

# Quarterly Report on Islamic Banking in Bangladesh<sup>1</sup>

July-September 2024



**Islamic Economic Wing**  
**Research Department**  
**Bangladesh Bank**

---

<sup>1</sup>Prepared by Islamic Economic 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](mailto:farida.parveen@bb.org.bd)), Nazmun Nahar Mily, Additional Director (e-mail: [nazmun.mily@bb.org.bd](mailto:nazmun.mily@bb.org.bd)), Md. Alamin, Assistant Director (e-mail: [md.alamin962@bb.org.bd](mailto:md.alamin962@bb.org.bd)) and Shahin Bhuiyan, Assistant Director (e-mail: [shahin.bhuiyan@bb.org.bd](mailto:shahin.bhuiyan@bb.org.bd)).

# **Quarterly Report on Islamic Banking in Bangladesh**

## **July-September 2024**

### **Editor**

**Dr. Sayera Yunus**

Executive Director (Research)

### **Co-Editor**

**Farida parveen**

Director (Research)

### **Contributors**

Nazmun Nahar Mily, Additional Director

Md. Alamin, Assistant Director

Shahin Bhuiyan, Assistant Director

## Highlights: Quarterly Report on Islamic Banking in Bangladesh

July-September 2024

|                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|---------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Total Deposits</b>           | Total deposits of Islamic banking system stood at BDT 4,366.67 billion at the end of September 2024 with a decrease of BDT 86.42 billion or 1.94 percent as compared to BDT 4,453.09 billion at the end of June 2024. But it was higher by BDT 46.78 billion or 1.08 percent as compared to the same quarter of the last year. The share of total deposits of Islamic banks accounted for 25.08 percent of total deposits of the entire banking sector during the period under report.     |
| <b>Total Investment</b>         | At the end of September 2024, total Investment (loans & advances) of Islamic banking system increased by BDT 19.74 billion or 0.42 percent compared to the end of June 2024 and reached to BDT 4,704.43 billion. It was also higher by BDT 413.71 billion or 9.64 percent as compared to the same quarter of the last year. The share of total investment of Islamic banks accounted for 28.18 percent of total loans & advances of the whole banking sector at the end of September 2024. |
| <b>Investment-Deposit Ratio</b> | Investment-Deposit Ratio (IDR) of the Islamic banks stood at 0.96 (excluding EDF and refinance) at the end of September 2024 which was 0.93 and 0.91 at the end of June 2024 and at the end of September 2023 respectively.                                                                                                                                                                                                                                                                |
| <b>Excess Liquidity</b>         | Excess liquidity of Islamic banks decreased by BDT 102.29 billion or 98.45 percent and stood at BDT 1.61 billion at the end of September 2024 from BDT 103.90 billion of end June 2024 due mainly to shortfall of deposits and excess withdrawal by the depositors. It was lower by BDT 28.82 billion or 94.69 percent than that of the same period of the last year.                                                                                                                      |
| <b>Exports</b>                  | Total export receipts by the Islamic banks increased by BDT 71.11 billion or 25.21 percent to BDT 353.15 billion during July-September 2024 from BDT 282.04 billion during April-June 2024. It was lower by BDT 76.21 billion or 17.75 percent than that of the same quarter of last year.                                                                                                                                                                                                 |
| <b>Imports</b>                  | Total Import payment by the Islamic banking system was increased by 10.86 percent to BDT 466.27 billion during July-September 2024 as compared to April-June 2024. It was lower by BDT 110.15 billion or 19.11 percent than that of the same quarter of 2023.                                                                                                                                                                                                                              |
| <b>Total Remittances</b>        | Total remittances mobilized by the Islamic banks stood at BDT 308.93 billion at the end of September 2024 which was higher by 11.02 percent and 10.15 percent as compared to the previous quarter and the same quarter of last year respectively.                                                                                                                                                                                                                                          |
| <b>Branches and Windows</b>     | The number of branches of Islamic banks including Islamic branches of conventional commercial banks extended to 1,719 at the end of September 2024. It was 1,711 at the end of June 2024 and 1687 at the end of September 2023. At the same time, the number of Islamic banking windows extended to 750 at the end of September 2024 from 688 of end June 2024. It was 615 at the end of September 2023.                                                                                   |
| <b>Manpower</b>                 | Total employment in the Islamic banks stood at 54,169 at the end of September 2024. It was 53,933 at the end of June 2024 and 50,146 at the end of September 2023.                                                                                                                                                                                                                                                                                                                         |

# **Quarterly Report on Islamic Banking in Bangladesh**

**July-September 2024**

Islamic banking has grown rapidly in value and geographical reach and has become an important and integral part of the global financial system. The sector is continuously 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 notable growth due to its strong public demand and policy supports from the government as well as Bangladesh Bank.

## **1. Brief overview on Islamic Banking**

At the end of September 2024, there were 10 full-fledged Islamic banks in Bangladesh operating with 1686 branches amongst total 11,300 branches in the whole banking system. In addition to this, 33 Islamic banking branches of 16 conventional commercial banks and 750 Islamic banking windows of 19 conventional commercial banks are also providing Islamic financial services in Bangladesh which has been shown in Table-1 (Appendix).

### **1.1: Activities of Islamic Banking system in Bangladesh: July-September 2024**

Islamic Banking system has significant contributions in terms of deposits, investment, exports, imports, remittances mobilization and employment generation in the banking sector 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. But in the backdrop of current global uncertainty, high inflationary pressure and persistent geopolitical tensions banking industry including Islamic banking system has been facing huge challenges. During the period under review especially Islamic banking sector in Bangladesh has been experienced consecutive challenges like liquidity constraints. Basic information on Islamic banking has been given in Table-2 (Appendix).

### **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 2024, Islamic banking system represents 25.08 percent share in terms of deposits in the total banking industry which was decreased from 25.56 percent of end June 2024. It accounted for 28.18 percent share in terms of investments of the whole banking industry at the end of September 2024 which was also decreased from 28.22 percent of end June 2024. The share of Islamic banking system recorded 39.70 percent of remittance among entire banking industry at the end of September 2024 which was decreased from 40.32 percent of end June 2024. IBS have contributed 22.69 percent share of agricultural credit of

the entire banking industry at the end of September 2024, which was increased from 17.35 percent of end June 2024 (Table 3).

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

(In Billion BDT)

| Items                                                              | July-September 2024 <sup>P</sup> |               |                                                  | April-June 2024                                  |
|--------------------------------------------------------------------|----------------------------------|---------------|--------------------------------------------------|--------------------------------------------------|
|                                                                    | 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                                                     | 17410.09                         | 4366.67       | 25.08                                            | 25.56                                            |
| Total investment (loans & advances in conventional banking system) | 16695.92                         | 4704.43       | 28.18                                            | 28.22                                            |
| Remittances                                                        | 778.24                           | 308.93        | 39.70                                            | 40.32                                            |
| Total excess liquidity                                             | 1774.53                          | 1.61          | 0.09                                             | 5.36                                             |
| Total number of bank branches                                      | 11300                            | 1719*         | 15.21                                            | 15.28                                            |
| Total agricultural credit                                          | 64.58                            | 14.65         | 22.69                                            | 17.35                                            |

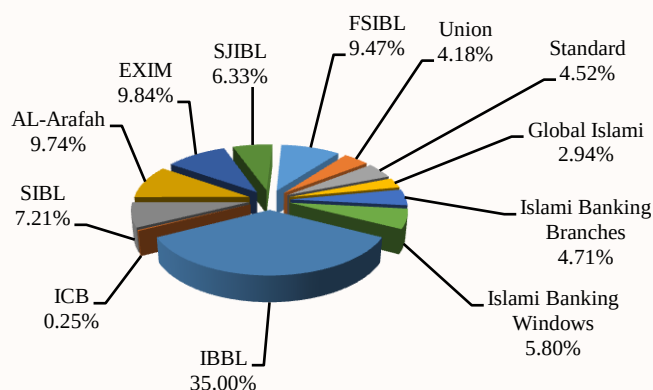
Source: Statistics Department, MPD, BRPD and ACD, Bangladesh Bank. Note: Stock figures are provided on end period basis.\*= Including Islamic Banking branches of Conventional Banks, P=Provisional.

## 2. Deposits Mobilization by Islamic Banking System

Total deposits in Islamic banking system stood at BDT 4366.67 billion at the end of September 2024 with a decrease of BDT 86.42 billion or 1.94 percent as compared to the end of June 2024.

Deposits of 10 full-fledged Islamic banks stood at BDT 3907.60 billion, windows of conventional banks BDT 253.25 billion and branches of conventional banks BDT 205.82

**Chart 1: Share of Deposits of all Islamic Banks (July-September 2024)**



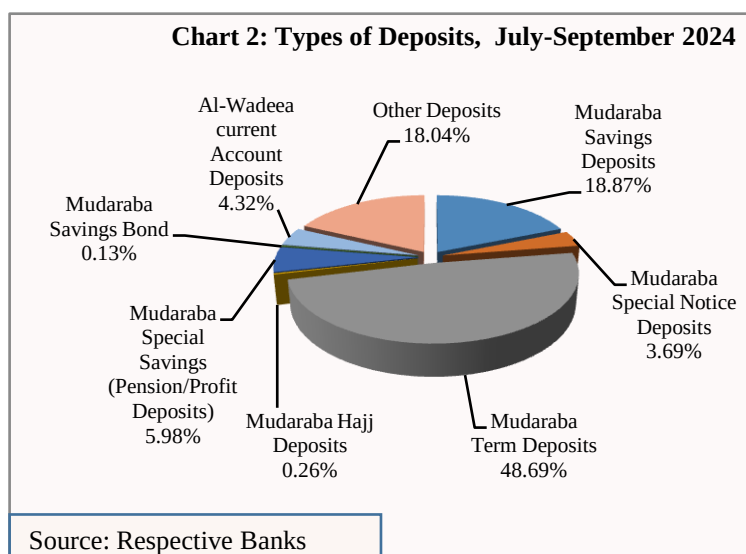
Source: Respective Banks

billion at the end of September 2024. Out of total deposits of the Islamic banking system 10 full-fledged Islamic banks represented 89.48 percent of deposits where Islamic banking branches and windows represented 4.71 and 5.80 percent respectively. Among all Islamic banks, Islami Bank Bangladesh PLC received the highest amount of deposits (35.00%) followed by Exim Bank PLC (9.84%), Al-Arafah Islami Bank PLC (9.74%), First Security Islami Bank PLC (9.47%), Social Islami Bank PLC (7.21%),

Shahjalal Islami Bank PLC (6.33%), Standard Bank PLC (4.52%), Union Bank PLC (4.18%), Global Islami Bank PLC (2.94%) and ICB Islamic Bank Ltd. (0.25%) [Chart-1].

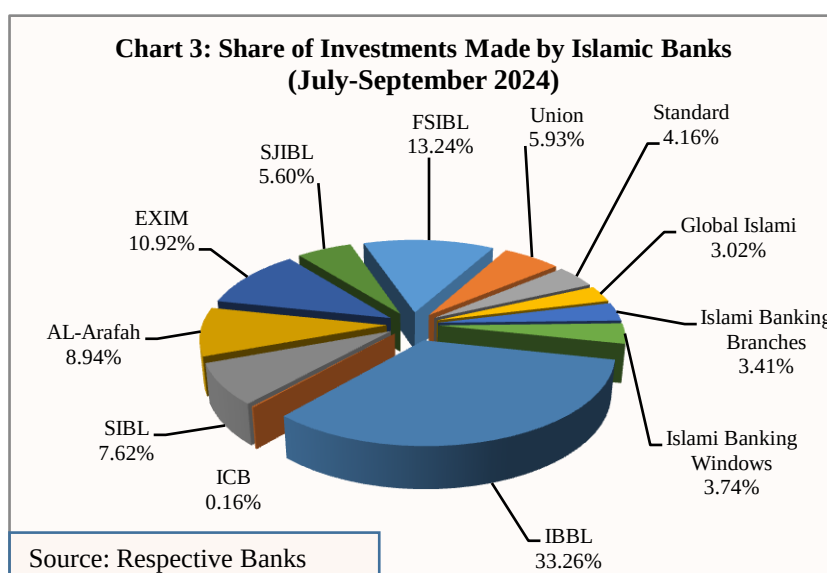
## 2.1: Types of Deposits

Among different types of deposits of the Islamic banking system, Mudaraba Term Deposits (MTD) secured the highest position (48.69%) followed by Mudaraba Savings Deposits (MSD) (18.87%), Other Deposits (18.04%), Mudaraba Special Savings (pension/profit) Deposits (5.98%), Mudaraba Special Notice Deposits (3.69%), Al-Wadeeah Current Account Deposits (4.32%), Mudaraba Hajj Deposits (0.26%) and Mudaraba Savings Bond (0.13%) during July-September 2024[Chart-2].



## 3. Investments of Islamic Banking System

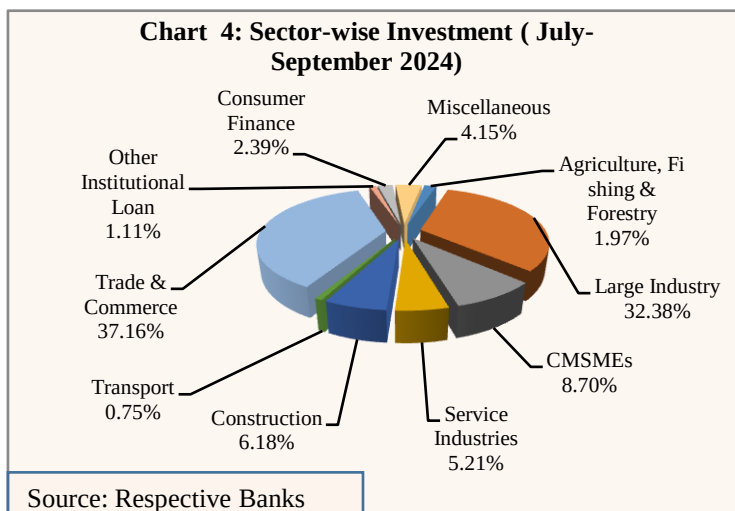
Total investment (loans & advances) of Islamic banking system stood at BDT 4,704.43 billion at the end of September 2024 which was BDT 4,684.68 billion at the end of June 2024 and BDT 4,290.71 billion at the end of September 2023. Out of total investment of Islamic banking system, 92.85 percent was materialized by 10 full-fledged



Islamic banks, 3.74 percent by the Islamic banking windows of conventional banks and the rest 3.41 percent by the Islamic banking branches of conventional banks. Among the 10 full-fledged Islamic banks, Islami Bank Bangladesh PLC affixed the highest investment (33.26%) at the end of September 2024 followed by First Security Islami Bank PLC. (13.24%), EXIM Bank PLC (10.92%), AL-Arafah Islami Bank PLC (8.94%), Social Islami Bank PLC (7.62%), Union Bank PLC (5.93%), Shahjalal Islami Bank PLC (5.60%), Standard Bank PLC (4.16%), Global Islami Bank PLC (3.02%) and ICB Islamic Bank Ltd. (0.16%) [Chart-3].

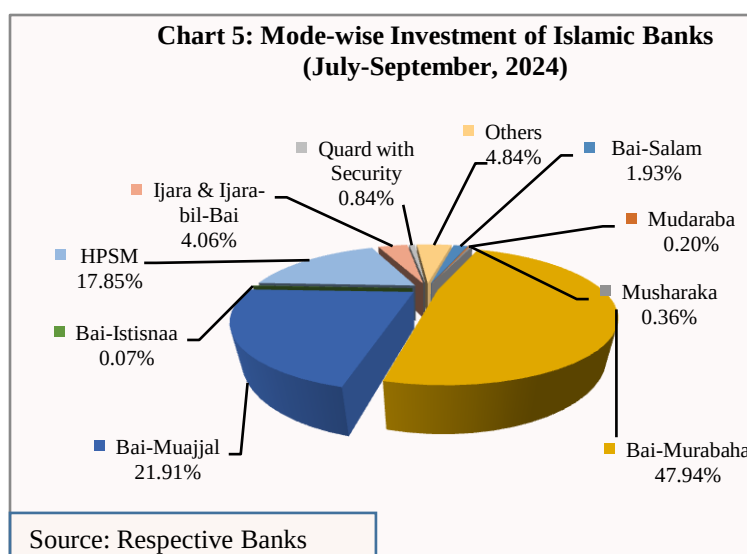
### 3.1: Sector-wise Investment

In case of the sector-wise investment, Trade and Commerce sector secured the highest position (37.16%) among all sectors at the end of September 2024. Followed by Large Industry (32.38%), CMSMEs (Cottage, Micro, Small and Medium Enterprises (8.70%), Construction (6.18%), Services Industry (5.21%), Miscellaneous (4.15%), Consumer Finance (2.39%), Agriculture, Fishing and Forestry (1.97%), Transport (0.75%) and Other Institutional Loan (1.11%), [Chart-4].



### 3.2: Mode\*-wise Investments

The analysis of mode-wise investment revealed that the highest investment was materialized through Bai-Murabaha mode (47.94%) at the end of September 2024 followed by Bai-Muajjal (21.91%), HPSM (17.85%), Ijara & Ijara-bil Bai (4.06%), Bai-Salam (1.93%), Quard with Security (0.84%), Musharaka (0.36%), Mudaraba (0.20%), Bai-Istisna (0.07%) and Others (4.84%) [Chart-5].



### 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 2024, investment in agricultural sector financed by the Islamic banking system stood at BDT 14.65 billion. It was lower by BDT 3.54 billion and BDT 1.25 billion of previous quarter 2024 and the same quarter of the last year respectively.

\* In Islamic banking, the term "mode" refers to the various permissible contracts or arrangements through which Islamic financial transactions are conducted.

The share of total agricultural credit of Islamic banks accounted for 22.69 percent among all banks during the quarter under review. 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)

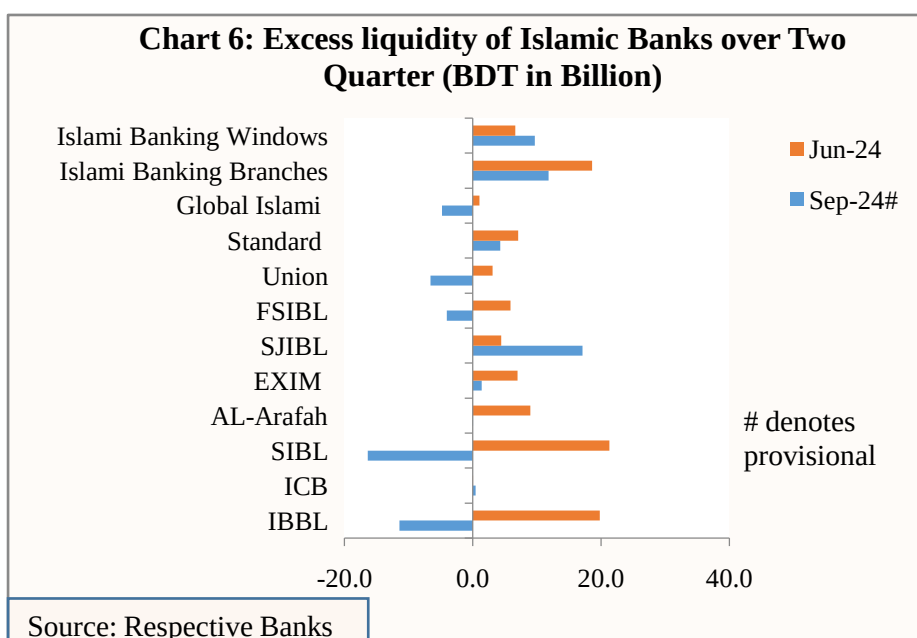
| Period                           | Investment in Agricultural Sector |                   |                     |          |                        |                    |                       |
|----------------------------------|-----------------------------------|-------------------|---------------------|----------|------------------------|--------------------|-----------------------|
|                                  | Investment Target                 | Actual Investment | Target Achieved (%) | Recovery | Outstanding Investment | Overdue Investment | Classified Investment |
| 1                                | 2                                 | 3                 | 4                   | 5        | 6                      | 7                  | 8                     |
| July-September 2024 <sup>P</sup> | 24.47                             | 14.65             | 59.89               | 17.81    | 65.52                  | 2.89               | 36.87                 |
| April-June 2024                  | 24.05                             | 18.19             | 75.66               | 15.54    | 79.89                  | 2.62               | 35.77                 |
| July-September 2023              | 23.86                             | 15.90             | 66.63               | 15.62    | 75.85                  | 25.92              | 30.57                 |
| Quarterly Changes                | 0.42                              | -3.54             | -                   | 2.27     | -14.37                 | 0.26               | 1.10                  |
| Annual Changes                   | 0.61                              | -1.25             | -                   | 2.19     | -10.33                 | -23.03             | 6.29                  |

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

P= Provisional.

## 4. Liquidity Situation of Islamic Banking System

Excess liquidity of Islamic banking system stood at BDT 1.61 billion at the end of September 2024. The excess liquidity of full-fledged Islamic banks, Islamic banking branches and windows of conventional banks stood at BDT -19.90 billion, 11.84 billion and

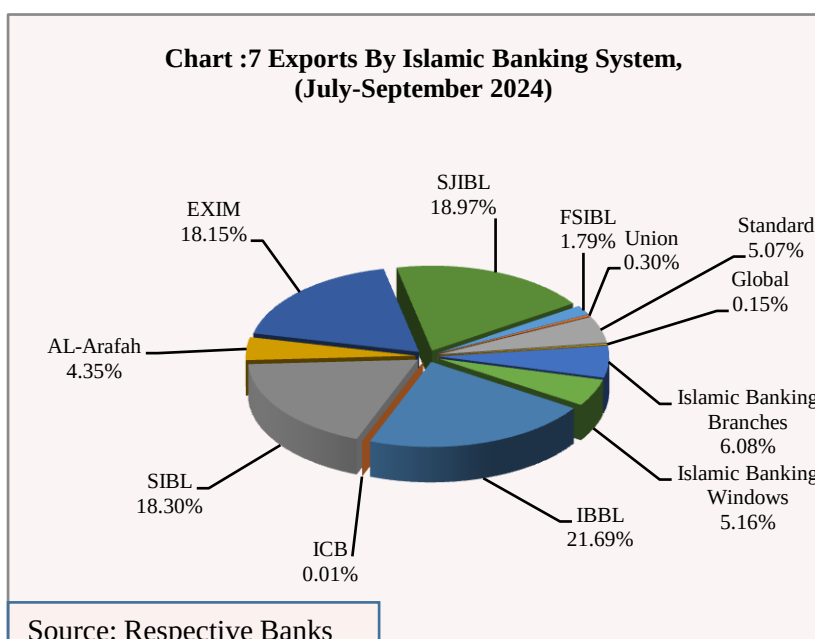


9.67 billion respectively. Liquidity position of full-fledged Islamic banks decreased significantly during the quarter under report compared to previous quarter due mainly to shortfall of deposits and excess withdrawal by the depositors. Summary of liquidity situation of Islamic banking system is shown in chart-6.

## 5. Foreign Exchange Dealings and Remittance Mobilizations by Islamic Banking

### 5.1: Exports

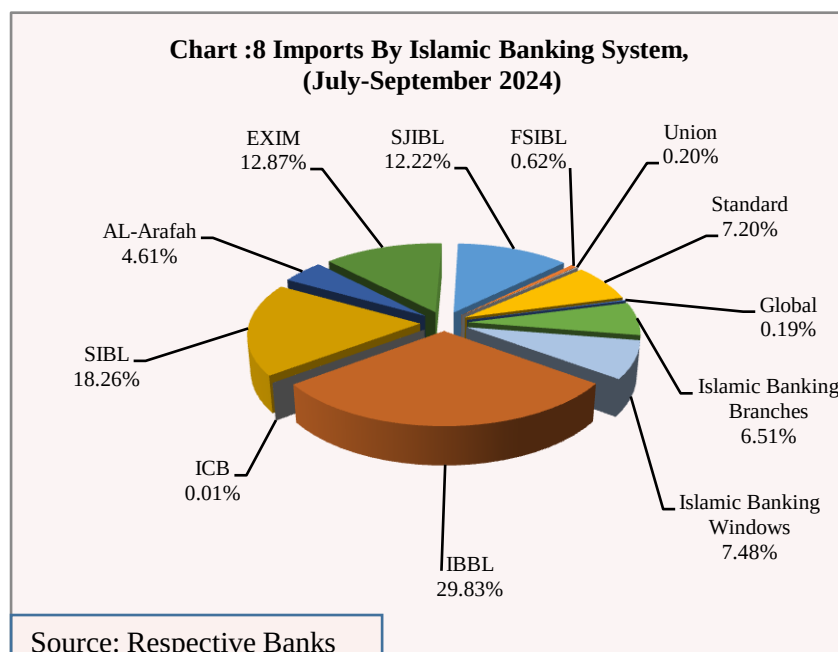
Total export receipts by the Islamic banks stood at BDT 353.15 billion during July-September 2024. Among the Islamic banking system, Islami Bank Bangladesh PLC (21.69%) secured the top position in export earnings during July-September 2024, followed by, Shahjalal Islami Bank PLC (18.97%), Social Islami Bank PLC (18.30%), EXIM bank PLC



(18.15%), Islamic banking branches of conventional banks (6.08%), Islamic banking windows (5.16%), Standard Bank PLC (5.07%), AL-Arafah Islami Bank PLC (4.35%), First Security Islami Bank PLC (1.79%), Union Bank PLC (0.30%), Global Islami Bank PLC (0.15%) and ICB Islamic Bank Ltd. (0.01%), [Chart-7].

### 5.2: Imports

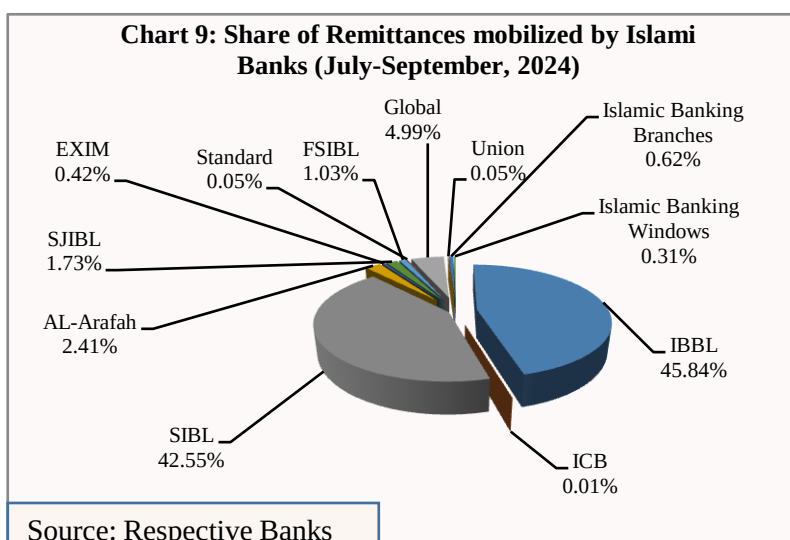
Total Import payments by the Islamic banking system stood at BDT 466.27 billion during July-September quarter of 2024. Among the Islamic banking system, Islami Bank Bangladesh PLC secured the top position (29.83%) in Import payments during July-September 2024, followed by Social Islami Bank PLC (18.26%), EXIM Bank PLC (12.87%), Shahjalal Islami Bank PLC (12.22%), Standard Bank



PLC (7.20%), Islamic banking windows (7.48%), Islamic banking branches of conventional banks (6.51%), Al-Arafah (4.61%), First Security Islami Bank PLC (0.62%), Union Bank PLC (0.20%), Global Islami Bank PLC (0.19%), and ICB Islamic Bank Ltd. (0.01%) [Chart-8].

### 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 stood at BDT 308.93 billion during July-September 2024. Among the Islamic banking system, Islami Bank Bangladesh PLC secured the top position (45.84%) in remittance mobilization during July-September 2024, followed by Social Islami Bank PLC (42.55%), Global Islami Bank PLC (4.99%), Al-Arafah Islami Bank PLC. (2.41%), Shahjalal Islami Bank PLC (1.73%), First security Islami Bank PLC (1.03%), Islamic banking branches of conventional banks (0.62%), Islamic banking windows of conventional banks (0.31%), Union Bank PLC (0.05%), Standard Bank PLC (0.05%) and ICB Islamic Bank Ltd. (0.01%) [Chart-9].



## 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. 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 2024 stood at BDT 0.58 billion which was BDT 0.80 billion in April-June 2024 and BDT 0.80 billion in July-September 2023.

## 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 BDT 228.25 billion during July-September 2024 while number of beneficiaries were 1, 22,265. Among the total sustainable finance, green finance was BDT 45.78 billion and sustainable-linked finance was BDT 182.47 billion. The number of beneficiaries of green finance and sustainable-linked finance were 1,675 and 1, 20,590 respectively which are shown in Table -5.

**Table-5: Sustainable and Green Financing by Islamic Banks during July-September 2024**

| (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 |
| 1,675                   | 45.78        | 1,20,590                   | 182.47       | 1,22,265                      | 228.26       |

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 Government<sup>2</sup>. 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 (1<sup>st</sup> Phase)” the third auction of Sukuk was held in 29 December, 2021 to raise BDT 50.00 billion

<sup>2</sup>[https://www.bb.org.bd/mediaroom/notice/sukuk\\_prospectus.pdf](https://www.bb.org.bd/mediaroom/notice/sukuk_prospectus.pdf)

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 fifth auction of Sukuk was held in 5<sup>th</sup> June, 2024 to raise BDT 10.00 billion for “CDWSP Social Impact Sukuk” based on Istisna mode for the project named “Chattogram Division Upazila & Union Road Widening & Strengthening Project (CDWSP) at 10.40 percent profit rate.

**The total amount of Sukuk issued stood at BDT 190.00 billion till end of September 2024.**

Profits of the Sukuk are paid to the investors on 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 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 FY24.

**Table-6: Bangladesh Government Islamic Investment Bond**

(In Billion BDT)

| Year | Sale   | Financing | Net Balance |
|------|--------|-----------|-------------|
| FY24 | 126.72 | 125.89    | 0.82        |
| 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 2024.**

- In the context of recent domestic, political and global economic situation, since the production activities and the timely repatriation process of the export value of export-oriented industries have been disrupted which make the owner of the said industries unable to pay salaries and allowances to their worker and employees. In this backdrop, in order to maintain growth stability BB instructed all scheduled banks including Islamic banks to provide loan facilities to this export-oriented industries so that they can able to pay salaries and allowances to their worker and employees (Source: BRPD Circular Letter No. 40, Date: 01/09/2024)<sup>3</sup>.
- Some flood-affected borrowers especially short-term agriculture and the entrepreneurs of CMSME sector could not able to repay their loan/loan installment on time. To solve this problem recently BB has issued an instruction to assisting the flood-affected borrowers to repay or adjust their loan/loan installments so that their existing unclassified loans as on 1 August 2024 are not adversely classified (Source: BRPD Circular Letter No. 39, Date: 01/09/2024)<sup>3</sup>.
- In order to bringing dynamics in the recovery process of default loan and to implement the road map announced for the country's banking sector, recently BB has instructed to strengthen the legal department or legal team of all scheduled banks including Shariah based banks for the quick settlement of pending cases of default loans in Ortho Rin Adalat (Source: BRPD Circular No. 14, Date: 04/08/2024)<sup>3</sup>.
- Due to the unavoidable situations in the recent past, many borrowers and credit card holders have not been able to pay their dues and many depositors could not also deposit their installments of various savings schemes on time. In this context, BB has given instructions to all scheduled banks including Islamic banks regarding repayment of loan and credit card dues and payment of installments of various savings schemes due from 18<sup>th</sup> July 2024 to 25<sup>th</sup> July 2024 (Source: BRPD Circular Letter No. 34, Date: 24/07/2024)<sup>3</sup>.
- Since there is no specific policy regarding loan recovery/adjustment of non-willful default loan/investment under exit facility, presently banks have been following different procedures or criteria for this. In this situation to reduce the classified loans/investments in the banking sector and to continue the liquidity flow of banks through recovery, BB has formulated a unique policy regarding recovery/adjustment of unpaid loans/investments. Shariah based Islamic banks may follow the policy in case of recovery/adjustment of their regular and classified investments (Source: BRPD Circular Letter No. 13, Date: 08/07/2024)<sup>3</sup>.
- In order to further expand the Islamic banking activities and to provide Islamic banking services at the customer's doorstep, recently BB has issued guidelines regarding online Islamic banking

services and instructed that, the customers of Islamic banking branches or windows can conduct online Islamic banking activities through conventional branches and sub-branches subject to following conditions:

1. To provide Islamic banking services to customers, bank's should have an Islamic Banking Help Desk (IBHD) in branches and sub-branches as well as trained and experienced officers should be posted at IBHD.
2. Only the bank's authorized customers of Islamic banking branches or windows can receive online financial transactions, deposit withdrawal and transfer facilities through IBHD.
3. Separate "Islamic core banking" software will be used to conduct the Islamic banking transactions/activities.
4. Islamic banking will be conducted through "IB General Account" maintained in Islamic banking branches.
5. The funds of general accounts maintained in Islamic banking branches cannot be used in conventional banking activities.
6. Any operations related to customer account opening and investment cannot be done through the IBHD.
7. In case of conducting online Islamic banking activities through IBHD, a notification/ banner/ placard/ festoon will be displayed at the visible places of branches with stating that, "Online Islamic banking services are provided" (Source: BRPD Circular Letter No. 30, Date: 08/07/2024)<sup>3</sup>.

## 10. 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 28 percent share of investment of the whole 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 may focus more on expanding their outreach into rural areas.

<sup>3</sup>For details: [https://www.bb.org.bd/mediaroom/circulars/circular\\_letters.pdf](https://www.bb.org.bd/mediaroom/circulars/circular_letters.pdf)

- Islamic banks may 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 need to focus 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, which may give Islamic banks a great advantage to flourish.
- To make efficient use of liquidity of the Islamic banking sector, more innovative Islamic money market and capital market products are introduced. The 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.
- Islamic banks can play more effective role in financial markets and can deepen financial inclusion by offering new modes of finance and attracting unbanked populations that has not yet been participated in the financial system.
- 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. 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.
- Islamic banks may 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.
- It is observed that, some full-fledged Islamic banks have been facing severe liquidity crisis due to lack of some sort of irregularities and good governance in recent past. So it is essential to established good governance in Islamic banking system, as good governance and accountability are key to navigating the current crisis and ensuring sustainable growth of this sector.

## 11. Conclusion

Islamic banking system has already been able to establish itself as an alternative funding source in economic development of Bangladesh. Over the period it has been gaining increasing market share among total banking industry. Presently, the contribution of this system in terms of deposits and investment is 25.08 percent and 28.18 percent respectively. In recent past the investment growth has surpassed the deposits growth due mainly to lack of public confidence which lead to decline the excess liquidity of the IBS and the sector has been facing consecutive liquidity pressure. To overcome the situation, BB has provided liquidity support to the Islamic banks through Islamic Banks Liquidity Facility (IBLF), Mudarabah Liquidity Support (MLS) and Special Liquidity Support (SLS). Apart from these, recently BB has introduced Liquidity Support Guarantee (LSG) through which strong banks can provide liquidity support to the weak banks including Islamic banks. Besides, BB has also recently reformed the governing bodies of major Islamic banks to bring back public confidence in the aftermath of regime change. It is expected that, these pragmatic steps taken by BB may significantly impact to overcome the Islamic banks from this crisis situation and lead the sector to operate on a sound footing.

**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     | 395             | Prime Bank PLC                             | 5               | NRBC Bank PLC                                | 326            |
| 2            | Al-Arafah Islami Bank PLC      | 226             | Southeast Bank PLC                         | 5               | Agrani Bank PLC                              | 61             |
| 3            | First Security Islami Bank PLC | 205             | Bengal Commercial Bank PLC                 | 3               | The City Bank PLC                            | 60             |
| 4            | Social Islami Bank PLC         | 180             | Dhaka Bank PLC                             | 2               | Sonali Bank PLC                              | 58             |
| 5            | EXIM Bank PLC                  | 151             | Premier Bank PLC                           | 2               | Mercantile Bank PLC                          | 45             |
| 6            | Shahjalal Islami Bank PLC      | 140             | Pubali Bank PLC                            | 3               | Trust Bank Limited                           | 30             |
| 7            | Standard Bank PLC              | 138             | Jamuna Bank PLC                            | 2               | Premier Bank PLC                             | 25             |
| 8            | Union Bank PLC                 | 114             | One Bank PLC                               | 2               | Pubali Bank PLC                              | 25             |
| 9            | Global Islami Bank PLC         | 104             | Bangladesh Commerce Bank Limited           | 2               | Mutual Trust Bank PLC                        | 15             |
| 10           | ICB Islamic Bank Limited       | 33              | The City Bank PLC                          | 1               | One Bank PLC                                 | 14             |
| 11           |                                |                 | AB Bank PLC                                | 1               | Meghna Bank PLC                              | 10             |
| 12           |                                |                 | Bank Al-Falah Limited                      | 1               | United Commercial Bank PLC                   | 60             |
| 13           |                                |                 | NRB Bank Limited                           | 1               | South Bangla Agriculture & Commerce Bank PLC | 10             |
| 14           |                                |                 | United Commercial Bank PLC                 | 1               | Bank Asia PLC                                | 5              |
| 15           |                                |                 | National Credit & Commerce Bank PLC        | 1               | Standard Chartered Bank                      | 1              |
| 16           |                                |                 | Mercantile Bank PLC                        | 1               | Midland Bank PLC                             | 1              |
| 17           |                                |                 |                                            |                 | AB Bank PLC                                  | 1              |
| 18           |                                |                 |                                            |                 | Rupali Bank PLC                              | 2              |
| 19           |                                |                 |                                            |                 | Eastern bank PLC                             | 1              |
| 20           |                                |                 |                                            |                 | Janata Bank PLC *                            |                |
| <b>Total</b> | <b>10</b>                      | <b>1686</b>     | <b>16</b>                                  | <b>33</b>       | <b>19</b>                                    | <b>750</b>     |

Sources: Respective Banks. \*Janata Bank PLC has obtained permission for starting Islamic Banking window from Bangladesh Bank, but not yet started operation.

**Table-2: Basic information on Islamic Banking: July-September 2024**

(In Billion BDT)

| Indicators of Islamic Banking                    | July-Sep 2024 <sup>P</sup> | April-June 2024 | July-Sep 2023 | Changes   |         | Changes (%) |         |
|--------------------------------------------------|----------------------------|-----------------|---------------|-----------|---------|-------------|---------|
|                                                  |                            |                 |               | Quarterly | Annual  | Quarterly   | Annual  |
| 1                                                | 2                          | 3               | 4             | 5=2-3     | 6=2-4   | 7           | 8       |
| <b>1. Total Deposits*(Outstanding)</b>           | 4366.67                    | 4453.09         | 4319.89       | -86.42    | 46.78   | -1.94       | 1.08    |
| a) Full-fledged Islamic Banks                    | 3907.60                    | 4025.41         | 3951.42       | -117.81   | -43.82  | -2.93       | -1.11   |
| b) Islamic Banking Branches of CB                | 205.82                     | 199.86          | 174.64        | 5.96      | 31.18   | 2.98        | 17.85   |
| c) Islamic Banking Windows of CB                 | 253.25                     | 227.81          | 193.83        | 25.43     | 59.42   | 11.16       | 30.66   |
| <b>2. Total Investment** (Outstanding)</b>       | 4704.43                    | 4684.68         | 4290.71       | 19.74     | 413.71  | 0.42        | 9.64    |
| a) Full-fledged Islamic Banks                    | 4368.07                    | 4368.79         | 4022.70       | -0.72     | 345.38  | -0.02       | 8.59    |
| b) Islamic Banking Branches of CB                | 160.51                     | 151.05          | 133.37        | 9.46      | 27.14   | 6.26        | 20.35   |
| c) Islamic Banking Windows of CB                 | 175.85                     | 164.85          | 134.65        | 11.00     | 41.20   | 6.67        | 30.60   |
| <b>3. Investment-Deposit ratio<sup>#</sup></b>   | 0.96                       | 0.93            | 0.91          | 0.03      | 0.06    | 3.67        | 6.24    |
| a) Full-fledged Islamic Banks                    | 1.00                       | 0.96            | 0.92          | 0.04      | 0.08    | 4.41        | 8.36    |
| b) Islamic Banking Branches of CB                | 0.57                       | 0.67            | 0.69          | -0.10     | -0.12   | -14.93      | -17.32  |
| c) Islamic Banking Windows of CB                 | 0.67                       | 0.67            | 0.66          | 0.00      | 0.01    | -0.30       | 1.21    |
| <b>4. Liquidity (Excess( +) / Shortfall (-))</b> | 1.61                       | 103.90          | 30.43         | -102.29   | -28.82  | -98.45      | -94.69  |
| a) Full-fledged Islamic Banks                    | -19.90                     | 78.66           | 10.73         | -98.56    | -30.62  | -125.30     | -285.52 |
| b) Islamic Banking Branches of CB                | 11.84                      | 18.59           | 8.38          | -6.74     | 3.46    | -36.28      | 41.31   |
| c) Islamic Banking Windows of CB                 | 9.67                       | 6.65            | 11.33         | 3.02      | -1.66   | 45.32       | -14.62  |
| <b>5. Total Exports</b>                          | 353.15                     | 282.04          | 429.36        | 71.11     | -76.21  | 25.21       | -17.75  |
| a) Full-fledged Islamic Banks                    | 313.47                     | 255.16          | 383.91        | 58.32     | -70.43  | 22.86       | -18.35  |
| b) Islamic Banking Branches of CB                | 21.46                      | 11.60           | 28.01         | 9.86      | -6.55   | 84.97       | -23.39  |
| c) Islamic Banking Windows of CB                 | 18.21                      | 15.28           | 17.43         | 2.93      | 0.78    | 19.17       | 4.46    |
| <b>6. Total Imports</b>                          | 466.27                     | 420.61          | 576.42        | 45.66     | -110.15 | 10.86       | -19.11  |
| a) Full-fledged Islamic Banks                    | 401.03                     | 372.87          | 498.79        | 28.16     | -97.76  | 7.55        | -19.60  |
| b) Islamic Banking Branches of CB                | 30.37                      | 18.11           | 30.55         | 12.25     | -0.18   | 67.63       | -0.59   |
| c) Islamic Banking Windows of CB                 | 34.88                      | 29.63           | 47.08         | 5.25      | -12.21  | 17.72       | -25.93  |
| <b>7. Total Remittances</b>                      | 308.93                     | 278.26          | 280.47        | 30.68     | 28.46   | 11.02       | 10.15   |
| a) Full-fledged Islamic Banks                    | 306.07                     | 275.89          | 278.22        | 30.18     | 27.85   | 10.94       | 10.01   |
| b) Islamic Banking Branches of CB                | 1.90                       | 1.49            | 1.07          | 0.41      | 0.83    | 27.49       | 76.99   |
| c) Islamic Banking Windows of CB                 | 0.97                       | 0.87            | 1.18          | 0.09      | -0.21   | 10.62       | -18.10  |
| <b>8. Total Number of Branches</b>               | 1719                       | 1711            | 1687          | 8         | 32      | 0.47        | 1.90    |
| a) Full-fledged Islamic Banks                    | 1686                       | 1678            | 1657          | 8         | 29      | 0.48        | 1.75    |
| b) Islamic Banking Branches of CB                | 33                         | 33              | 30            | 0         | 3       | 0.00        | 10.00   |
| <b>9. Islamic Banking Windows of CB</b>          | 750                        | 688             | 615           | 62        | 135     | 9.01        | 21.95   |
| <b>10. Total Number of Manpower</b>              | 54169                      | 53933           | 50146         | 236       | 4023    | 0.44        | 8.02    |
| a) Full-fledged Islamic Banks                    | 52409                      | 52360           | 48837         | 49        | 3572    | 0.09        | 7.31    |
| b) Islamic Banking Branches of CB                | 616                        | 611             | 502           | 5         | 114     | 0.82        | 22.71   |
| c) Islamic Banking Windows of CB                 | 1144                       | 962             | 807           | 182       | 337     | 18.92       | 41.76   |

Source: Respective Banks, \* = Excluding interbank items, P= Provisional, CB= Conventional banks, \*\* = Excluding EDF and Refinance, \*\*\*Excluding bonds and securities and interbank items.