

Developments of Islamic Banking System in Bangladesh¹

July-September 2022



**Islamic Banking Wing
Research Department
Bangladesh Bank**

¹Prepared by Islamic Banking Wing, Research Department, Bangladesh Bank (The Central Bank of Bangladesh). Feedbacks are welcome and may be sent to Farida Parveen, Director, Research Department, Bangladesh Bank (e-mail: farida.parveen@bb.org.bd), Md. Jasim Uddin, Additional Director (e-mail: jasim.uddin@bb.org.bd) and Md. Alamin, Assistant Director (e-mail: md.alamin962@bb.org.bd).

Highlights: Developments of Islamic Banking System in Bangladesh

July-September 2022

Total Deposits	Total deposits of Islamic banking system reached to BDT 4213.75 billion at the end of September 2022 with an increase of BDT 90.35 billion or 2.19 percent as compared to the end of June 2022 and BDT 447.97 billion or 11.90 percent as compared to the same quarter of the last year. The share of total deposits of Islamic banks accounted for 26.80 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 3862.21 billion at the end of September 2022 which went up by BDT 43.92 billion or 1.15 percent and by BDT 494.01 billion or 14.67 percent as compared to the end of June 2022 and the end of same quarter of the last year respectively. The share of total investment of Islamic banks accounted for 28.98 percent of total loans & advances of the whole banking sector.
Investment-Deposit Ratio	At the end of September 2022, Investment-Deposit ratio of the Islamic banks stood at 0.92 which was same at the end of June 2022 but higher than 0.89 of end September 2021.
Excess Liquidity	Excess liquidity of Islamic banks stood at BDT 175.25 billion at the end of September 2022 which was lower by BDT 84.84 billion (32.62%) and by BDT 176.61 billion (50.19%) than that of the end of June 2022 and the same period of the last year respectively.
Total Remittances	Total remittances mobilized by the Islamic banks stood at BDT 202.23 billion during July-September 2022, which was higher by BDT 45.06 billion or 28.67 percent and higher by BDT 4.31 billion or 2.18 percent than that of the previous quarter and the same quarter of 2021 respectively. Islamic banks have contributed 37.63 percent share of total remittances mobilization by the entire banking sector during July-September 2022.
Branches	The number of branches of Islamic banks including Islamic branches/windows of conventional commercial banks extended to 2139 at the end of September 2022 which was 2121 at the end of June 2022 and 1835 at the end September of last year.
Manpower	Total employment in the Islamic banks stood at 49433 at the end of September 2022 which was 48728 at the end of June 2022 and 44453 at the end of September 2021.

Developments of Islamic Banking System in Bangladesh July-September 2022

Islamic financial sector is now considered as a global 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 system in Bangladesh has also been witnessing robust growth due to policy supports from the Bangladesh Bank and strong public demand.

Overview of Islamic Banking System in Bangladesh

At present, 10 full-fledged Islamic banks have been operating with 1605 branches out of total 10974 branches of the whole banking system. In addition, 23 Islamic banking branches of 11 conventional commercial banks and 511 Islamic banking windows of 13 conventional commercial banks are also providing Islamic financial services in Bangladesh.

Table 1: A List 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 (389)	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 (172)	Dhaka Bank Limited (2)	Agrani Bank Limited (48)
4.	Al-Arafah Islami Bank Limited (204)	Premier Bank Limited (2)	Pubali Bank Limited (17)
5.	EXIM Bank Limited (141)	Prime Bank Limited (5)	Trust Bank Limited (15)
6	Shahjalal Islami Bank Limited (133)	Southeast Bank Limited (5)	Bank Asia Limited (5)
7.	First Security Islami Bank Limited(197)	Jamuna Bank Limited (2)	Standard Chartered Bank (1)
8.	Union Bank Limited (105)	Bank Alfalah Limited (1)	Mercantile Bank Limited (45)
9.	Standard Bank Limited (138)	NRB Bank Limited (1)	Midland Bank Limited (1)
10.	Global Islami Bank Limited (93)	One Bank Limited (2)	NRBC Bank Limited (268)
11.		United Commercial Bank (1)	United Commercial Bank (10)
12.			Meghna Bank Limited (3)
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 System in Bangladesh: July-September 2022

Islamic Banking system 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. Brief information on Islamic banking system has been given in Table 1.1 which are discussed below:

Total deposits in Islamic banking system reached to BDT 4213.75 billion at the end of September 2022 with an increase of BDT 90.35 billion or 2.19 percent as compared to the end of June 2022 and BDT 447.97 billion or 11.90 percent as compared to the same quarter of the last year.

Total investment (loans & advances in conventional banking system) of Islamic banking system stood at BDT 3862.21 billion at the end of September 2022 which went up by BDT 43.92 billion or 1.15 percent and by BDT 494.01 billion or 14.67 percent as compared to the end of June 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 June 2022 but higher than 0.89 of end September 2021.

Excess liquidity of Islamic banking system stood at BDT 175.25 billion at the end of September 2022 which was lower by BDT 84.84 billion (32.62%) and by BDT 176.61 billion (50.19%) than that of the end of June 2022 and the same period of the last year respectively.

Total remittances mobilized by the Islamic banking system stood at BDT 202.23 billion during July-September 2022, which was higher by BDT 45.06 billion or 28.67 percent and higher by BDT 4.31 billion or 2.18 percent than that of the previous quarter and the same quarter of 2021 respectively.

The number of branches of Islamic banking system including Islamic branches and windows of conventional commercial banks extended to 2139 at the end of September 2022 which was 2121 at the end of June 2022 and 1835 at the end September of last year.

Total employment in the Islamic banking system stood at 49433 at the end of September 2022 which was 48728 at the end of June 2022 and 44453 at the end of September 2021.

Table 1.1 Brief information on Islamic Banking: July-September 2022

(In Billion BDT)

Indicators of Islamic Banking System	July-September 2022 ^P	April-June 2022	July-September 2021	Changes		Changes (%)	
				Quarterly	Annual	Quarterly	Annual
1. Total Deposits* (Outstanding)	4213.75	4123.41	3765.78	90.35	447.97	2.19	11.90
a) Full-fledged Islamic Banks	3917.92	3849.46	3551.00	68.47	366.92	1.78	10.33
b) Islamic Banking Branches of Conventional Banks	139.28	131.99	101.26	7.29	38.01	5.52	37.54
c) Islamic Banking Windows of Conventional Banks	156.55	141.96	113.52	14.59	43.03	10.28	37.91
2. Total Investment* (Outstanding)	3862.21	3818.29	3368.20	43.92	494.01	1.15	14.67
a) Full-fledged Islamic Banks	3648.79	3610.27	3210.36	38.52	438.43	1.07	13.66
b) Islamic Banking Branches of Conventional Banks	114.70	115.63	86.11	-0.93	28.59	-0.81	33.19
c) Islamic Banking Windows of Conventional Banks	98.72	92.39	71.73	6.33	26.99	6.85	37.63
3. Investment-Deposit ratio	0.92	0.92	0.89	0.00	0.03	0.00	3.28
a) Full-fledged Islamic Banks	0.92	0.92	0.90	0.00	0.02	0.00	1.76
b) Islamic Banking Branches of Conventional Banks	0.82	0.88	0.85	-0.05	-0.03	-6.00	-3.11
c) Islamic Banking Windows of Conventional Banks	0.63	0.65	0.75	-0.02	-0.12	-3.11	-15.92
4. Liquidity(Excess(+)/Shortfall (-))	175.25	260.09	351.86	-84.84	-176.61	-32.62	-50.19
a) Full-fledged Islamic Banks	113.10	210.09	308.12	-96.99	-195.02	-46.17	-63.29
b) Islamic Banking Branches of Conventional Banks	24.97	16.72	15.12	8.25	9.86	49.35	65.19
c) Islamic Banking Windows of Conventional Banks	37.18	33.28	28.63	3.89	8.55	11.70	29.88
5. Total Remittances	202.23	157.17	197.92	45.06	4.31	28.67	2.18
a) Full-fledged Islamic Banks	200.03	155.10	195.75	44.93	4.28	28.97	2.19
b) Islamic Banking Branches of Conventional Banks	1.33	1.29	1.43	0.04	-0.09	3.33	-6.46
c) Islamic Banking Windows of Conventional Banks	0.87	0.78	0.74	0.09	0.12	11.10	15.65
6. Total Number of Branches	2139	2121	1835	18	304	0.85	16.57
a) Full-fledged Islamic Banks	1605	1595	1619	10	-14	0.63	-0.86
b) Islamic Banking Branches of Conventional Banks	23	23	22	0	1	0.00	4.55
c) Islamic Banking Windows of Conventional Banks	511	503	194	8	317	1.59	163.40
7. Total Number of Manpower	49433	48728	44453	705	4980	1.45	11.20
a) Full-fledged Islamic Banks	48261	47555	43483	706	4778	1.48	10.99
b) Islamic Banking Branches of Conventional Banks	433	415	414	18	19	4.34	4.59
c) Islamic Banking Windows of Conventional Banks	739	758	556	-19	183	-2.51	32.91

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

1.2 The Market Share of Islamic Banks

The market share of Islamic banks in the total banking industry stood at 26.80 percent in terms of deposits and 28.98 percent in terms of investments at the end of September, 2022 which was 26.19 and 28.52 percent respectively at the end of June, 2022.

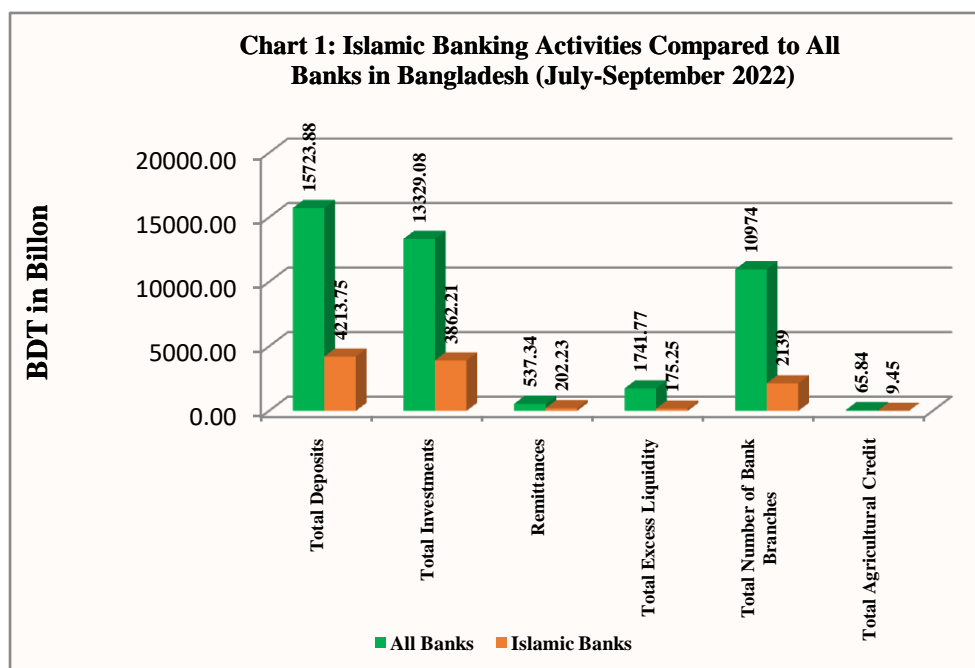
Table 1.2 Performances of Islamic Banks Compared to All Banks in Bangladesh

(In Billion BDT)

Items	July-September 2022 ^P			April-June 2022
	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	15723.88	4213.75	26.80	26.19
Total investment (loans & advances in conventional banking system)	13329.08	3862.21	28.98	28.52
Remittances	537.34	202.23	37.63	31.57
Total excess liquidity	1741.77	175.25	10.06	13.74
Total number of bank branches	10974	2139	19.49	20.13
Total agricultural credit	65.84	9.45	14.35	23.44

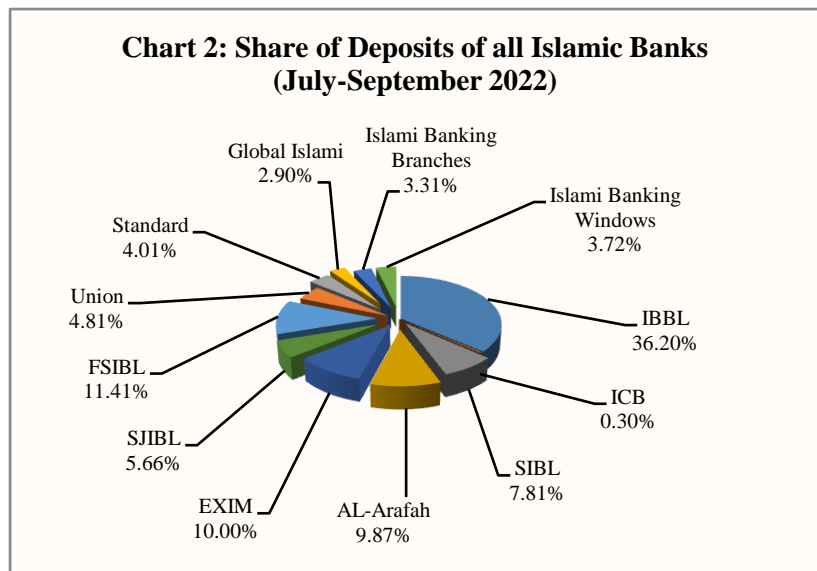
Source: Statistics Department, MPD, BRPD and ACD, Bangladesh Bank. Note: Stock Figure are provided on end period basis.

P=Provisional.



2. Mobilization of Deposits by Islamic Banking System

Total deposits in Islamic banking system reached at BDT 4213.75 billion at the end of September 2022 with an increase of BDT 90.35 billion or 2.19 percent as compared to the end of June 2022 and BDT 447.97 billion or 11.90 percent as compared to the same quarter of the last year. Among the total deposits, demand deposit was BDT 506.08 billion and time

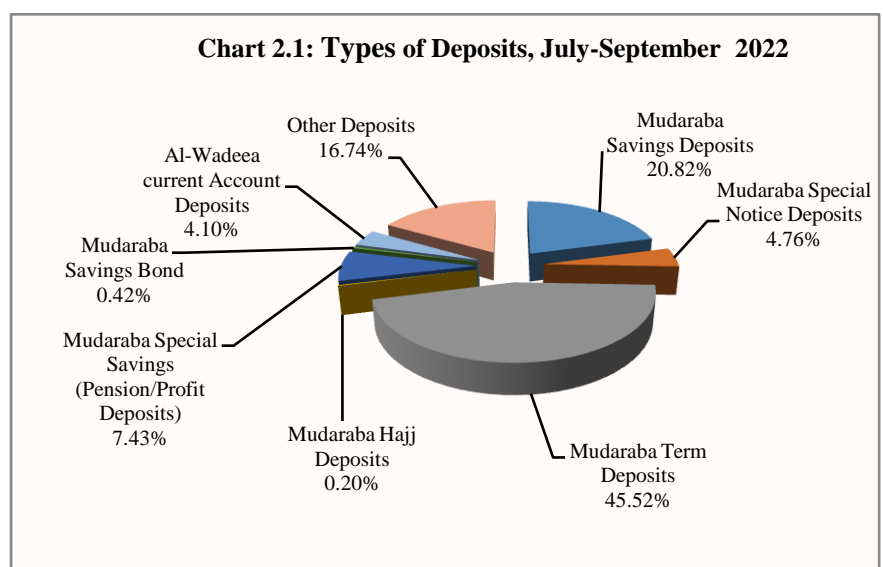


deposit was BDT 3707.67 billion. The share of total deposits of Islamic banks accounted for 26.80 percent among whole banking sector at the end of September 2022.

Deposits of 10 full-fledged Islamic banks stood at BDT 3917.92 billion, windows of conventional banks 156.55 billion and branches of conventional banks 139.28 billion at the end of September 2022. Total deposits of the 10 full-fledged Islamic banks accounted for 92.98 percent of deposits of the Islamic banking system. Among all Islamic banks, Islami Bank Bangladesh Limited received the highest share of deposits (36.20 %) followed by First Security Islami Bank Ltd. (11.41%), EXIM Bank Ltd. (10.00%), Al-Arafah Islami Bank Ltd. (9.87%), Social Islami Bank Ltd. (7.81%), Shahjalal Islami Bank Ltd. (5.66%), Union Bank Limited (4.81%), Standard Bank Ltd. (4.01%), Islamic banking windows (3.72 %), Islamic banking branches (3.31%), Global Islami Bank (2.90%) and ICB Islamic Bank Limited (0.30 %) [Chart-2].

2.1 Types of Deposits

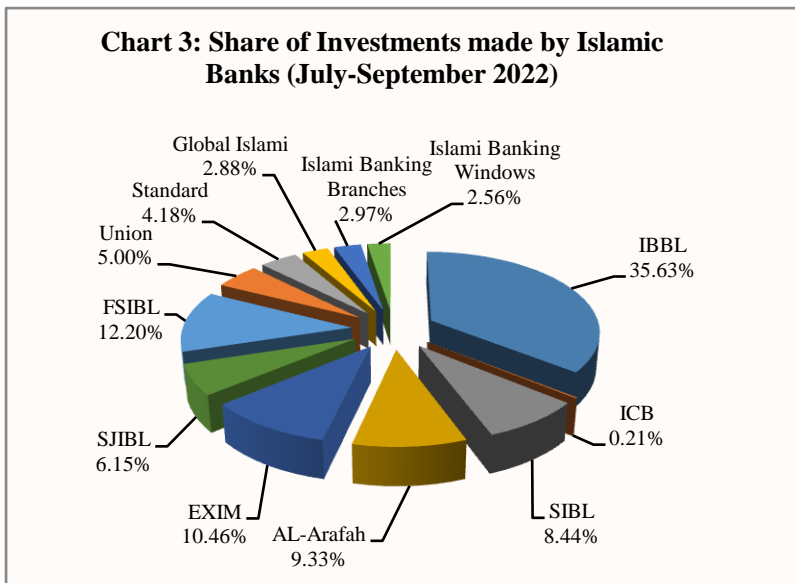
Among different types of deposits of the Islamic banking industry, Mudaraba Term Deposits (MTD) secured the highest position (45.52 %) followed by Mudaraba Savings Deposits (MSD) (20.82%), Other Deposits (16.74%), Mudaraba Special



Savings (pension/profit) Deposits (7.43%), Mudaraba Special Notice Deposits (4.76%), Al-Wadeeah Current Account Deposits (4.10%), Mudaraba Savings Bond (0.42%) and Mudaraba Hajj Deposits (0.20%) during July-September 2022 [Chart-2.1].

3. Investments of Islamic Banking System

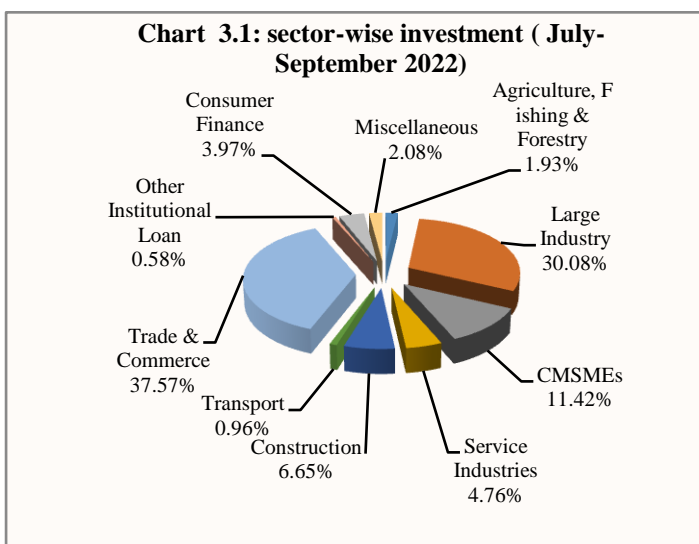
Total investment (loans & advances) in Islamic banking system stood at BDT 3862.21 billion at the end of September 2022 which went up by BDT 43.92 billion or 1.15 percent and by BDT 494.01 billion or 14.67 percent as compared to the end of June 2022 and the end of same quarter of the last year respectively. The share of total investment of Islamic banks accounted for 28.98 percent among total loans & advances of entire banking industry.



Out of total investment of Islamic banks, 94.47 percent was made by 10 full-fledged Islamic banks, 2.97 percent by the Islamic banking branches of conventional banks and the rest 2.56 percent by the Islamic banking windows of conventional banks. Among the 10 full-fledged Islamic banks, Islami Bank Bangladesh Ltd. affixed the highest investment (35.63%) at the end of September 2022 followed by First Security Islami Bank Ltd. (12.20%), EXIM Bank Ltd. (10.46%), Al-Arafah Islami Bank Ltd. (9.33%), Social Islami Bank Ltd. (8.44%), Shahjalal Islami Bank Ltd. (6.15%), Union Bank Ltd. (5.00%), Standard Bank Ltd. (4.18%), Global Islami Bank (2.88%) and ICB Islamic Bank Ltd. (0.21%) [Chart-3].

3.1 Sector-wise Investment

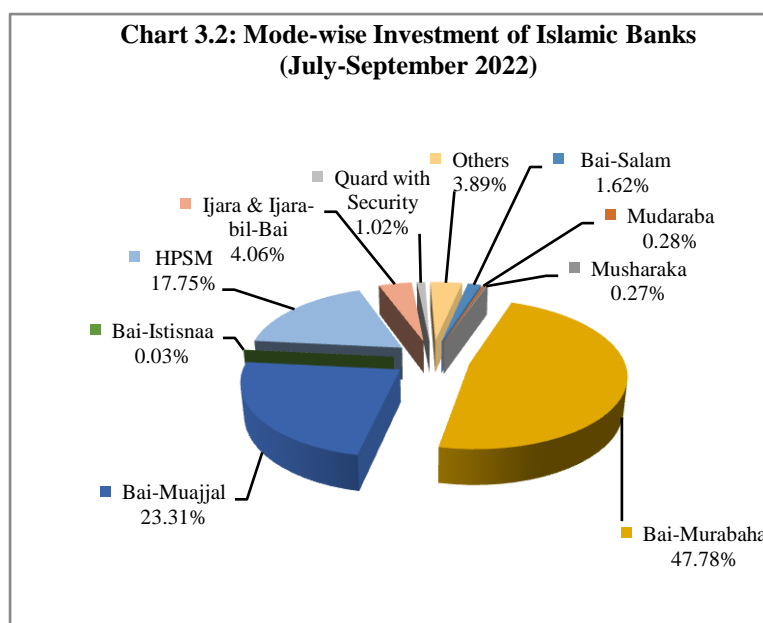
In case of the sector-wise investment, Trade and Commerce sector was secured the highest position (37.57%) among all sectors at the end of September 2022 followed by Large Industry (30.08%), CMSMEs (Cottage, Micro, Small and Medium Enterprises (11.42%), Construction (6.65%), Services Industry



(4.76%), Consumer Finance (3.97%), Miscellaneous (2.08%), Agriculture, Fishing and Forestry (1.93%), Transport (0.96%), 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 made through Bai-Murabaha (47.78%) at the end of September 2022 followed by Bai-Muajjal (23.31%), HPSM (17.75%), Ijara & Ijara-bil Bai (4.06%), Others (3.89%), Bai-Salam (1.62%), Quard with Security (1.02%), Mudaraba (0.28%), Musharaka (0.27%), and Bai-Istisnaa (0.03%) [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 July-September 2022, investment in agricultural sector made by Islamic banking system reached at BDT 12.75 billion which was lower by BDT 4.60 billion but higher by BDT 0.21 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 14.35* 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)

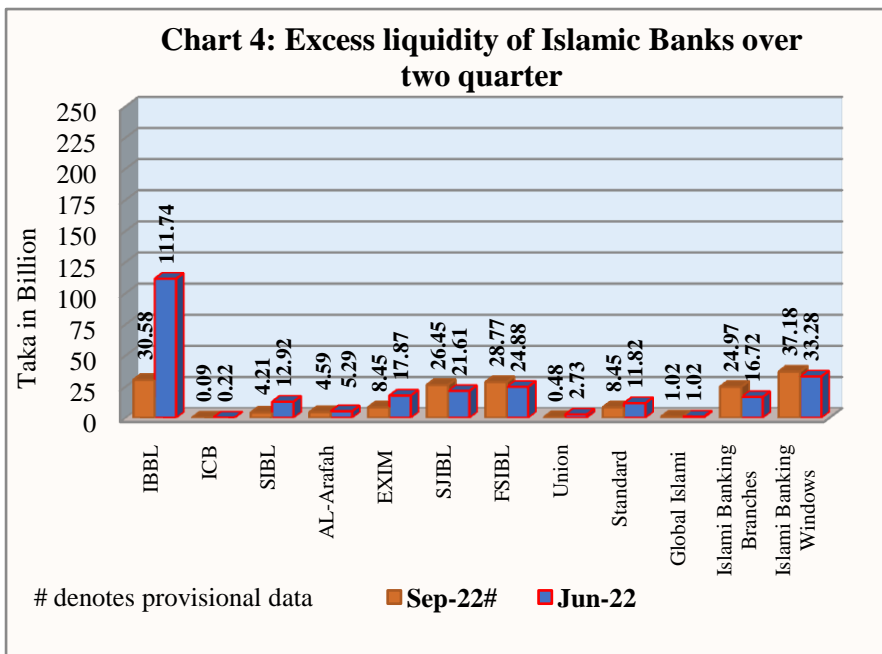
Period	Investment in Agricultural Sector						
	Investment Target	Actual Investment Disbursement	Target Achieved (%)	Recovery	Outstanding Investment	Overdue Investment	Classified Investment
1	2	3	4	5	6	7	8
July-September 2022 ^P	20.57	12.75	61.96	13.34	51.67	21.65	21.20
April-June 2022	18.62	17.34	93.15	15.88	52.30	21.20	21.00
July-September 2021	12.87	12.53	97.36	10.73	41.87	6.54	13.92
Quarterly Changes	1.95	-4.60	-	-2.53	-0.63	0.45	0.20
Annual Changes	7.70	0.21	-	2.61	9.80	15.11	7.29

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

*= Excluding branches and windows of conventional banks.

4. Liquidity Situation of Islamic Banking System

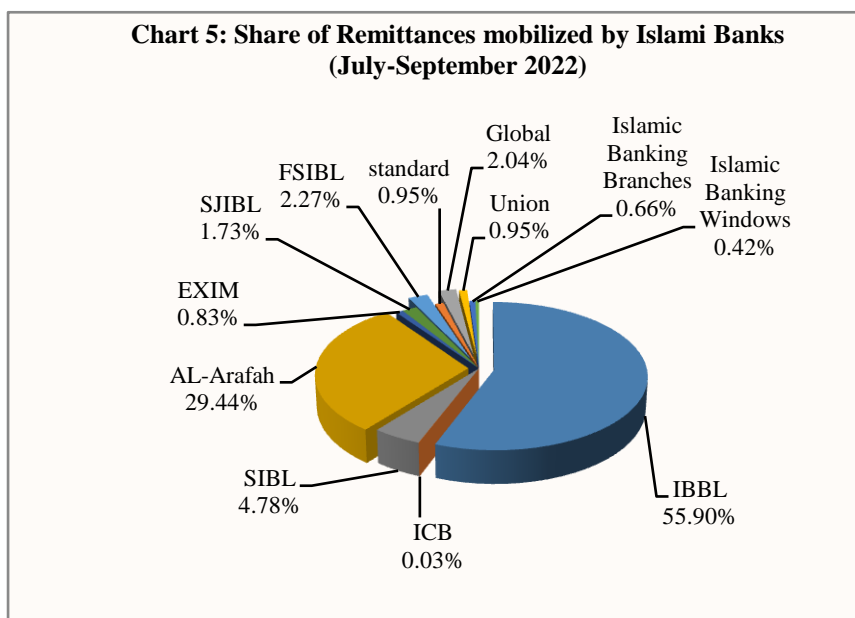
Excess liquidity of Islamic banking system stood at BDT 175.25 billion at the end of September 2022 which was lower by BDT 84.84 billion (32.62%) and by BDT 176.61 billion (50.19%) than that of the end of June 2022 and the same period of the last year respectively. The excess liquidity of full-fledged Islamic banks, Islamic



banking branches and windows of conventional banks stood at BDT 113.10 billion, 24.97 billion and 37.18 billion respectively. Summary of liquidity situation of Islamic banking system is shown in chart-4.

5. Remittances Mobilized by the Islamic Banking System

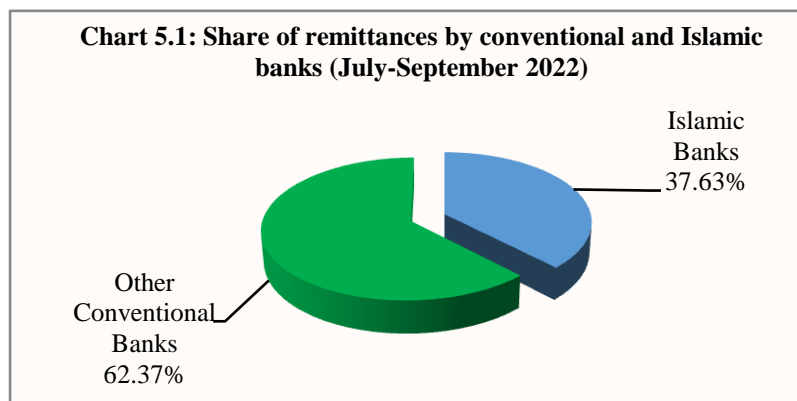
Islamic banking sector of the country is playing a vital role in collecting foreign remittances and distributing it among beneficiaries across the country. Total remittances mobilized by the Islamic banking system stood at BDT 202.23 billion during July-September 2022, which was higher by BDT 45.06 billion or by (28.67%) and BDT 4.31



billion or (2.18%) 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 (55.90%) in remittance mobilization during July-September 2022, followed by Al-Arafah Islami Bank Ltd. (29.44%), Social Islami Bank Ltd (4.78%), First Security Islami Bank Ltd (2.27%), Global Islami

Bank (2.04%), Shahjalal Islami Bank (1.73%), Union Bank Ltd (0.95%), Standard Bank Ltd. (0.95%), EXIM Bank Ltd. (0.83%), Islamic banking branches of conventional banks (0.66%), Islamic banking windows (0.42%) and ICB Islamic Bank (0.03%) [Chart-5].

The Islamic banking system represented 37.63 percent share of total remittances mobilized by the whole banking sector during the quarter under report. Shares of remittance mobilizations of conventional scheduled banks and Islamic banks are shown in [chart-5.1].



6. Corporate Social Responsibility of Islamic Banking System

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 July-September 2022 stood at BDT 0.23 billion which was BDT 2.14 billion in April-June 2022 and BDT 1.45 billion in July-September 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

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

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 fourth 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 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 September 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 FY21.

Table 7: Bangladesh Government Islamic Investment Bond

Year	Sale	Financing	Net Balance
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 July-September 2022

- BB has introduced new policies on credit rescheduling in order to maintain stability in the financial sector and sound management of classified loans. All scheduled banks including Islamic banks must follow the prescribed policies in loan/investment rescheduling. Source: BRPD circular No. 16 dated 18 July 2022³.
- BB has made the new guideline to ensure and make available loan/investment to the CMSMEs sector on cluster basis. Shariah based Islamic banks may participate in the CMSMEs financing by following the clustering guidelines. Source: SMESPD Circular No. 05, dated 14 August 2022³.
- To implement the 3rd phase of the stimulus package BB has established a fund of BDT 300 billion (BDT 270 billion for industries and services sectors and BDT 30 billion for B & C type industries in BEZA, BEPZA & High tech industries) for the industries and services sectors (excluding CMSMEs) which did not get any credit facility from previous packages. The credit/investment facility have to be provided before 30 June 2023. Source: BRPD Circular Letter No. 31, dated 28 July 2022³.
- BB has made a refinance scheme of BDT 250 billion for 3 years out of its own fund with a view to ensure and make available loan/investment for CMSMEs entrepreneurs at low interest/profit and easy terms through banks and NBFIs. Shariah based Islamic banks may also avail this fund by following the terms and conditions. Source: SMESPD Circular No. 04, dated 19 July 2022³.
- Considering the prolonged impact of Covid-19 and Russia-Ukraine war BB has refixed L/C margin to strengthen money and credit management. Source: BRPD Circular Letter No. 25, dated 4 July 2022³.

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

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 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 sectors of customers in micro finance projects, women financing, investing in the privatized projects, 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 response from the investors indicate that it will facilitate smooth liquidity management of Islamic banks, help budget deficit administration 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).

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 need 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.

Islamic banks have to adopt a customer- oriented strategy instead of product oriented one, because the current trends in bank marketing focuses essentially on the customer. The availability of the range of Islamic banking services is not enough alone. Such challenge requires reviewing the current marketing strategies of Islamic banks and disseminate it to targeted sectors of customers in a better way. Islamic banks should also focus on support for the poor and destitute through enhanced investments in small and micro enterprises and increased expenditures on CSR activities.

It is expected that, like other financial sector, Islamic financial sector also able to play the imperative role in recovery from the economic shock caused by any natural diaster by growing adoption of Financial technology (Fintech). So, Islamic banking system in Bangladesh needs to augment the application of Shariah-compliant fintech to carry out financial transactions more efficiently to show more trust towards the Islamic financial system.

In the milieu of Covid-19 pandemic and Russia-Ukraine war driven domestic and global adversities, Islamic banks should give more emphasis to amplify their investment in productive sectors especially in the CMSMEs and make stronger the monitoring that the investments are utilized properly for the productive purposes.

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