March 2023

(In Billion BDT)

Indicators of Islamic Banking	January-March 2023 ^P	October-December 2022	January-March 2022	Changes		Changes (%)	
				Quarterly	Annual	Quarterly	Annual
1. Total Deposits*(Outstanding)	4116.31	4099.49	3996.79	16.82	119.51	0.41	2.99
a) Full-fledged Islamic Banks	3795.24	3799.51	3743.55	-4.27	51.69	-0.11	1.38
b) Islamic Banking Branches of CB	153.80	138.83	123.51	14.97	30.29	10.79	24.53
c) Islamic Banking Windows of CB	167.27	161.16	129.74	6.11	37.53	3.79	28.93
2. Total Investment* (Outstanding)	4123.97	4052.02	3606.49	71.95	517.48	1.78	14.35
a) Full-fledged Islamic Banks	3881.01	3835.84	3420.90	45.17	460.11	1.18	13.45
b) Islamic Banking Branches of CB	129.85	105.18	103.90	24.68	25.95	23.46	24.98
c) Islamic Banking Windows of CB	113.11	111.00	81.69	2.10	31.41	1.89	38.45
3. Investment-Deposit ratio[#]	0.92	0.92	0.90	0.00	0.02	0.00	1.96
a) Full-fledged Islamic Banks	0.94	0.93	0.91	0.01	0.03	1.51	3.31
b) Islamic Banking Branches of CB	0.73	0.69	0.84	0.04	-0.11	5.99	-13.07
c) Islamic Banking Windows of CB	0.65	0.65	0.63	0.00	0.02	0.11	3.34
4. Liquidity(Excess (+)/Shortfall (-))	77.08	128.71	299.99	-51.64	-222.91	-40.12	-74.31
a) Full-fledged Islamic Banks	19.90	82.34	251.37	-62.44	-231.48	-75.84	-92.09
b) Islamic Banking Branches of CB	19.26	14.58	18.57	4.69	0.69	32.15	3.74
c) Islamic Banking Windows of CB	37.92	31.80	30.04	6.12	7.87	19.24	26.21
5. Total Exports	292.53	340.98	330.51	-48.45	-37.98	-14.21	-11.49
a) Full-fledged Islamic Banks	271.91	282.35	306.84	-10.44	-34.93	-3.70	-11.38
b) Islamic Banking Branches of CB	13.32	38.27	18.04	-24.95	-4.72	-65.19	-26.14
c) Islamic Banking Windows of CB	7.30	20.35	5.63	-13.06	1.67	-64.15	29.64
6. Total Imports	416.32	378.25	552.20	38.08	-135.88	10.07	-24.61
a) Full-fledged Islamic Banks	378.90	307.33	511.87	71.56	-132.98	23.28	-25.98
b) Islamic Banking Branches of CB	16.64	36.53	21.86	-19.90	-5.22	-54.46	-23.89
c) Islamic Banking Windows of CB	20.79	34.38	18.47	-13.59	2.32	-39.53	12.57
7. Total Remittances	306.09	256.91	134.70	49.19	171.39	19.15	127.24
a) Full-fledged Islamic Banks	304.33	254.03	132.88	50.29	171.45	19.80	129.03
b) Islamic Banking Branches of CB	1.14	1.64	1.05	-0.50	0.09	-30.48	8.26
c) Islamic Banking Windows of CB	0.62	1.23	0.77	-0.61	-0.15	-49.47	-19.17
8. Total Number of Branches	2234	2217	2154	17	80	0.77	3.71
a) Full-fledged Islamic Banks	1661	1659	1679	2	-18	0.12	-1.07
b) Islamic Banking Branches of CB	23	23	41	0	-18	0.00	-43.90
c) Islamic Banking Windows of CB	550	535	434	15	116	2.80	26.73
9. Total Number of Manpower	50143	49851	47927	292	2216	0.59	4.62
a) Full-fledged Islamic Banks	48844	48588	46777	256	2067	0.53	4.42
b) Islamic Banking Branches of CB	495	485	418	10	77	2.06	18.42
c) Islamic Banking Windows of CB	804	778	732	26	72	3.34	9.84

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

1.2 The Market Share of Islamic Banks

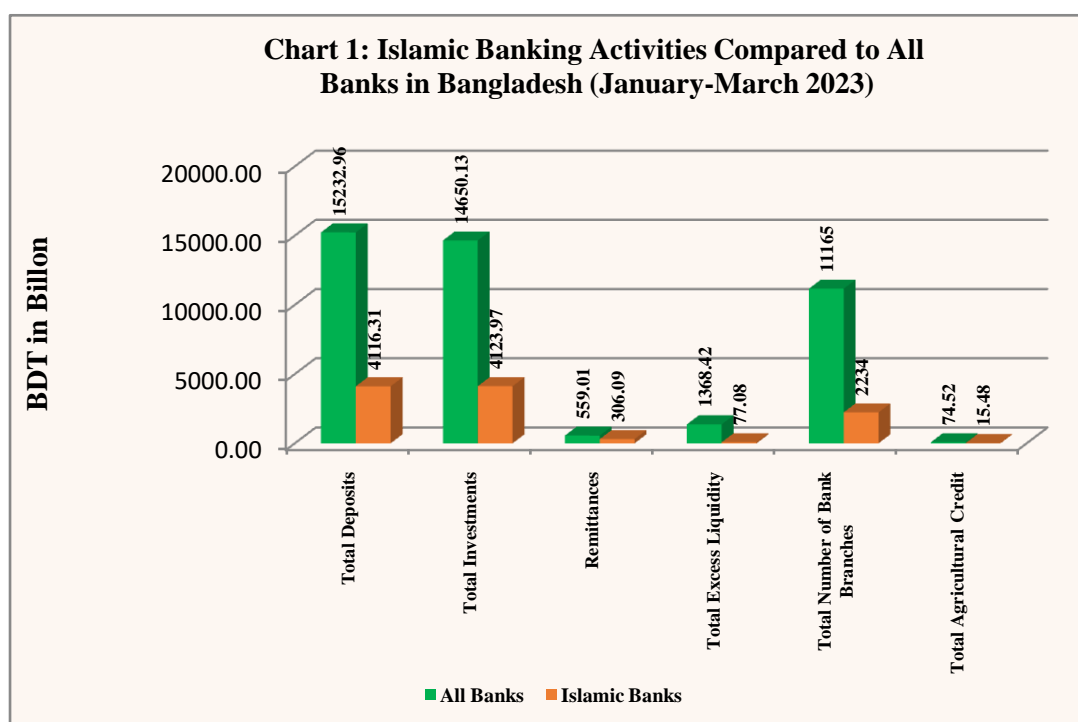
The market share of Islamic banks is successively increasing over the time. At the end of March 2023, Islamic banks represents 27.02 percent share in terms of deposits and 28.15 percent share in terms of investments in the total banking industry which was 25.73 percent and 28.12 percent respectively at the end of December, 2022 [Table 1.2 and Chart 1].

Table 1.2 Performances of Islamic Banks Compared to All Banks in Bangladesh

(In Billion BDT)

Items	January-March 2023 ^P			October-December 2022 ^R
	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	15232.96	4116.31	27.02	25.73
Total investment (loans & advances in conventional banking system)	14650.13	4123.97	28.15	28.12
Remittances	559.01	306.09	54.76	54.53
Total excess liquidity	1368.42	77.08	5.63	6.60
Total number of bank branches	11165	2234	20.01	19.88
Total agricultural credit	74.52	15.48	20.78	16.94

Source: Statistics Department, MPD, BRPD and ACD, Bangladesh Bank. Note: Stock figures are provided on end period basis. P=Provisional, R=Revised.

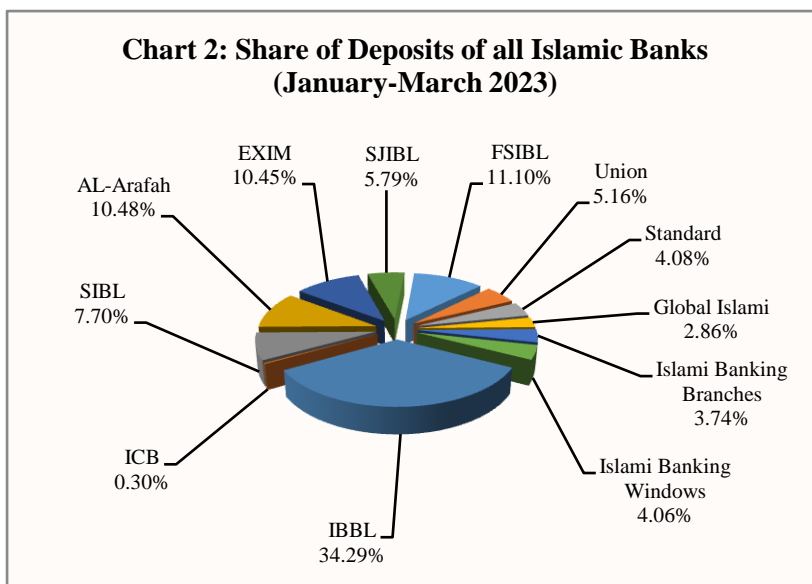


2. Mobilization of Deposits by Islamic Banking

Total deposits in Islamic banking system reached at BDT 4116.31 billion at the end of March 2023 with an increase of BDT 16.82 billion or 0.41 percent as compared to the end of December 2022. It was also higher by BDT 119.51 billion or 2.99 percent as compared to the same quarter of the last year. Among the total deposits, demand deposit was BDT

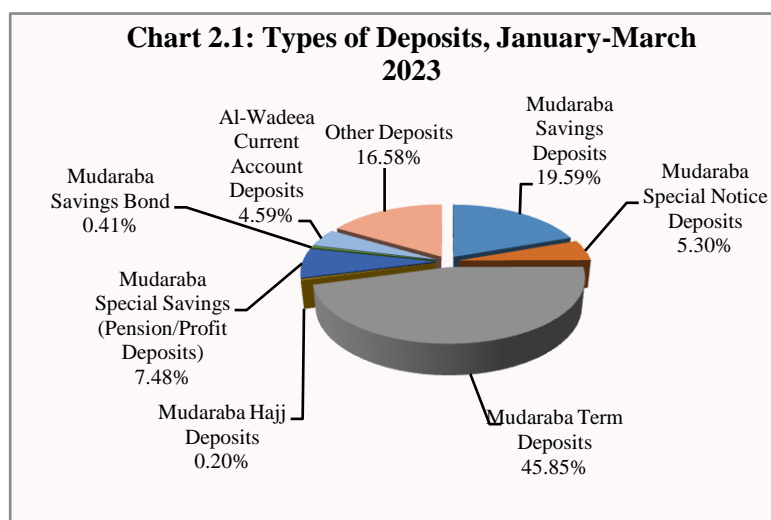
518.18 billion and time deposit was BDT 3598.13 billion. The share of total deposits of Islamic banks accounted for 27.02 percent among whole banking sector at the end of March 2023.

Deposits of 10 full-fledged Islamic banks stood at BDT 3795.24 billion, windows of conventional banks 167.27 billion and branches of conventional banks 153.80 billion at the end of March 2023. Total deposits of the 10 full-fledged Islamic banks accounted for 92.20 percent of deposits of the Islamic banking system. Among all Islamic banks, Islami Bank Bangladesh Limited (IBBL) received the highest amount of deposits (34.29%) followed by First Security Islami Bank Ltd. (11.10%), Al-Arafah Islami Bank Ltd. (10.48%), EXIM Bank Ltd. (10.45%), Social Islami Bank Ltd. (7.70%), Shahjalal Islami Bank Ltd. (5.79%), Union Bank Limited (5.16%), Standard Bank Ltd. (4.08%), Islamic banking windows (4.06%), Islamic banking branches (3.74%), Global Islami Bank (2.86%) and ICB Islamic Bank Limited (0.30 %) [Chart-2].



2.1 Types of Deposits

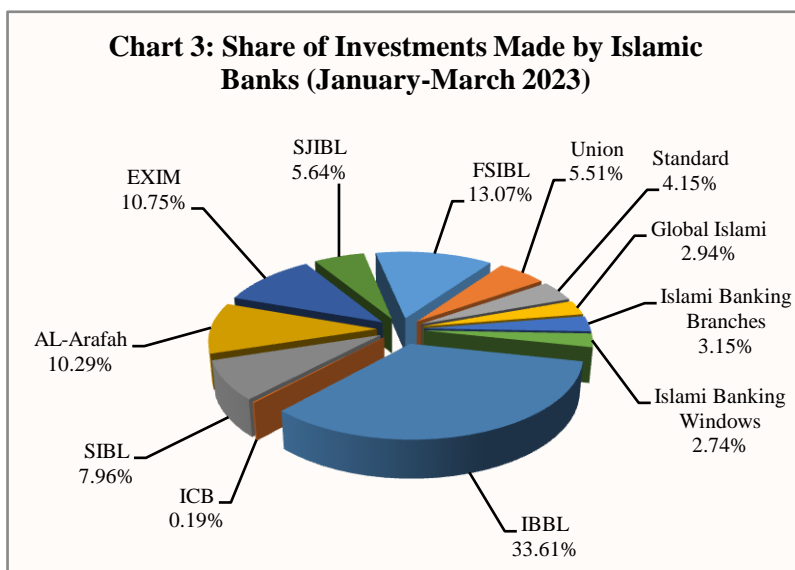
Among different types of deposits of the Islamic banking industry, Mudaraba Term Deposits (MTD) secured the highest position (45.85 %) followed by Mudaraba Savings Deposits (MSD) (19.59%), Other Deposits (16.58%), Mudaraba Special Savings (pension/profit) Deposits



(7.48%), Mudaraba Special Notice Deposits (5.30%), Al-Wadeeah Current Account Deposits (4.59%), Mudaraba Savings Bond (0.41%) and Mudaraba Hajj Deposits (0.20%) during January-March 2023 [Chart-2.1].

3. Investments of Islamic Banking

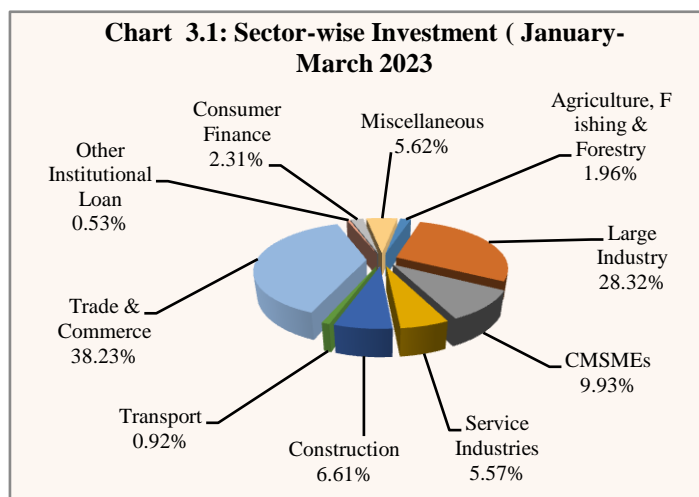
Total investment (loans & advances) of Islamic banking system stood at BDT 4123.97 billion at the end of March 2023 which went up by BDT 71.95 billion or 1.78 percent and BDT 517.48 billion or 14.35 percent as compared to the end of December 2022 and the end of same quarter of the last year respectively. The share of total investment of Islamic banks accounted for 28.15 percent among total loans & advances of entire banking industry.



Out of total investment of Islamic banking system, 94.11 percent was materialized by 10 full-fledged Islamic banks, 3.15 percent by the Islamic banking branches of conventional banks and the rest 2.74 percent by the Islamic banking windows of conventional banks. Among the 10 full-fledged Islamic banks, Islami Bank Bangladesh Ltd. affixed the highest investment (33.61%) at the end of March 2023 followed by First Security Islami Bank Ltd. (13.07%), EXIM Bank Ltd. (10.75%), Al-Arafah Islami Bank Ltd. (10.29%), Social Islami Bank Ltd. (7.96%), Shahjalal Islami Bank Ltd. (5.64%), Union Bank Ltd. (5.51%), Standard Bank Ltd. (4.15%), Global Islami Bank (2.94%) and ICB Islamic Bank Ltd. (0.19%) [Chart-3].

3.1 Sector-wise Investment

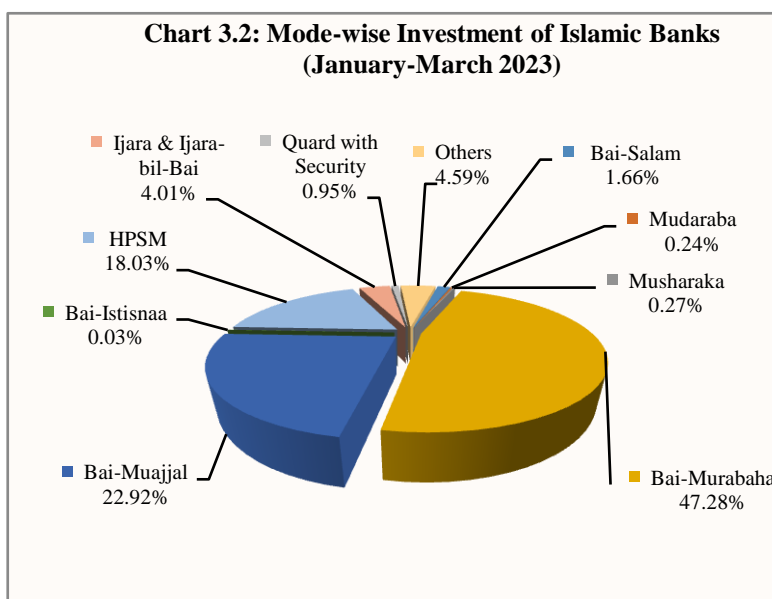
In case of the sector-wise investment, Trade and Commerce sector was secured the highest position (38.23%) among all sectors at the end of March 2023 followed by Large Industry (28.32%), CMSMEs (Cottage, Micro, Small and Medium Enterprises (9.93%), Construction (6.61%),



Miscellaneous (5.62%), Services Industry (5.57%), Consumer Finance (2.31%), Agriculture, Fishing and Forestry (1.96%), Transport (0.92%), and Other Institutional Loan (0.53%), [Chart-3.1].

3.2 Mode-wise Investments

The analysis of mode-wise investment revealed that the highest investment was materialized through Bai-Murabaha (47.28%) at the end of March 2023 followed by Bai-Muajjal (22.92%), HPSM (18.03%), Ijara & Ijara-bil Bai (4.01%), Bai-Salam (1.66%), Quard with Security (0.95%), Musharaka (0.27%), Mudaraba (0.24%), Bai-Istisna (0.03%) and Others (4.59%) [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 January-March 2023, investment in agricultural sector made by Islamic banking system reached at BDT 17.98 billion which was lower by BDT 2.06 billion and BDT 1.04 billion than that of the end of previous quarter and the same quarter of the preceding year respectively. The share of total agricultural credit of Islamic banks accounted for 20.78* percent among all banks during the quarter under report (Table-1.2). Summary of investments in agricultural sector under the Islamic banking framework is provided in Table-3.

Table-3: Summary of Investment in Agricultural Sector

(In Billion BDT)

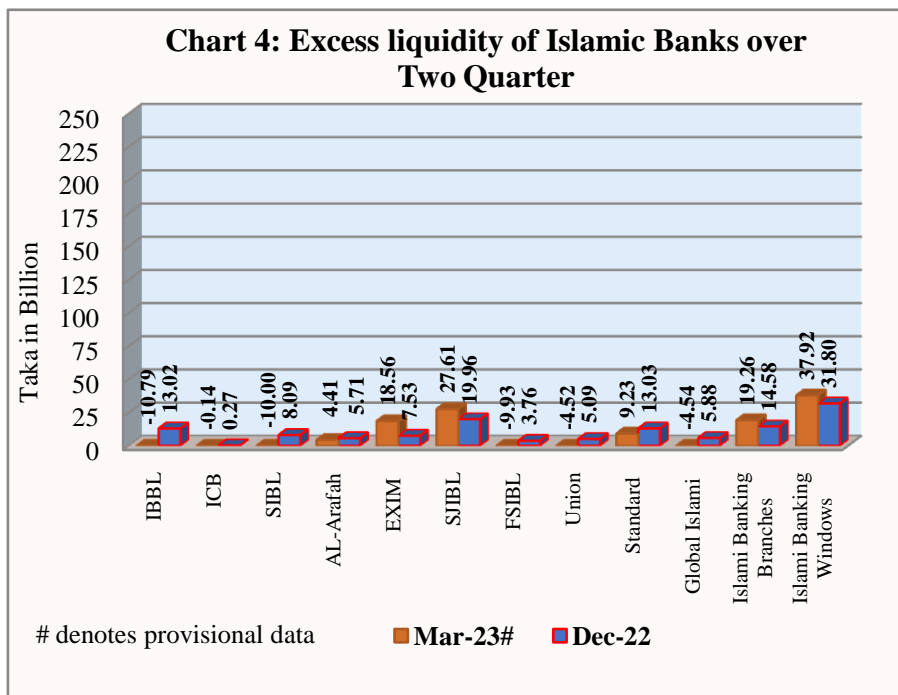
Period	Investment in Agricultural Sector						
	Investment Target	Actual Investment Disbursement	Target Achieved (%)	Recovery	Outstanding Investment	Overdue Investment	Classified Investment
1	2	3	4	5	6	7	8
January-March 2023 ^P	20.13	17.98	89.29	17.64	49.02	22.90	21.21
October-December 2022	21.45	20.03	93.40	18.98	51.26	23.11	21.49
January-March 2022	18.55	19.01	102.49	16.04	49.90	7.08	17.60
Quarterly Changes	-1.32	-2.06	-	-1.34	-2.24	-0.21	-0.28
Annual Changes	1.58	-1.04	-	1.60	-0.88	15.82	3.61

Source: Islamic banks, branches and windows of conventional banks. P= Provisional.

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

4. Liquidity Situation of Islamic Banking

Excess liquidity of Islamic banking system stood at BDT 77.08 billion at the end of March 2023 which was lower by BDT 51.64 billion or 40.12 percent and BDT 222.91 billion or 74.31 percent than that of the end of December 2022 and the same period of the last year respectively. The excess liquidity of full-fledged Islamic banks, Islamic

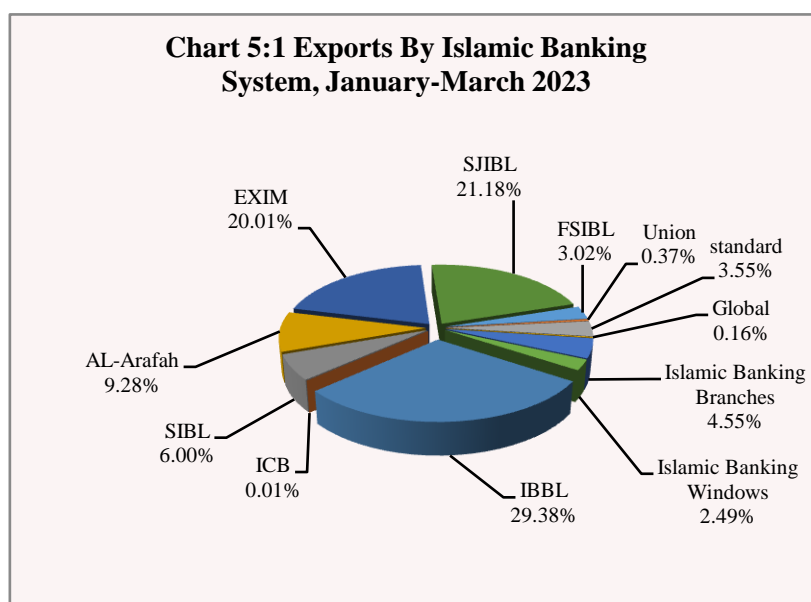


banking branches and windows of conventional banks stood at BDT 19.90 billion, 19.26 billion and 37.92 billion respectively. Summary of liquidity situation of Islamic banking system is shown in chart-4.

5. Foreign Exchange Dealings and Remittance Mobilizations by Islamic Banking

5.1 Exports

Total exports receipts by the Islamic banks stood at BDT 292.53 billion during January-March 2023, which was lower by BDT 48.45 billion or 14.21 percent and BDT 37.98 billion or 11.49 percent than that of the previous quarter and the same quarter of 2022 respectively. Among the Islamic banking system, Islami Bank Bangladesh

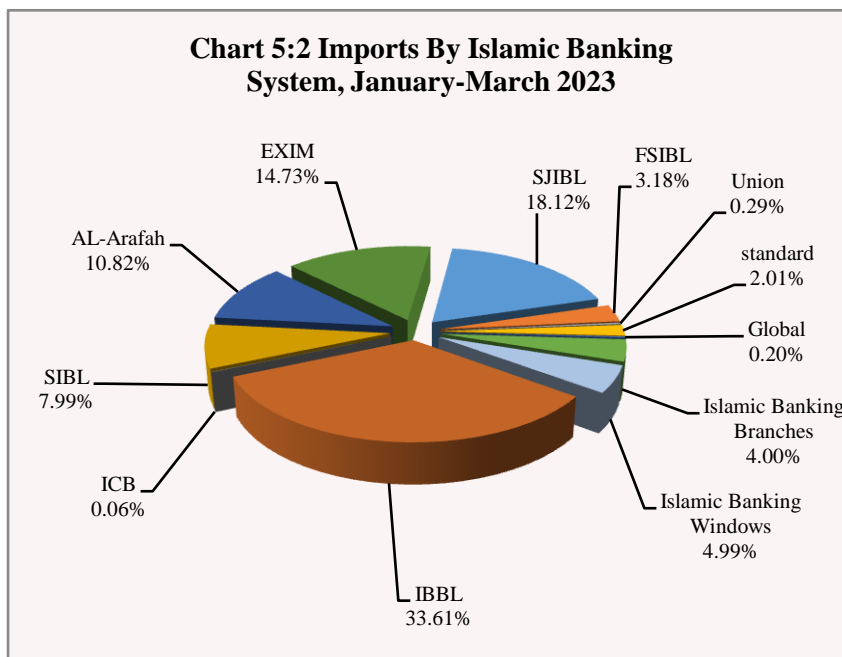


Ltd. secured the top position (29.38%) in exports earning during January-March 2023, followed by Shahjalal Islami Bank (21.18%), EXIM Bank Ltd. (20.01%), Al-Arafah Islami Bank Ltd. (9.28%),

Social Islami Bank Ltd (6.00%), Islamic banking branches of conventional banks (4.55%), Standard Bank Ltd. (3.55%), First Security Islami Bank Ltd (3.02%), Islamic banking windows (2.49%), Union Bank Ltd (0.37%), Global Islami Bank (0.16%), and ICB Islamic Bank (0.01%) [Chart-5.1].

5.2 Imports

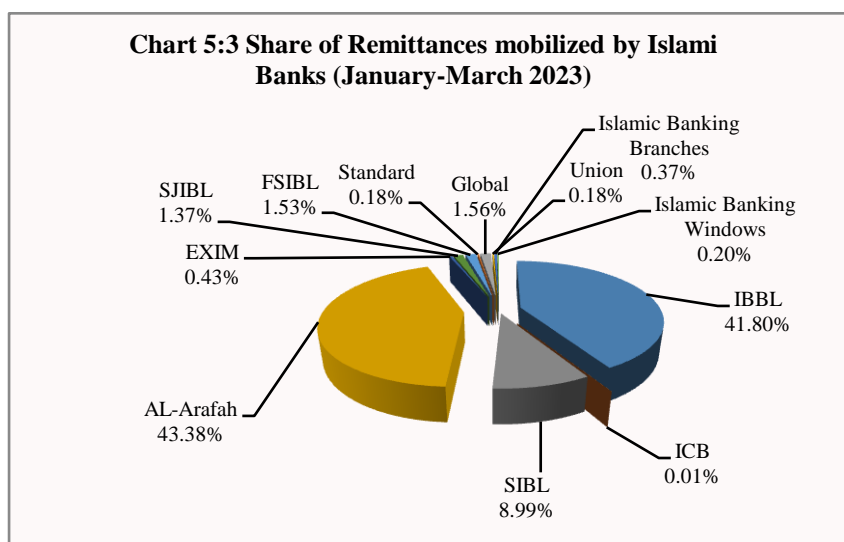
Total Imports payments by the Islamic banking system stood at BDT 416.32 billion during January-March 2023, which was higher by BDT 38.08 billion or 10.07 percent and lower by BDT 135.88 billion or 24.61 percent than that of the previous quarter and the same quarter of 2022 respectively. Among the Islamic banking system, Islami Bank Bangladesh



Ltd. secured the top position (33.61%) in Imports during January-March 2023, followed by Shahjalal Islami Bank (18.12%), EXIM Bank Ltd. (14.73%), Al-Arafah Islami Bank Ltd. (10.82%), Social Islami Bank Ltd (7.99%), Islamic banking windows (4.99%), Islamic banking branches of conventional banks (4.00%), First Security Islami Bank Ltd (3.18%), Standard Bank Ltd. (2.01%), Union Bank Ltd (0.29%), Global Islami Bank (0.20%), and ICB Islamic Bank (0.06%) [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 remittance mobilized by the Islamic banking system stood at BDT 306.09 billion during January-March 2023, which was higher



by BDT 49.19 billion or 19.15 percent and BDT 171.39 billion or 127.24 percent than that of the previous quarter and the same quarter of 2022 respectively. Among the Islamic banking system, Al-Arafah Islami Bank Ltd. secured the top position (43.38%) in remittance mobilization during January-March 2023, followed by Islami Bank Bangladesh Ltd. (41.80%), Social Islami Bank Ltd (8.99%), Global Islami Bank Ltd. (1.56%), First Security Islami Bank Ltd (1.53%), Shahjalal Islami Bank Ltd. (1.37%), EXIM Bank Ltd. (0.43%), Islamic banking branches of conventional banks (0.37%), Islamic banking windows (0.20%), Union Bank Ltd (0.18%), Standard Bank Ltd. (0.18%), and ICB Islamic Bank Ltd. (0.01%) [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 January-March 2023 stood at BDT 0.70 billion which was BDT 2.20 billion in October-December 2022 and BDT 0.89 billion in January-March 2022.

7. Islamic Securities

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

7.1 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 is estimated at BDT 88.51 billion of which BDT 8.51 billion will be 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. Investors submitted bids worth BDT 151.53 billion during the auction which indicates that the issue has been oversubscribed by about four times. The second auction was held in 9 June, 2021 to raise remaining amount of fund worth BDT 40.00 billion which was also oversubscribed by 8 times.

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

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. It was oversubscribed by 5 times. The forth auction of sukuk was held in 19 April, 2022 to raise BDT 50.00 billion for “Important Rural Infrastructure Development Project on Priority Basis (IRIDP-3)”. It was oversubscribed almost 3 times. The huge oversubscription indicates vivid prospect of sukuk market in Bangladesh.

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

The Sukuk holders would receive a profit of 4.69 percent on their aggregate investment. Profits are paid to 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 is matured in five years.

7.2 Bangladesh Government Islamic Investment Bond (BGIIB)

Bangladesh Government Islamic Investment Bond (BGIIB) introduced in 2004. It was the only approved Shariah compliant security 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 7 shows the trend of sale, financing and net balance of BGIIB from FY10 to FY22.

Table 7: Bangladesh Government Islamic Investment Bond

(In Billion BDT)			
Year	Sale	Financing	Net Balance
FY23*	79.67	74.04	5.62
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. * Up to March, 2023.

8. Major Initiatives Taken by Bangladesh Bank for Development of Islamic Banks and Islamic Financial Institutions during January-March 2023

- It is observed that Export Development Fund (EDF) loans are not being realized in accordance with the instructions. In this situation, BB has decided that penal interest (compensation in case of Shariah- based Islamic banking) will be charged by Bangladesh Bank to ADs at 4.00% pa above the prevailing interest rate on overdue amount of EDF loans for the delayed period (FE Circular No. 05, Dated: 19/03/2023)³.
- BB has instructed to all banks and financial institutions that the amount of CMSME loans and advances has to be increased to at least 25% by 2024 with at least 1% growth in every year. The target rate of achievement by the end of 2024 has been fixed (SMESPD Circular Letter No-04, Dated: 16/03/2023)³.
- In order to facilitate ICT companies, freelancers and other cross border service providers to bring their income in foreign currency into the country, Authorized Dealers (ADs) are advised to provide Exporter's Retention Quota (ERQ) account services to service exporters so as to enable them to carry out remittance transactions from these accounts. ADs are also advised to issue international credit/debit/prepaid cards for nominated officials of companies and freelancers against the balances held in their ERQ accounts for online payments abroad against bonafide requirements (FE Circular Letter No. 02 Dated: 05/02/ 2023)³.
- It has been decided that interest rate on Export Development Fund (EDF) loans to Authorized Dealers (ADs) will be charged by Bangladesh Bank at 3.00% pa, while ADs will charge interest to manufacturer-exporters at 4.50% pa for disbursements until further instruction is issued. Other relevant instructions on EDF shall remain unchanged (FE Circular No. 02, Dated: 01/02/2023)³.
- Instruction has been given that selected small default loans amounting up to Taka 500000/- in agriculture and CMSMEs may be write-off without filing any case according to the Artha Rin Adalat Ain, 2003, if it is not necessarily prosecutable. Islamic Shariah-based banks may take necessary measures following the mentioned principles in their investment. Other instructions mentioned in BRPD Circular No-01/2019 should be ensured (BRPD Circular No-01, Dated; 05/01/2023)³.
- Bangladesh Bank has established an export-oriented revolving pre-financing fund named 'Export Facilitation Pre-financing Fund'(EFPF) containing 100.0 billion Taka out of its own fund for supporting import / local procurement of raw materials for production of export-oriented

industries. All Scheduled banks may take part to join in the participation agreement by following terms and conditions (BRPD Circular No-01, Dated: 01/01/2023)³.

9. 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 27 percent share of deposit and 28 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.

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 sectors of customers in microfinance projects, supporting woman entrepreneurs and meeting the financial needs for government agencies, which are not currently served by conventional banks. This will give Islamic banks a great advantage to flourish.

To make use of Islamic banks' excess liquidity, more money market and capital market products must 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.

To address Shariah compliance issues of Islamic financial industry properly, adoption of Shariah standards at par with international accounting and auditing organizations will be useful. In this regard, Islamic banks and conventional banks having Islamic banking branches and windows may undertake necessary action to become the member of Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

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

The performance of the Islamic banks could be further improved by upgrading the quality of human resources by enhanced spending on research and training and prepare the manpower of this sector as Islamic bank professionals to capture Shariah compliance issues of Islamic financial industry properly. 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 market.

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.

In line with BB's efforts Islamic banks, branches and windows should adopt all kinds of technological innovations and digital banking for deeper financial inclusion and moving toward a cashless society in Bangladesh.