

Quarterly Report on Islamic Banking in Bangladesh¹

July-September 2023



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Highlights: Quarterly Report on Islamic Banking in Bangladesh

July-September 2023

Total Deposits

Total deposits of Islamic banking system reached to BDT 4,319.89 billion at the end of September 2023 with an increase of BDT 39.89 billion or 0.93 percent as compared to the end of June 2023. It was also higher by BDT 106.14 billion or 2.52 percent as compared to the same quarter of the last year. The share of total deposits of Islamic banks accounted for 26.61 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 75.95 billion or 1.80 percent to BDT 4,290.71 billion at the end of September 2023 as compared to the end of June 2023. It was also higher by BDT 377.69 billion or 9.65 percent as compared to the same quarter of the last year. The share of total investment of Islamic banks accounted for 28.00 percent of total loans & advances of the whole banking sector at the end of September 2023.

Investment-Deposit Ratio

At the end of September 2023, Investment-Deposit Ratio (IDR) of the Islamic banks stood at 0.91(excluding EDF and refinance). It was same at the end of June 2023 but slightly lower than 0.92 of end September 2022.

Excess Liquidity

Excess liquidity of Islamic banks decreased by BDT 9.23 billion or 10.62 percent to BDT 77.67 billion at the end of September 2023 from BDT 86.90 billion of end June 2023. It was also lower by BDT 97.58 billion or 55.68 percent than that of the same period of the last year.

Exports

Total exports receipts by the Islamic banks decreased by BDT 77.41 billion or 20.60 percent to BDT 298.35 billion during July-September 2023 from BDT 375.75 billion of April-June 2023. It also decreased by BDT 151.35 billion or 33.66 percent than that of the same quarter of 2022.

Imports

Total Imports payments by the Islamic banking system was lower by BDT 83.92 billion or 17.64 percent at BDT 391.93 billion during July-September 2023 as compared to April-June 2023. It was also lower by BDT 266.70 billion or 40.49 percent than that of the same quarter of 2022.

Total Remittances

Total remittances mobilized by the Islamic banks increased from BDT 221.92 billion to BDT 280.47 billion which was 26.38 percent higher than that of previous quarter. It was also higher by BDT 78.25 billion or 38.69 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 1,701 at the end of September 2023. It was 1694 at the end of the June 2023 and 1628 at the end of September 2022.

Manpower

Total employment in the Islamic banks stood at 50,146 at the end of September 2023. It was 50,019 at the end of June 2023 and 49,433 at the end of September 2022 respectively.

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Islamic financial sector is now considered as a global financial industry in terms of its assets like various type of Islamic financing and investment in bonds, mutual funds and insurance premiums 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 September 2023, there were 10 full-fledged Islamic banks in Bangladesh operating with 1671 branches amongst total 11,219 branches in the whole banking system. In addition to this, 30 Islamic banking branches of 15 conventional commercial banks and 615 Islamic banking windows of 15 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 PLC	394	The City Bank Limited	1	Sonali Bank PLC	58
2	ICB Islamic Bank Limited	33	AB Bank Limited	1	Janata Bank PLC *	
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 PLC	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 PLC	45
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 PLC	314
11			United Commercial Bank PLC	1	One Bank Limited	14
12			Bangladesh Commerce Bank Limited	2	Meghna Bank Limited	10
13			Bengal Commercial Bank Limited	3	Mutual Trust Bank Limited	15
14			National Credit & Commerce Bank Limited	1	Premier Bank Limited	25
15			Mercantile Bank PLC	1	United Commercial Bank PLC	10
16					South Bangla Agriculture & Commerce Bank Limited	10
Total	10	1671	15	30	15	615

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

1.1 Activities of Islamic Banking in Bangladesh: July-September 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 4,319.89 billion at the end of September 2023 with an increase of BDT 39.89 billion or 0.93 percent as compared to the end of June 2023. It was also higher by BDT 106.14 billion or 2.52 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 4,290.71 billion at the end of September 2023. It was higher by BDT 75.95 billion or 1.80 percent from BDT 4,214.77 billion of the end of June 2023. It was also higher by BDT 377.69 billion or 9.65 percent as compared to the same quarter of the last year.

Investment-Deposit ratio of the Islamic banks stood at 0.91(excluding EDF and refinance). It was same at the end of June 2023 but slightly lower than 0.92 of end September 2022.

Excess liquidity of Islamic banks stood at BDT 77.67 billion at the end of September 2023. It was lower by BDT 9.23 billion or 10.62 percent as compared to BDT 86.90 billion of the end of June 2023. It was also lower by BDT 97.58 billion or 55.68 percent than that of the same quarter of the last year.

Total exports receipts by the Islamic banks stood at BDT 298.35 billion during July-September 2023. It was lower by BDT 77.41 billion or 20.60 percent as compared to BDT 375.75 billion of the end of June 2023. It was also lower by BDT 151.35 billion or 33.66 percent than that of the same quarter of the last year.

Total imports payments by the Islamic banking system stood at BDT 391.93 billion during July-September 2023. It was lower by BDT 83.92 billion or 17.64 percent as compared to BDT 475.85 billion of the end of June 2023. It was also lower by BDT 266.70 billion or 40.49 percent than that of the same quarter of the last year.

Total remittances mobilized by the Islamic banks stood at BDT 280.47 billion during July-September 2023. It was higher by BDT 58.55 billion or 26.38 percent as compared to BDT 221.92 billion of end June 2023. It was also higher by BDT 78.25 billion or 38.69 percent than that of the same quarter of last year.

The number of branches of Islamic banks including Islamic branches of conventional commercial banks extended to 1,701 at the end of September 2023. It was 1,694 at the end of June 2023 and 1,628 at the end of September 2022. At the same time, the number of Islamic banking windows of conventional commercial banks extended to 615 at the end of September 2023 from 588 of end June 2023. It was 511 at the end of September 2022.

Total employment in the Islamic banking sector stood at 50,146 at the end of September 2023. It was 50,019 at the end of June 2023 and 49,433 at the end of September 2022 respectively.

Table-2: Basic information on Islamic Banking: July-September 2023

(In Billion BDT)

Indicators of Islamic Banking	July-September 2023 ^P	April-June 2023	July-September 2022	Changes		Changes (%)	
				Quarterly	Annual	Quarterly	Annual
1. Total Deposits*(Outstanding)	4,319.89	4,280.00	4,213.75	39.89	106.14	0.93	2.52
a) Full-fledged Islamic Banks	3,951.42	3,931.56	3,917.92	19.87	33.50	0.51	0.85
b) Islamic Banking Branches of CB	174.64	166.42	139.28	8.22	35.36	4.94	25.39
c) Islamic Banking Windows of CB	193.83	182.02	156.55	11.81	37.28	6.49	23.81
2. Total Investment* (Outstanding)	4,290.71	4,214.77	3,913.02	75.95	377.69	1.80	9.65
a) Full-fledged Islamic Banks	4,022.70	3,957.76	3,699.60	64.94	323.09	1.64	8.73
b) Islamic Banking Branches of CB	133.37	134.40	114.70	-1.03	18.67	-0.76	16.28
c) Islamic Banking Windows of CB	134.65	122.61	98.72	12.04	35.93	9.82	36.40
3. Investment-Deposit ratio[#]	0.91	0.91	0.92	0.00	-0.01	0.00	-1.35
a) Full-fledged Islamic Banks	0.92	0.92	0.92	0.00	0.00	0.00	0.54
b) Islamic Banking Branches of CB	0.69	0.77	0.82	-0.08	-0.13	-10.66	-16.30
c) Islamic Banking Windows of CB	0.66	0.64	0.63	0.02	0.03	2.80	4.66
4. Liquidity (Excess (+) / Shortfall (-))	77.67	86.90	175.25	-9.23	-97.58	-10.62	-55.68
a) Full-fledged Islamic Banks	10.73	24.93	113.10	-14.20	-102.37	-56.97	-90.52
b) Islamic Banking Branches of CB	26.52	21.59	24.97	4.93	1.55	22.84	6.19
c) Islamic Banking Windows of CB	40.43	40.38	37.18	0.04	3.25	0.10	8.73
5. Total Exports	298.35	375.75	449.69	-77.41	-151.35	-20.60	-33.66
a) Full-fledged Islamic Banks	252.90	333.33	412.79	-80.43	-159.89	-24.13	-38.73
b) Islamic Banking Branches of CB	28.01	31.50	26.35	-3.48	1.66	-11.06	6.30
c) Islamic Banking Windows of CB	17.43	10.93	10.55	6.50	6.89	59.51	65.29
6. Total Imports	391.93	475.85	658.63	-83.92	-266.70	-17.64	-40.49
a) Full-fledged Islamic Banks	314.30	417.94	598.13	-103.64	-283.83	-24.80	-47.45
b) Islamic Banking Branches of CB	30.55	31.16	27.62	-0.62	2.92	-1.98	10.58
c) Islamic Banking Windows of CB	47.08	26.75	32.88	20.33	14.20	76.02	43.19
7. Total Remittances	280.47	221.92	202.23	58.55	78.25	26.38	38.69
a) Full-fledged Islamic Banks	278.22	220.20	200.03	58.02	78.19	26.35	39.09
b) Islamic Banking Branches of CB	1.07	0.89	1.33	0.18	-0.26	20.45	-19.58
c) Islamic Banking Windows of CB	1.18	0.83	0.86	0.35	0.32	42.29	37.14
8. Total Number of Branches	1,701	1,694	1,628	7	73	0.41	4.48
a) Full-fledged Islamic Banks	1,671	1,671	1,605	0	66	0.00	4.11
b) Islamic Banking Branches of CB	30	23	23	7	7	30.43	30.43
9. Islamic Banking Windows of CB	615	588	511	27	104	4.59	20.35
10. Total Number of Manpower	50,146	50,019	49,433	127	713	0.25	1.44
a) Full-fledged Islamic Banks	48,837	48,709	48,261	128	576	0.26	1.19
b) Islamic Banking Branches of CB	502	502	433	0	69	0.00	15.94
c) Islamic Banking Windows of CB	807	808	739	-1	68	-0.12	9.20

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

1.2: The Market Share of Islamic Banks

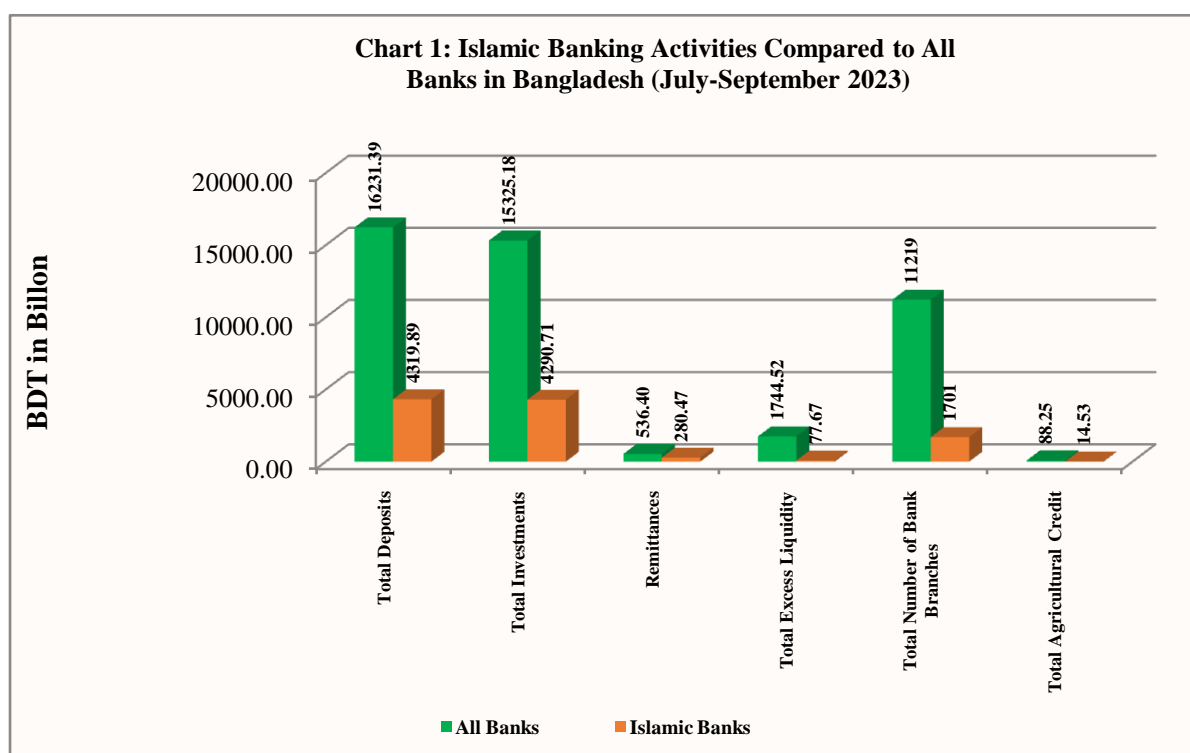
The market share of Islamic banks is successively increasing over the time. At the end of September 2023, Islamic banks represents 26.61 percent share in terms of deposits and 28.00 percent share in terms of investments in the total banking industry which was 25.37 percent and 29.18 percent respectively at the end of June, 2023 [Table-3 and Chart 1].

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

(In Billion BDT)

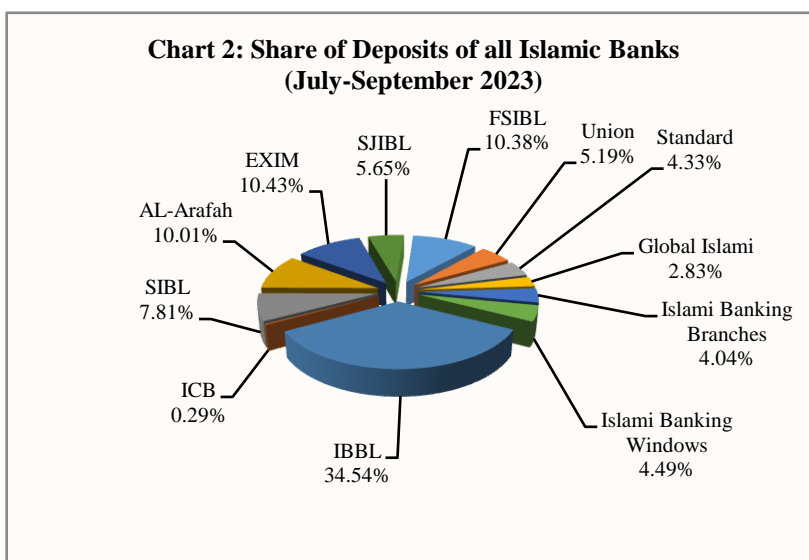
Items	July-September 2023 ^P			April-June 2023
	All banks	Islamic banks	Share of Islamic banks among all banks (percent)	Share of Islamic banks among all banks (percent)
	1	2	3=(2/1x100)	4
Total deposits	16,231.39	4,319.89	26.61	25.37
Total investment (loans & advances in conventional banking system)	15,325.18	4,290.71	28.00	29.18
Remittances	536.40	280.47	52.29	38.08
Total excess liquidity	1,744.52	77.67	4.45	6.35
Total number of bank branches	11,219*	1701	15.16	15.16
Total agricultural credit	88.25	14.53	16.47	17.74

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 System

Total deposits in Islamic banking system reached at BDT 4,319.89 billion at the end of September 2023 with an increase of BDT 39.89 billion or 0.93 percent as compared to the end of June 2023. It was also higher by BDT 106.14 billion or 2.52 percent as compared to the same quarter of the last year. Among the total deposits, demand deposit was BDT 572.35 billion and

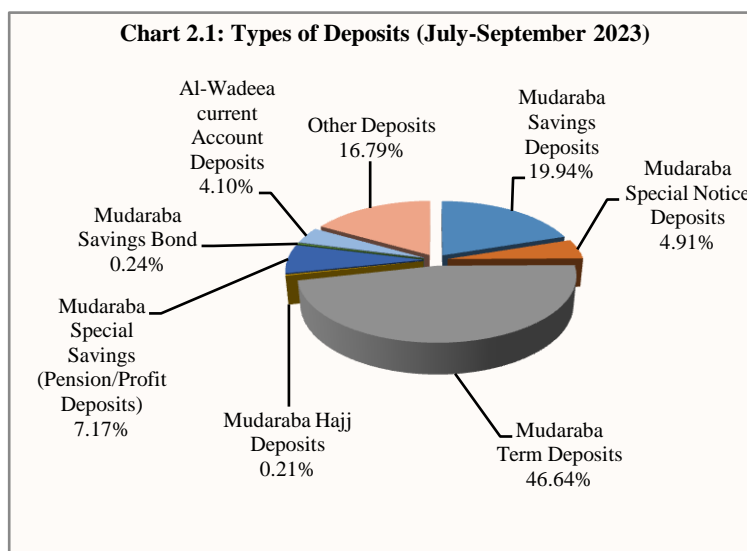


time deposit was BDT 3,747.54 billion. The share of total deposits of Islamic banks accounted for 26.61 percent among whole banking sector at the end of September 2023.

Deposits of 10 full-fledged Islamic banks stood at BDT 3,951.42 billion, windows of conventional banks 193.83 billion and branches of conventional banks 174.64 billion at the end of September 2023. Total deposits of the 10 full-fledged Islamic banks accounted for 91.47 percent of deposits of the Islamic banking system. Among all Islamic banks, Islami Bank Bangladesh Limited (IBBL) received the highest amount of deposits (34.54%) followed by EXIM Bank Ltd. (10.43%), First Security Islami Bank Ltd. (10.38%), Al-Arafah Islami Bank Ltd. (10.01%), Social Islami Bank Ltd. (7.81%), Shahjalal Islami Bank Ltd. (5.65%), Union Bank Limited (5.19%), Islamic banking windows (4.49%), Standard Bank Ltd. (4.33%), Islamic banking branches (4.04%), Global Islami Bank PLC (2.83%) and ICB Islamic Bank Limited (0.29%) [Chart-2].

2.1: Types of Deposits

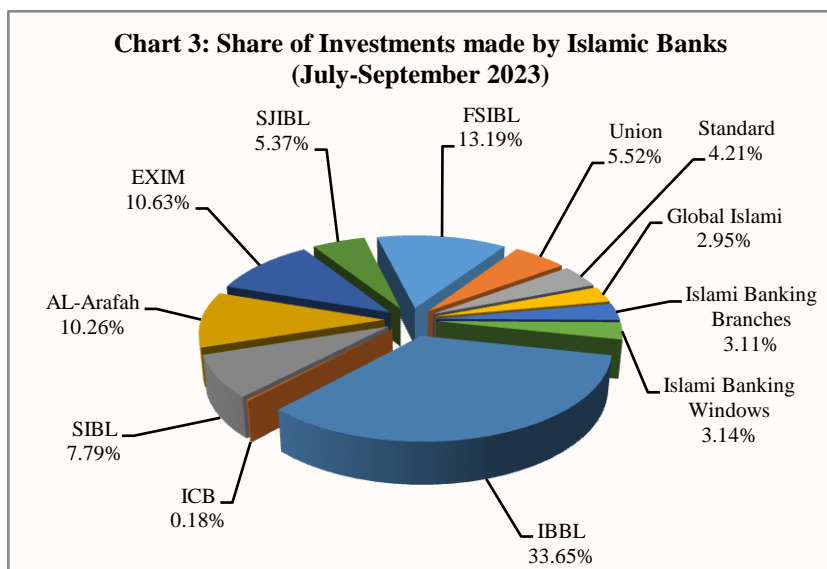
Among different types of deposits of the Islamic banking system, Mudaraba Term Deposits (MTD) secured the highest position (46.64%) followed by Mudaraba Savings Deposits (MSD) (19.94%), Other Deposits (16.79%), Mudaraba Special Savings (pension/profit) Deposits (7.17%), Mudaraba Special Notice Deposits (4.91%), Al-Wadeea current Account Deposits (4.10%), Mudaraba Savings Bond (0.24%), Mudaraba Hajj Deposits (0.21%) and Mudaraba Special Savings Deposits (0.24%).



(4.91%), Al-Wadeeah Current Account Deposits (4.10%), Mudaraba Savings Bond (0.24%) and Mudaraba Hajj Deposits (0.21%) during July-September 2023 [Chart-2.1].

3. Investments of Islamic Banking System

Total investment (loans & advances) of Islamic banking system stood at BDT 4,290.71 billion at the end of September 2023. It was higher by BDT 75.95 billion or 1.80 percent from BDT 4,214.77 billion of the end of June 2023. It was also higher by BDT 377.69 billion or 9.65 percent as compared to the same quarter of the last year. The share

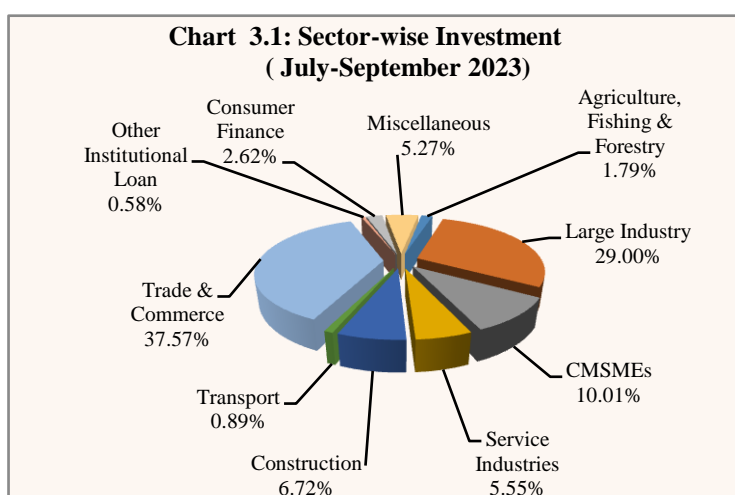


of total investment of Islamic banks accounted for 28.00 percent among total loans & advances of entire banking industry.

Out of total investment of Islamic banking system, 93.75 percent was materialized by 10 full-fledged Islamic banks, 3.14 percent by the Islamic banking windows of conventional banks and the rest 3.11 percent by the Islamic banking branches of conventional banks. Among the 10 full-fledged Islamic banks, Islami Bank Bangladesh Ltd. affixed the highest investment (33.65%) at the end of September 2023 followed by First Security Islami Bank Ltd. (13.19%), EXIM Bank Ltd. (10.63%), Al-Arafah Islami Bank Ltd. (10.26%), Social Islami Bank Ltd. (7.79%), Union Bank Ltd. (5.52%), Shahjalal Islami Bank Ltd. (5.37%), Standard Bank Ltd. (4.21%), Global Islami Bank PLC (2.95%) and ICB Islamic Bank Ltd. (0.18%) [Chart-3].

3.1: Sector-wise Investment

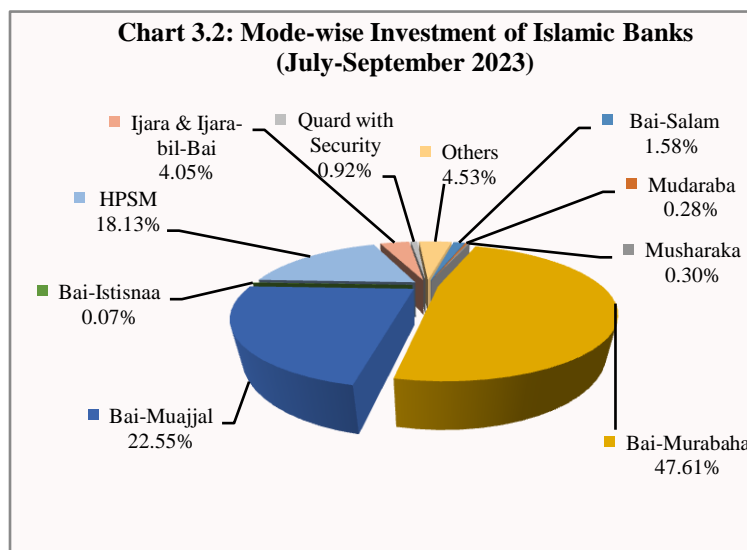
In case of the sector-wise investment, Trade and Commerce sector secured the highest position (37.57%) among all sectors at the end of September 2023 followed by Large Industry (29.00%), CMSMEs (Cottage, Micro, Small and Medium Enterprises (10.01%),



Construction (6.72%), Services Industry (5.55%), Miscellaneous (5.27%), Consumer Finance (2.62%), Agriculture, Fishing and Forestry (1.79%), Transport (0.89%) and Other Institutional Loan (0.58%), [Chart-3.1].

3.2: Mode-wise Investments

The analysis of mode-wise investment revealed that the highest investment was materialized through Bai-Murabaha (47.61%) at the end of September 2023 followed by Bai-Muajjal (22.55%), HPSM (18.13%), Ijara & Ijara-bil Bai (4.05%), Bai-Salam (1.58%), Quard with Security (0.92%), Musharaka (0.30%), Mudaraba (0.28%), Bai-Istisnaa (0.07%) and Others (4.53%) [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 July-September 2023, investment in agricultural sector financed by the Islamic banking system reached to BDT 15.90 billion. It was lower by BDT 4.33 billion from BDT 20.23 billion of April-June 2023. But it was higher by BDT 3.15 billion of the same quarter of the last year. The share of total agricultural credit of Islamic banks accounted for 16.47* percent (Table-3) among all banks during the quarter under report. Summary of investments in agricultural sector under the Islamic banking framework is provided in Table-4.

Table-4: Summary of Investment in Agricultural Sector

(In Billion BDT)

Period	Investment in Agricultural Sector						
	Investment Target	Actual Investment	Target Achieved (%)	Recovery	Outstanding Investment	Overdue Investment	Classified Investment
1	2	3	4	5	6	7	8
July-September 2023 ^P	23.86	15.90	66.63	15.62	75.85	25.92	30.57
April-June 2023	22.63	20.23	89.42	19.04	52.03	23.50	21.09
July-September 2022	20.57	12.75	61.96	13.34	51.67	21.65	21.20
Quarterly Changes	1.23	-4.33	-	-3.42	23.82	2.42	9.48
Annual Changes	3.29	3.15	-	2.28	24.17	4.26	9.37

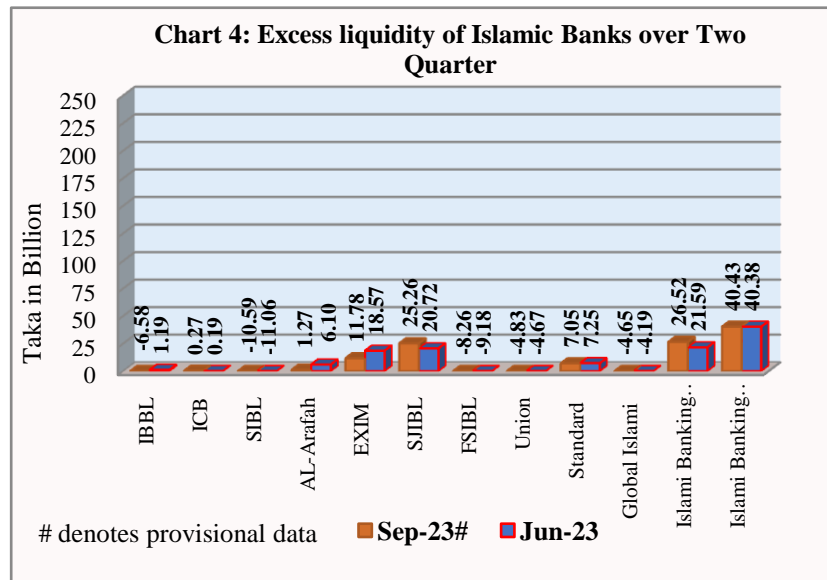
Source: Islamic banks, branches and windows of conventional banks.

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

P= Provisional.

4. Liquidity Situation of Islamic Banking System

Excess liquidity of Islamic banking system stood at BDT 77.67 billion at the end of September 2023. It was lower by BDT 9.23 billion or 10.62 percent as compared to BDT 86.90 billion of the end of June 2023. It was also lower by BDT 97.58 billion or 55.68 percent than that of the same quarter of the last year. The excess liquidity of full-fledged

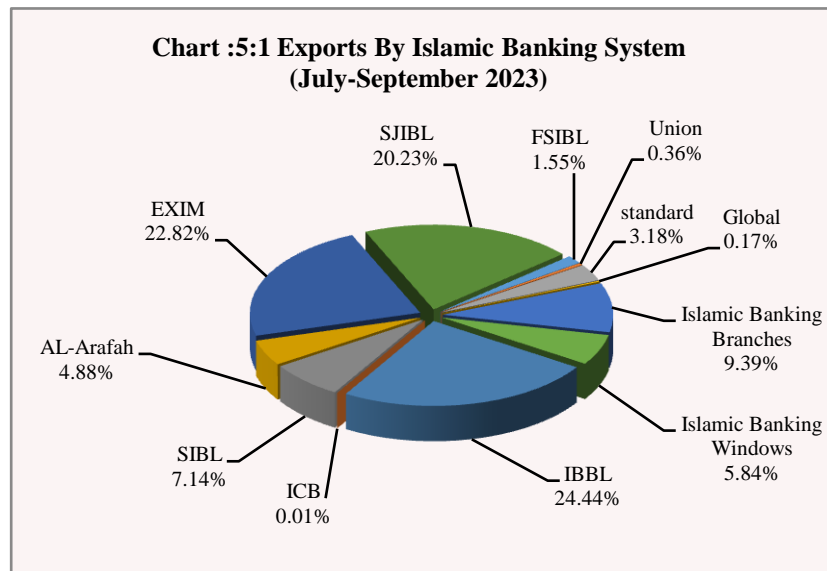


Islamic banks, Islamic banking branches and windows of conventional banks stood at BDT 10.73 billion, 26.52 billion and 40.43 billion respectively. Summary of liquidity situation of Islamic banking system is shown in chart-4.

5. Foreign Exchange Dealings and Remittance Mobilizations by Islamic Banking

5.1: Exports

Total exports receipts by the Islamic banks stood at BDT 298.35 billion during July-September 2023. It was lower by BDT 77.41 billion or 20.60 percent as compared to BDT 375.75 billion of the end of June 2023. It was also lower by BDT 151.35 billion or 33.66 percent than that of the same quarter of the last year.

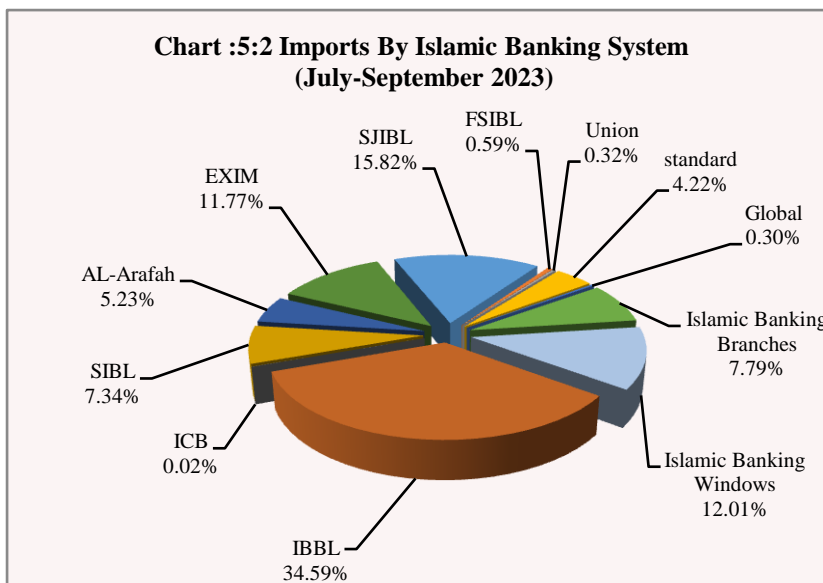


Among the Islamic banking system, Islami Bank Bangladesh Ltd. (24.44%) secured the top position in exports earning during July-September 2023, followed by, EXIM Bank Ltd. (22.82%), Shahjalal Islami Bank (20.23%), Islamic banking branches of conventional banks (9.39%), Social Islami Bank Ltd (7.14%), Islamic banking windows (5.84%), Al-Arafah Islami Bank Ltd. (4.88%), Standard

Bank Ltd. (3.18%), First Security Islami Bank Ltd (1.55%), Union Bank Ltd (0.36%), Global Islami Bank PLC (0.17%) and ICB Islamic Bank (0.01%) [Chart-5.1].

5.2: Imports

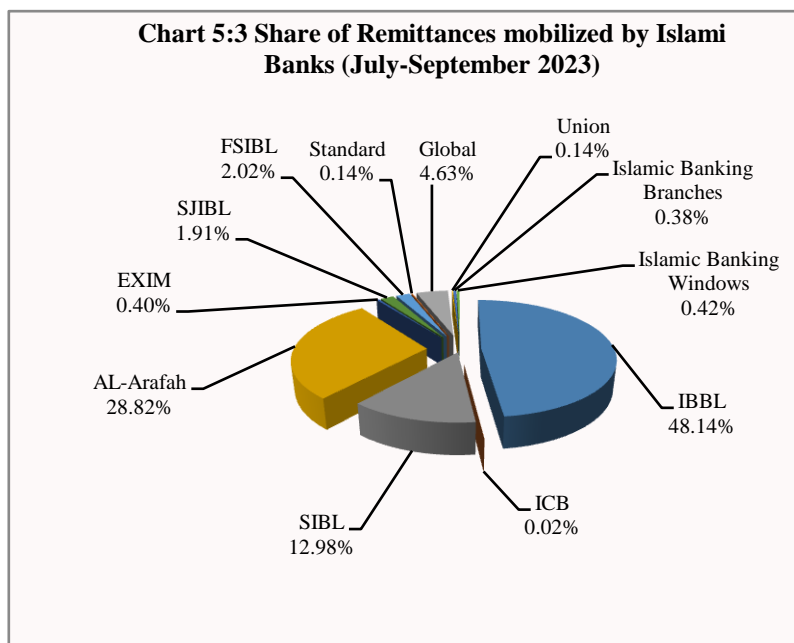
Total Imports payments by the Islamic banking system stood at BDT 391.93 billion during July-September 2023. It was lower by BDT 83.92 billion or 17.64 percent as compared to BDT 475.85 billion of the end of June 2023. It was also lower by BDT 266.70 billion or 40.49 percent than that of the same quarter of the last year.



Among the Islamic banking system, Islami Bank Bangladesh Ltd. secured the top position (34.59%) in Imports payments during July-September 2023, followed by Shahjalal Islami Bank (15.82%), Islamic banking windows (12.01%), EXIM Bank Ltd. (11.77%), Islamic banking branches of conventional banks (7.79%), Social Islami Bank Ltd (7.34%), Al-Arafah Islami Bank Ltd. (5.23%), Standard Bank Ltd. (4.22%), First Security Islami Bank Ltd (0.59%), Union Bank Ltd (0.32%), Global Islami Bank PLC (0.30%) 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 increased from BDT 221.92 billion to BDT 280.47 billion which around 26.38 percent higher than that of previous quarter. It was also higher by BDT 78.25 billion or 38.69 percent than that of the same quarter of 2022. Among the Islamic banking system,



Islami Bank Bangladesh Ltd. secured the top position (48.14%) in remittance mobilization during July-September 2023, followed by Al-Arafah Islami Bank Ltd. (28.82%), Social Islami Bank Ltd (12.98%), Global Islami Bank PLC. (4.63%), First Security Islami Bank Ltd (2.02%), Shahjalal Islami Bank Ltd. (1.91%), EXIM Bank Ltd. (0.40%), Islamic banking branches of conventional banks (0.38%), Islamic banking windows (0.42%) Union Bank Ltd (0.14%), Standard Bank Ltd. (0.14%) and ICB Islamic Bank Ltd. (0.02%) [Chart-5.3].

6. Corporate Social Responsibility (CSR) of Islamic Banking

Islamic banks undertake and implement various types of social programs under its 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 July-September 2023 stood at BDT 0.80 billion which was BDT 1.12 billion in April-June 2023 and BDT 0.23 billion in July-September 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. Total Sustainable financing of the Islamic banking system stood at 64.26 billion during July-September 2023 while number of beneficiaries were 55,968. Among the total sustainable finance, green finance was 10.90 billion and sustainable-linked finance was 53.36 billion. The number of beneficiaries of green finance and sustainable-linked finance were 1,476 and 54,492 respectively which are shown in Table -5.

Table-5: Sustainable and Green Financing by Islamic Banks during July-September 2023

(In Billion BDT)

Green Finance		Sustainable Linked Finance		Total Sustainable Finance	
1	2	3	4	5=(1+3)	6=(2+4)
Number of Beneficiaries	Total Amount	Number of Beneficiaries	Total Amount	Total Number of Beneficiaries	Total Amount
1,476	10.90	54,492	53.36	55,968	64.26

Source: Islamic banks, branches and windows of 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 forth 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 September 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 which is matured in five years.

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

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

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 July-September 2023

- BB has issued “Important Rural Infrastructure Development Project on Priority Basis (IRIDP-3)” Social Impact Sukuk worth BDT 50.00 billion on 20 April 2022 through the Istisna and Izara methods at an annual rental rate of 4.75 percent, which was tradable only at the face value. Now BB has instructed that it will be tradable in the secondary market at a negotiated price, according to the conditions of the prospectus as the project has already been implemented its one-third portion (DMD Circular Letter No-07, Date: 17/09/2023)3.
- BB has amended the policies relating to investment in capital markets by banks and companies. As per the amendment brought in 2023 under Section 26A of the Bank-Companies Act 1991, bonds, debentures and Islamic Shariah-based certificates for investment in the capital market by the bank company will not be included in the investment cell specified for the exposure limit (DOS Circular No-02, Date: 31/08/2023)3.
- To accelerate financing of eco-friendly products/projects/initiatives, Bangladesh Bank has created a fund named “Refinancing Scheme for Eco-Friendly products/projects/initiatives” containing BDT 4.00 billion out of its own fund. Shariah-based Islamic banks and financial institutions may invest to their customer under this fund on the basis of their approved

investment method without violating the terms and conditions specified in the circular issued by BB (SFD Circular No-02, Date: 30/08/2023)³.

- As per the Bangladesh Government Investment Sukuk Guidelines 2020, BB has introduced a policy to distribute Sukuk to investors on the basis of Sukuk issuance. According to this policy, Shariah-based banks, financial institutions and insurance companies would get 85%, Islamic banking branches and windows of conventional banks would get 10% and individual investors, provident fund, deposits insurance etc. would get 5% of the sukuk on the basis of Sukuk issuance (DMD Circular Letter No-06, Date: 27/08/2023)³.
- Considering the immense importance of cold storage in storing agricultural perishable food products, BB has provided a special facility for loan rescheduling in the agro-based cold storage industry. Banks may reschedule existing projects and ongoing loan/investment accounts in the agro-based cold storage industry on the basis of banker-customer relationships. Shariah-based Islamic banks may also take measures to recover through rescheduling of their investment accounts, following the said principles of loan rescheduling (BRPD Circular Letter No-13, Date: 13/07/2023)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 26 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 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.

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

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.

Finally, it can say that, Islamic banking has already been able to establish itself as an alternative funding source in economic development of Bangladesh. So in the context of recent global macroeconomic challenges and financial pressures in major economies, the fast expanding pool of shari'ah compliant liquidity may become an attractive source of various economic activities to meet their financing needs.