

Quarterly Report on Islamic Banking in Bangladesh¹

October-December 2022



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Bangladesh Bank

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Highlights: Quarterly Report on Islamic Banking in Bangladesh

October-December 2022

Total Deposits

Total deposits of Islamic banking system reached to BDT 4099.49 billion at the end of December 2022 with a decrease of BDT 114.26 billion or 2.71 percent as compared to the end of September 2022. But it was BDT 168.38 billion or 4.28 percent higher as compared to the same quarter of the last year. The share of total deposits of Islamic banks accounted for 25.81 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 4052.02 billion at the end of December 2022 which went up by BDT 189.81 billion or 4.91 percent and BDT 517.54 billion or 14.64 percent as compared to the end of September 2022 and the end of same quarter of the last year respectively. The share of total investment of Islamic banks accounted for 29.20 percent of total loans & advances of the whole banking sector.

Investment-Deposit Ratio

At the end of December 2022, Investment-Deposit ratio of the Islamic banks stood at 0.92 which was same at the end of September 2022 but higher than 0.90 of end December 2021.

Excess Liquidity

Excess liquidity of Islamic banks stood at BDT 128.71 billion at the end of December 2022 which was lower by BDT 46.54 billion 26.55% and BDT 207.54 billion 61.72% than that of the end of September 2022 and the same period of the last year respectively.

Exports

Total exports earned by the Islamic banks stood at BDT 340.98 billion during October-December 2022, which was lower by BDT 108.72 billion or 24.18 percent and BDT 157.59 billion or 31.61 percent than that of the previous quarter and the same quarter of 2021 respectively.

Imports

Total Imports payments by the Islamic banking system stood at BDT 378.25 billion during October-December 2022, which was lower by BDT 280.38 billion or 42.57 percent and BDT 484.80 billion or 56.17 percent than that of the previous quarter and the same quarter of 2021 respectively.

Total Remittances

Total remittances mobilized by the Islamic banks stood at BDT 256.91 billion during October-December 2022, which was higher by BDT 54.68 billion or 27.04 percent and BDT 53.23 billion or 26.13 percent than that of the previous quarter and the same quarter of 2021 respectively. Islamic banks have contributed 54.53 percent share of total remittances mobilization by the entire banking sector during October-December 2022.

Branches

The number of branches of Islamic banks including Islamic branches/windows of conventional commercial banks extended to 2217 at the end of December 2022 which was 2139 at the end of September 2022 and 2080 at the end of December of the last year.

Manpower

Total employment in the Islamic banks stood at 49851 at the end of December 2022 which was 49433 at the end of September 2022 and 44223 at the end of December 2021.

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Islamic financial sector is now considered as a global financial industry in terms of its assets like Islamic banks, Islamic bond, 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 December, 2022 there were 10 full-fledged Islamic banks in Bangladesh operating with 1659 branches while there were total of 11153 branches of the whole banking system. In addition, 23 Islamic banking branches of 11 conventional commercial banks and 535 Islamic banking windows of 13 conventional commercial banks were 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 (208)	Premier Bank Limited (2)	Pubali Bank Limited (17)
5	EXIM Bank Limited (147)	Prime Bank Limited (5)	Trust Bank Limited (15)
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 (1)	One Bank Limited (14)
12			Meghna Bank Limited (9)
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: October-December 2022

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 4099.49 billion at the end of December 2022 which was BDT 114.26 billion or 2.71 percent than that of September 2022 but BDT 168.38 billion or 4.28 percent higher than that of the same quarter of the last year.

Total investment (loans & advances in conventional banking) of Islamic banking stood at BDT 4052.02 billion at the end of December 2022 which went up by BDT 189.81 billion or 4.91 percent and BDT 517.54 billion or 14.64 percent as compared to the end of September 2022 and the end of same quarter of the last year respectively.

Investment-Deposit ratio (IDR) (Advance-Deposit ratio in conventional sense) stood at 0.92 which was same at the end of September 2022 but higher than 0.90 of end December 2021.

Excess liquidity of Islamic banking stood at BDT 128.71 billion at the end of December 2022 which was lower by BDT 46.54 billion 26.55% and by BDT 207.54 billion 61.72% than that of the end of September 2022 and the same period of the last year respectively.

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Total remittances mobilized by the Islamic banking stood at BDT 256.91 billion during October-December 2022, which was higher by BDT 54.68 billion or 27.04 percent and BDT 53.23 billion or 26.13 percent than that of the previous quarter and the same quarter of 2021 respectively.

The number of branches of Islamic banking including Islamic branches and windows of conventional commercial banks extended to 2217 at the end of December 2022 which was 2139 at the end of September 2022 and 2080 at the end of December of the last year.

Total employment in the Islamic banking stood at 49851 at the end of December 2022 which was 49433 at the end of September 2022 and 44223 at the end of December 2021.

Table 1.1 Basic information on Islamic Banking : October-December 2022**(In Billion BDT)**

Indicators of Islamic Banking	October-December 2022 ^P	July-September 2022	October-December 2021	Changes		Changes (%)	
				Quarterly	Annual	Quarterly	Annual
1. Total Deposits*(Outstanding)	4099.49	4213.75	3931.11	-114.26	168.38	-2.71	4.28
a) Full-fledged Islamic Banks	3799.51	3917.92	3703.84	-118.42	95.67	-3.02	2.58
b) Islamic Banking Branches of CB	138.83	139.28	110.25	-0.45	28.58	-0.32	25.92
c) Islamic Banking Windows of CB	161.16	156.55	117.02	4.61	44.13	2.94	37.71
2. Total Investment* (Outstanding)	4052.02	3862.21	3534.48	189.81	517.54	4.91	14.64
a) Full-fledged Islamic Banks	3835.84	3648.79	3376.68	187.05	459.16	5.13	13.60
b) Islamic Banking Branches of CB	105.18	114.70	82.42	-9.52	22.76	-8.30	27.61
c) Islamic Banking Windows of CB	111.00	98.72	75.38	12.28	35.62	12.44	47.25
3. Investment-Deposit ratio	0.92	0.92	0.90	0.00	0.02	0.00	2.32
a) Full-fledged Islamic Banks	0.92	0.92	0.91	0.01	0.02	1.09	2.01
b) Islamic Banking Branches of CB	0.69	0.82	0.75	-0.13	-0.06	-16.22	-7.70
c) Islamic Banking Windows of CB	0.65	0.63	0.64	0.02	0.01	3.08	0.90
4. Liquidity(Excess (+)/Shortfall (-))	128.71	175.25	336.25	-46.54	-207.54	-26.55	-61.72
a) Full-fledged Islamic Banks	82.34	113.10	288.35	-30.76	-206.01	-27.20	-71.44
b) Islamic Banking Branches of CB	14.58	24.97	20.85	-10.40	-6.28	-41.63	-30.10
c) Islamic Banking Windows of CB	31.80	37.18	27.05	-5.38	4.75	-14.47	17.55
5. Total Exports	340.98	449.69	498.57	-108.72	-157.59	-24.18	-31.61
a) Full-fledged Islamic Banks	282.35	412.79	461.81	-130.44	-179.46	-31.60	-38.86
b) Islamic Banking Branches of CB	38.27	26.35	28.60	11.92	9.67	45.23	33.82
c) Islamic Banking Windows of CB	20.35	10.55	8.16	9.81	12.20	92.99	149.54
6. Total Imports	378.25	658.63	863.05	-280.38	-484.80	-42.57	-56.17
a) Full-fledged Islamic Banks	307.33	598.13	799.15	-290.79	-491.82	-48.62	-61.54
b) Islamic Banking Branches of CB	36.53	27.62	47.03	8.91	-10.50	32.26	-22.32
c) Islamic Banking Windows of CB	34.38	32.88	16.86	1.50	17.52	4.55	103.88
7. Total Remittances	256.91	202.23	203.68	54.68	53.23	27.04	26.13
a) Full-fledged Islamic Banks	254.03	200.03	201.15	54.00	52.88	27.00	26.29
b) Islamic Banking Branches of CB	1.64	1.33	1.58	0.30	0.06	22.84	3.51
c) Islamic Banking Windows of CB	1.23	0.86	0.94	0.37	0.29	43.12	30.94
8. Total Number of Branches	2217	2139	2080	78	137	3.65	6.59
a) Full-fledged Islamic Banks	1659	1605	1671	54	-12	3.36	-0.72
b) Islamic Banking Branches of CB	23	23	41	0	-18	0.00	-43.90
c) Islamic Banking Windows of CB	535	511	368	24	167	4.70	45.38
9. Total Number of Manpower	49851	49433	45260	418	4591	0.85	10.14
a) Full-fledged Islamic Banks	48588	48261	44223	327	4365	0.68	9.87
b) Islamic Banking Branches of CB	485	433	411	52	74	12.01	18.00
c) Islamic Banking Windows of CB	778	739	626	39	152	5.28	24.28

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

1.2 The Market Share of Islamic Banks

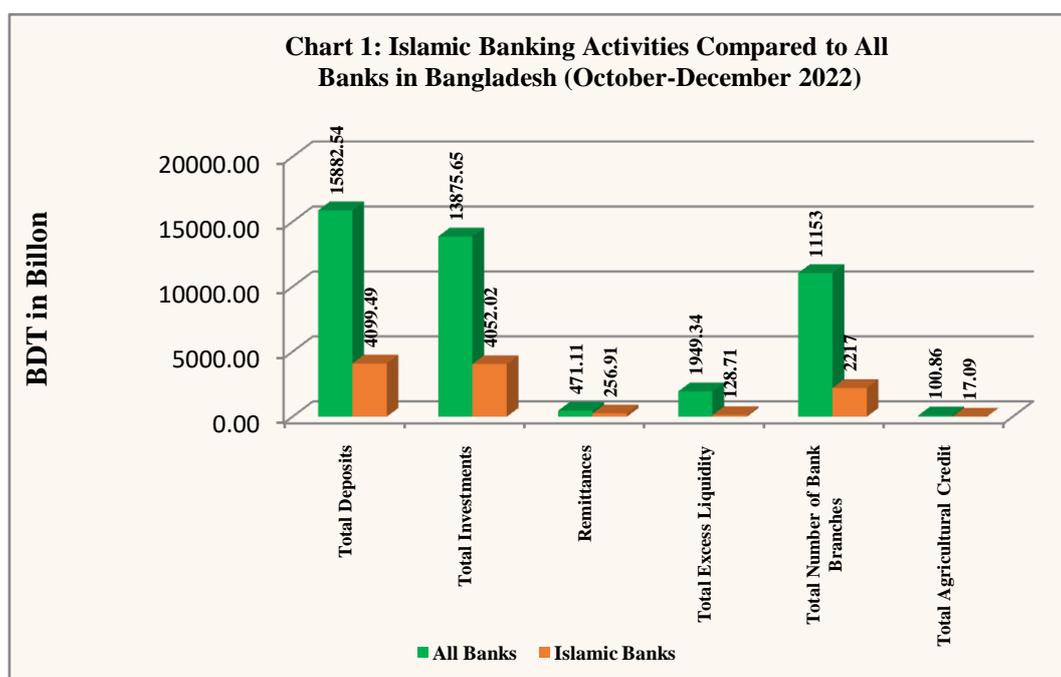
The market share of Islamic banks is successively increasing over the time. At the end of December, 2022 Islamic banks represents 25.81 percent share in terms of deposits and 29.20 percent share in terms of investments in the total banking industry which was 28.43 percent and 28.47 percent respectively at the end of September, 2022 [Table 1.2 and Chart 1].

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

(In Billion BDT)

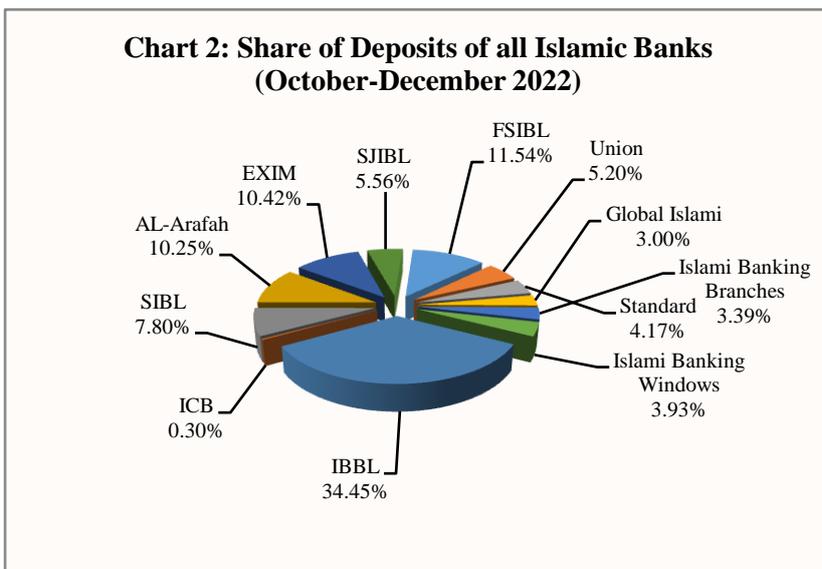
Items	October-December 2022 ^P			July-September 2022 ^R
	All banks	Islamic banks	Share of Islamic banks among all banks (percent)	Share of Islamic banks among all banks (percent)
	1	2	3=(2/1*100)	4
Total deposits	15882.54	4099.49	25.81	28.43
Total investment (loans & advances in conventional banking system)	13875.65	4052.02	29.20	28.47
Remittances	471.11	256.91	54.53	37.63
Total excess liquidity	1949.34	128.71	6.60	10.06
Total number of bank branches	11153	2217	19.88	14.35
Total agricultural credit	100.86	17.09	16.94	28.43

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 4099.49 billion at the end of December 2022 with a decrease of BDT 114.26 billion or 2.71 percent as compared to the end of September 2022 but increase of BDT 168.38 billion or 4.28 percent as compared to the same quarter of the last year. Among the total deposits, demand deposit

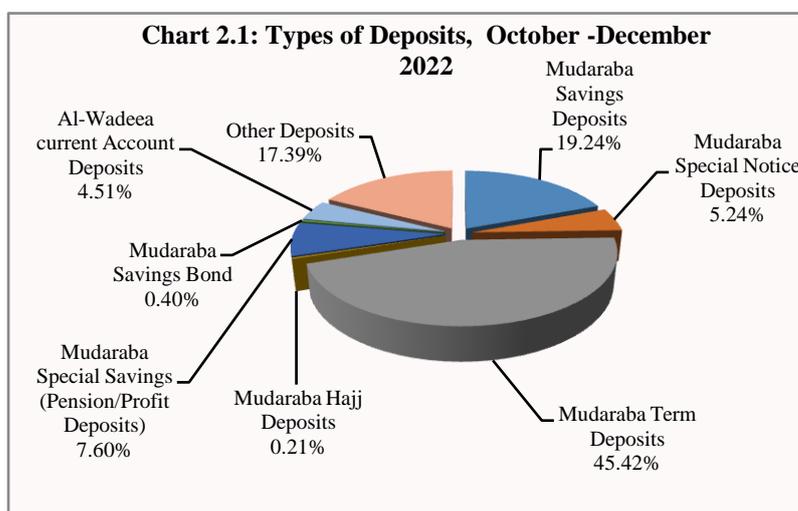


was BDT 555.25 billion and time deposit was BDT 3544.24 billion. The share of total deposits of Islamic banks accounted for 25.81 percent among whole banking sector at the end of December 2022.

Deposits of 10 full-fledged Islamic banks stood at BDT 3799.51 billion, windows of conventional banks 161.16 billion and branches of conventional banks 138.83 billion at the end of December 2022. Total deposits of the 10 full-fledged Islamic banks accounted for 92.68 percent of deposits of the Islamic banking system. Among all Islamic banks, Islami Bank Bangladesh Limited (IBBL) received the highest amount of deposits (34.45 %) followed by First Security Islami Bank Ltd. (11.54%), EXIM Bank Ltd. (10.42%), Al-Arafah Islami Bank Ltd. (10.25%), Social Islami Bank Ltd. (7.80%), Shahjalal Islami Bank Ltd. (5.56%), Union Bank Limited (5.20%), Standard Bank Ltd. (4.17%), Islamic banking windows (3.93%), Islamic banking branches (3.39%), Global Islami Bank (3.00%) 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 (45.42 %) followed by Mudaraba Savings Deposits (MSD) (19.24%), Other Deposits (17.39%), Mudaraba Special Savings (pension/profit) Deposits (7.60%), Mudaraba Special Notice Deposits (5.24%), Al-

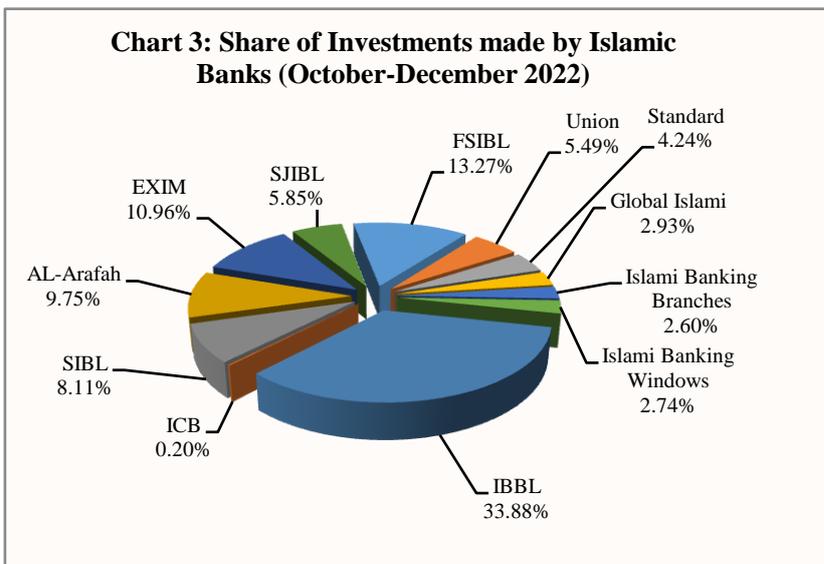


Wadeea current Account Deposits (4.51%), Mudaraba Savings Bond (0.40%), and Mudaraba Hajj Deposits (0.21%).

Wadeeah Current Account Deposits (4.51%), Mudaraba Savings Bond (0.40%) and Mudaraba Hajj Deposits (0.21%) during October-december 2022 [Chart-2.1].

3. Investments of Islamic Banking

Total investment (loans & advances) of Islamic banking system stood at BDT 4052.02 billion at the end of December 2022 which went up by BDT 189.81 billion or 4.91 percent and by BDT 517.54 billion or 14.64 percent as compared to the end of September 2022 and the end of same quarter of the last year respectively. The share of total

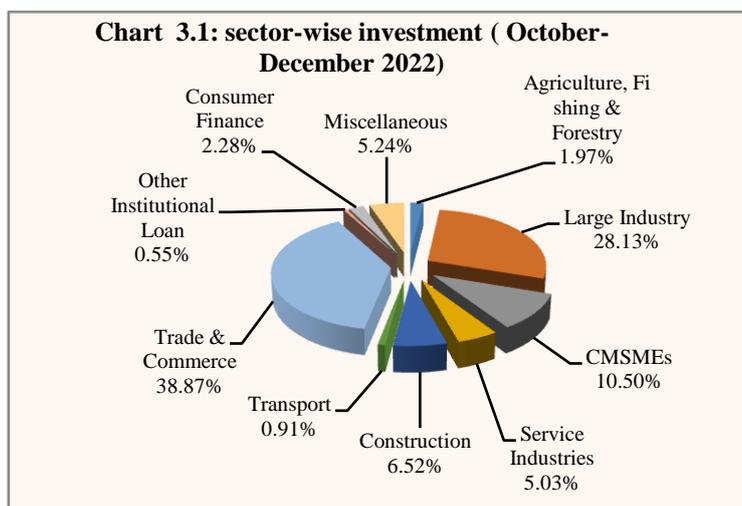


investment of Islamic banks accounted for 29.20 percent among total loans & advances of entire banking industry.

Out of total investment of Islamic banking system, 94.66 percent was materialized by 10 full-fledged Islamic banks, 2.60 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 (33.88%) at the end of December 2022 followed by First Security Islami Bank Ltd. (13.27%), EXIM Bank Ltd. (10.96%), Al-Arafah Islami Bank Ltd. (9.75%), Social Islami Bank Ltd. (8.11%), Shahjalal Islami Bank Ltd. (5.85%), Union Bank Ltd. (5.49%), Standard Bank Ltd. (4.24%), Global Islami Bank (2.93%) and ICB Islamic Bank Ltd. (0.20%) [Chart-3].

3.1 Sector-wise Investment

In case of the sector-wise investment, Trade and Commerce sector was secured the highest position (38.87%) among all sectors at the end of December 2022 followed by Large Industry (28.13%), CMSMEs (Cottage, Micro, Small and Medium Enterprises (10.50%),

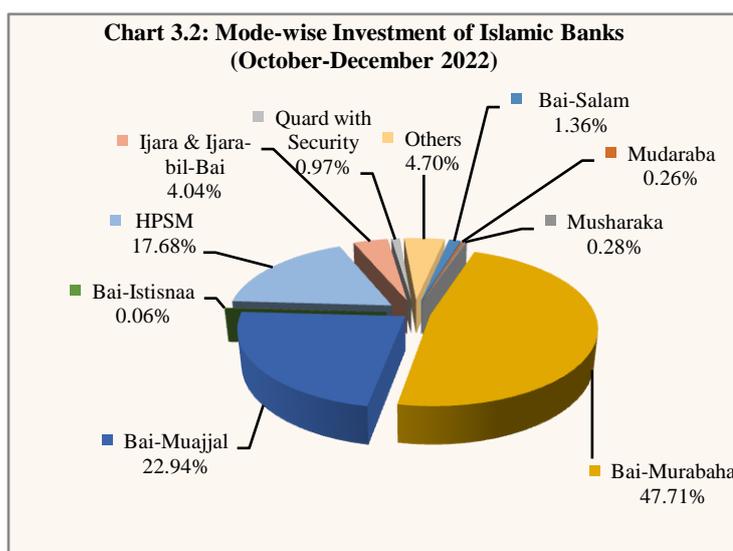


Construction (6.52%), Miscellaneous (5.24%), Services Industry (5.03%), Consumer Finance

(2.28%), Agriculture, Fishing and Forestry (1.97%), Transport (0.91%), and Other Institutional Loan (0.55%), [Chart-3.1].

3.2 Mode-wise Investments

The analysis of mode-wise investment revealed that the highest investment was materialized through Bai-Murabaha (47.71%) at the end of December 2022 followed by Bai-Muajjal (22.94%), HPSM (17.68%), Ijara & Ijara-bil Bai (4.04%), Bai-Salam (1.36%), Quard with Security (0.97%), Musharaka (0.28%), Mudaraba (0.26%), Bai-Istisnaa (0.06%) and Others (4.70%) [Chart-3.2].



3.3 Investment in the Agricultural Sector

Islamic banking system has made significant contributions in different sub-sectors of agricultural and rural credit programs. During October-December 2022, investment in agricultural sector made by Islamic banking system reached at BDT 20.03 billion which was higher by BDT 7.29 billion but lower by BDT 0.15 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 16.94* 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)

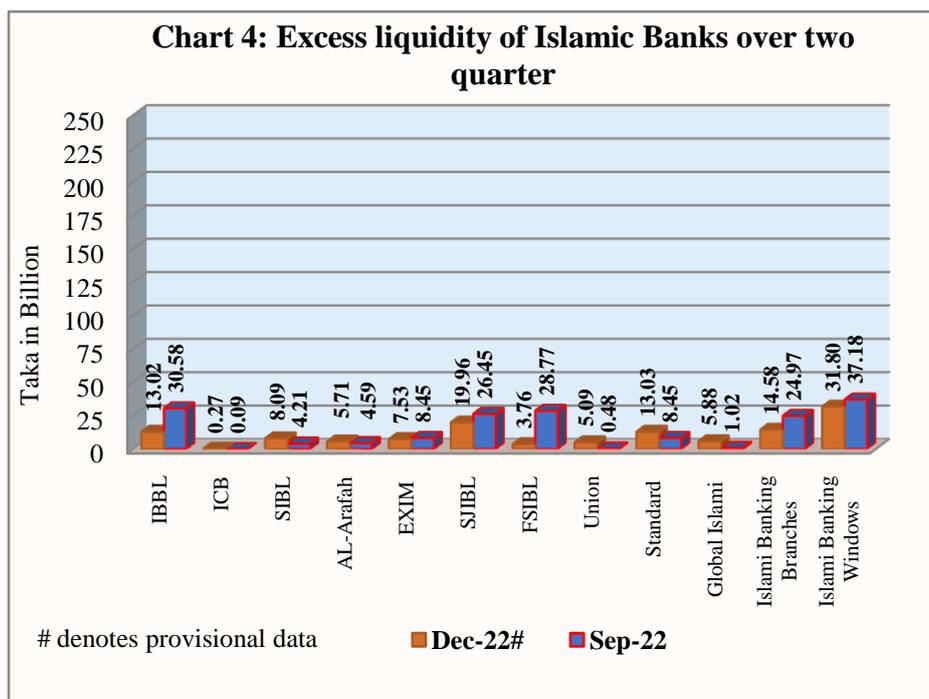
Period	Investment in Agricultural Sector						
	Investment Target	Actual Investment Disbursement	Target Achieved (%)	Recovery	Outstanding Investment	Overdue Investment	Classified Investment
1	2	3	4	5	6	7	8
October-December 2022 ^P	21.45	20.03	93.40	18.98	51.26	23.11	21.49
July-September 2022	20.57	12.75	61.96	13.34	51.67	21.65	21.20
October-December 2021	18.19	20.19	110.99	16.72	44.87	6.69	14.44
Quarterly Changes	0.88	7.29	-	5.64	-0.41	1.46	0.29
Annual Changes	3.26	-0.15	-	2.27	6.40	16.42	7.05

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 128.71 billion at the end of December 2022 which was lower by BDT 46.54 billion (26.55%) and BDT 207.54 billion (61.72%) than that of the end of September 2022 and the same period of the last year respectively. The excess liquidity of full-fledged Islamic banks, Islamic banking branches

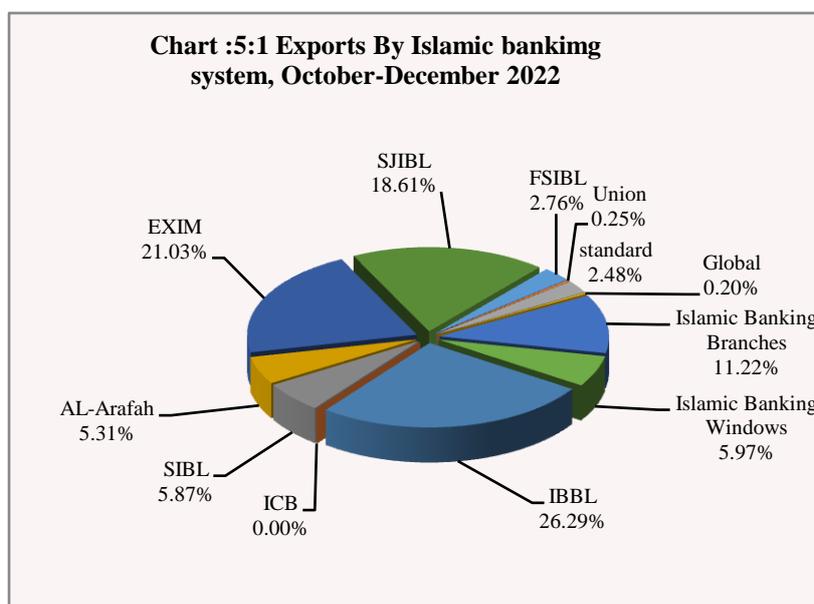


and windows of conventional banks stood at BDT 82.34 billion, 14.58 billion and 31.80 billion respectively. Summary of liquidity situation of Islamic banking system is shown in chart-4.

5. Foreign exchange Dealings and Remittance Mobilizations by Islamic Banking

5.1 Exports

Total exports earned by the Islamic banks stood at BDT 340.98 billion during October-December 2022, which was lower by BDT 108.72 billion or 24.18 percent and BDT 157.59 billion or 31.61 percent than that of the previous quarter and the same quarter of 2021 respectively. Among the Islamic banking system, Islami Bank Bangladesh Ltd. secured the top

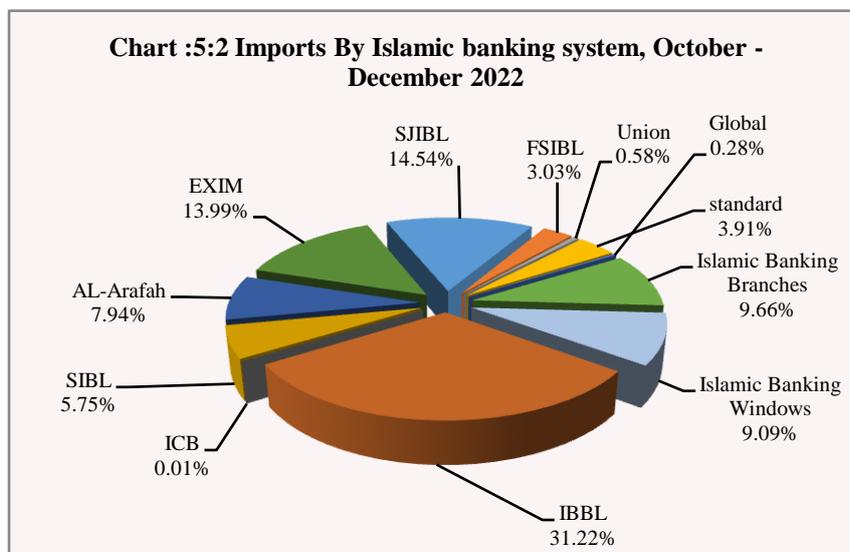


position (26.29%) in exports earning during October-December 2022, followed by EXIM Bank Ltd. (21.03%), Shahjalal Islami Bank (18.61%), Islamic banking branches of conventional banks

(11.22%), Islamic banking windows (5.93%), Social Islami Bank Ltd (5.87%), Al-Arafah Islami Bank Ltd. (5.31%), First Security Islami Bank Ltd (2.76%), Standard Bank Ltd. (2.48%), Global Islami Bank (0.20%), Union Bank Ltd (0.25%), and ICB Islamic Bank (0.01%) [Chart-5.1].

5.2 Imports

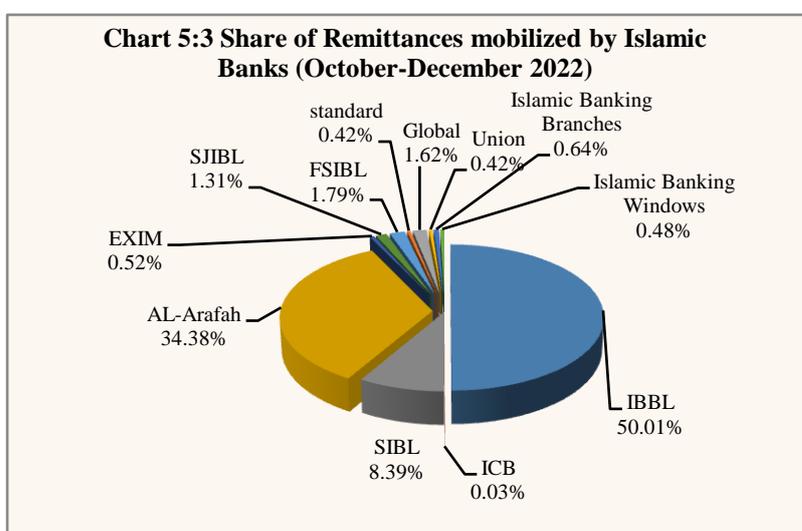
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Islamic banking system, Islami Bank Bangladesh Ltd. secured the top position (31.22%) in Imports during October-December 2022, followed by Shahjalal Islami Bank (14.54%), EXIM Bank Ltd. (13.99%), Islamic banking branches of conventional banks (9.66%), Islamic banking windows (9.09%), Al-Arafah Islami Bank Ltd. (7.94%), Social Islami Bank Ltd (5.75%), Standard Bank Ltd. (3.91%), First Security Islami Bank Ltd (3.03%), Union Bank Ltd (0.58%), Global Islami Bank (0.28%), and ICB Islamic Bank (0.01%) [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 256.91 billion during October-December 2022, which was higher by BDT 54.68 billion or 27.04 percent and BDT 53.23



billion or 26.13 percent than that of the previous quarter and the same quarter of 2021 respectively. Among the Islamic banking system, Islami Bank Bangladesh Ltd. secured the top position (50.01%)

in remittance mobilization during October-December 2022, followed by Al-Arafah Islami Bank Ltd. (34.38%), Social Islami Bank Ltd (8.39%), First Security Islami Bank Ltd (1.79%), Global Islami Bank (1.62%), Shahjalal Islami Bank (1.31%), Islamic banking branches of conventional banks (0.64%), EXIM Bank Ltd. (0.52%), Islamic banking windows (0.48%), Union Bank Ltd (0.42%), Standard Bank Ltd. (0.42%), and ICB Islamic Bank (0.03%) [Chart-5.3].

6. Corporate Social Responsibility 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 October-December 2022 stood at BDT 2.20 billion which was BDT 0.23 billion in July-September 2022 and BDT 1.28 billion in October-December 2021.

7. Islamic Securities

This section focuses on Bangladesh Government Islamic Securities which comprise 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 December 28, 2020 to raise BDT 80.00 billion for the implementation of the safe water supply project across the nation. 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 December 28, 2020. Investors submitted bids worth BDT 151.53 billion during the auction. The issue has been oversubscribed about four times. The second auction was held in June 9, 2021 to raise remaining amount of fund worth BDT 40.00 billion which was also oversubscribed by 8 times.

For implementation of the “Need Based Infrastructure Development of Government Primary Schools Project (1st Phase)” the third auction of sukuk was held in December 29, 2021 to raise BDT 50.00 billion. It was oversubscribed by 5 times. The forth auction of sukuk was held in April 19, 2022 to raise BDT 50.00 billion for “Important Rural Infrastructure Development Project on Priority Basis (IRIDP-3)”. It

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

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 December 2022.

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 will have 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. The sukuk will mature 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
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

8. Major Initiatives Taken by Bangladesh Bank for Development of Islamic Banks and Islamic Financial Institutions during October-December 2022

- Bangladesh Bank has introduced an agricultural fund named “Bangladesh Bank Agriculture Development Common Fund (BBADCF)” with the undisbursed amount of bank’s yearly agricultural loan disbursement target to promote the agricultural production by investing the fund. All scheduled banks including Shariah based Islamic banks may avail the fund by following the terms and conditions (ACD circular No. 08, Dated-19/12/2022)³.
- To facilitate import transactions, it has been decided to allow import of edible oil, chickpea, pulse, pea, onion, spices, sugar and date on usance terms on up to 90 days under supplier’s/buyer’s credit. This facility will remain applicable for initiation of imports till March 31, 2023 (FEPD circular No. 36, dated-13/12/2022)³.
- BB has established a fund titled Green Transformation Fund (GTF) of BDT 50 billion with its own fund to establish a green economy in the country to fast-track the sustainable growth in export and manufacturing oriented industries. All Scheduled banks including Islamic banks may avail this fund by following the terms and conditions (SFD Circular No. 07, Dated-07/12/2022)³.
- BB has introduced a 14 days term liquidity facility for Islamic Banks named “Islamic Banks liquidity facility (IBLF)” in order to strengthen the Islamic financial system and proper liquidity management of Islamic Shariah based banks (DMD circular No. 03, Dated-05/12/2022)³.
- In order to augment the Prime Minister's Education Assistance Trust, it has been decided to provide grants to the said fund at the rate of 5 percent of the amount allocated to the Corporate Social Responsibility sector every year by Scheduled Banks and Financial Institutions (SFD Circular Letter No-06, dated- 29/11/2022)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 2.50%, while ADs will charge profit/interest to manufacturer-exporters at 4.00% with effective for disbursements from 13 November 2022 (FEPD circular no.30, dated-8/11/2022)³.
- New directions have been issued to simplify the loan/investment policy of BDT 250.00 billion refinance scheme on CMSME sector in order to provide the loan/investment to the entrepreneurs at a low interest and easier terms. All scheduled banks including Shariah based

Islamic banks will follow the directions (SMESPD Circular Letter No. 07, Dated-08/11/2022)³.

- Instead of refinance system shariah based pre-financing system has been introduced for Islamic shariah based banks/financial institutions to provide the working capital to the large industries and service sectors which affected by Covid-19 (BRPD Circular Letter No. 42, Dated 26/10/2022)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 25 percent share of deposit and over 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.

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 micro finance 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.

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

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).

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.

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.