

Islamic Banking in Bangladesh: Trends and Insights


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Islamic banking in Bangladesh has become an essential component of the financial system, witnessing consistent growth over time and transforming the country's financial sector through Shariah-compliant banking practices. This paper examines key trends, market performance, and the contributions of Islamic banking to economic development. This study also provides a literature review on the evolution of Islamic banking, consistent growth with customer perception and concludes with insights into challenges facing the industry. This paper also shows the contribution of Islamic banking towards financial inclusion, economic development, and poverty reduction. This study further provides valuable insights into the role of Islamic finance in Bangladesh's economic landscape by examining the performance of Islamic banking in the country.

Keywords: islamic banking, shariah-compliant, financial inclusion, economic development, growth trends, market performance

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1. Introduction

Since its inception in the early 1980s, Islamic banking in Bangladesh has experienced substantial growth. It adheres to Shariah law, which forbids interest (riba) and places a strong emphasis on risk-sharing, profit-sharing, and moral investing. The industry has been vital to the nation's financial system, supporting socioeconomic development, financial inclusion, and economic expansion. The number of Islamic banking establishments in Bangladesh has steadily increased over time, with both fully operational Islamic banks and traditional banks providing Islamic banking services through special windows.

The Bangladesh Bank is in charge of the regulatory framework, which has developed to encourage and harmonize Islamic banking practices. Due to rising customer demand for financial services and products that adhere to Shariah, Islamic banking has already captured a significant market share.

2. Objective of the Study

The objectives of the study are as follows-

1. To explore the trend of deposits received by Islamic banking in Bangladesh.
2. To explore the trend of investments made by Islamic banking in Bangladesh.
3. To explore the trend of the remittances by Islamic banking in Bangladesh.
4. To examine the growth trends of Islamic banks.
5. To explore total branches and manpower of Islamic Banks.
6. To examine how Islamic banking influences financial inclusion.
7. To examine how Islamic banking impacts the economy of Bangladesh.

3. Literature Review

Islamic banking has seen remarkable growth in Bangladesh, driven by the country's socio-economic structure and religious values. This section explores key literature on its expansion, operational framework, financial stability, regulatory hurdles and customer preferences and significant role in financial sector. The journey of Islamic banking in Bangladesh began in 1983 with the launch of Islami Bank Bangladesh Limited (IBBL), marking the country's first Shariah-compliant financial institution

(Ahmed, 2010). Since then, the sector has experienced significant growth, with numerous fully-fledged Islamic banks and conventional banks now providing Islamic banking services through dedicated windows (Rahman, 2019).

Now there ten full-fledged Islamic Banks operating in Bangladesh, Like Islami Bank Bangladesh Limited, ICB Islamic Bank Limited, Social Islami Bank Limited, Al-Arafah Islami Bank Limited, EXIM Bank Limited, Shahjalal Islami Bank Limited, First Security Islami Bank Limited, Union Bank Limited, Standard Bank Limited, Global Islami Bank Limited (Bangladesh Bank, 2022). Research by Chowdhury and Hossain (2019) indicates that Islamic banks in Bangladesh have consistently outperformed traditional banks in terms of growth rates. The Bangladesh Bank (2021) reports that the Islamic banking sector has captured a notable portion of the market, representing more than 25% of the nation's total banking assets.

Islamic banking operates on a profit-sharing model, steering clear of interest-based transactions, which are prohibited in Islam (Mollah & Zaman, 2015). In Bangladesh, Islamic banks utilize various financial instruments, including Murabaha (cost-plus financing), Mudaraba (profit-sharing), and Ijara (leasing) to facilitate transactions (Hassan & Lewis, 2009). Studies suggest that these banks demonstrate strong financial stability and resilience, particularly during economic downturns (Khan et al., 2017).

Although Islamic banking in Bangladesh has grown rapidly, it still faces challenges related to regulation and governance. The coexistence of Islamic and conventional banking requires a strong legal framework to ensure compliance with both Shariah principles and national banking regulations (Uddin, 2021). However, the lack of a dedicated Islamic banking law makes it difficult to standardize operations and maintain transparency (Rahman, 2018). Researchers suggest that strengthening regulatory oversight and implementing standardized Shariah governance frameworks could improve operational efficiency (Karim & Alam, 2020).

Customer perception is a key factor in the growth of Islamic banking in Bangladesh. Research suggests that religious beliefs strongly influence customers' preference for Islamic banking services (Haque et al., 2009). Alongside this, aspects like service quality, trust, and financial benefits play a crucial

role in ensuring customer satisfaction and loyalty (Siddique & Islam, 2020). However, challenges persist, including a lack of awareness and common misconceptions about Islamic banking principles (Rahman et al., 2022). Islamic banking in Bangladesh has experienced substantial growth since it first began in the early 1980s. Both public and private sector banks have embraced Shariah-compliant practices, leading to an increasing market share for Islamic banks. This growth has allowed these banks to play a more significant role in the country's financial sector and contribute to the overall economic development (Chowdhury, 2012; Hossain & Alam, 2016).

4. Methodology

A systematic review of literature was conducted to analyze the state of Islamic banking in Bangladesh. Studies were selected from scholarly journals, conference papers, government reports, and institutional publications. Besides the numerical value analysis focuses on studies published from Bangladesh Bank between 2014 and 2022, as secondary data are available during this period. The research followed a quantitative meta-analysis approach, employing statistical tools to aggregate findings across studies.

5. Findings

In this paper, three base years (2014, 2018 and 2022) have been taken to do the numeric research work so that we can make conclusion to fulfill objectives of the study. To get more accurate findings, previous year of each base year has also been compared to base year respectively.

5.1. Total Deposits by Islamic Banking

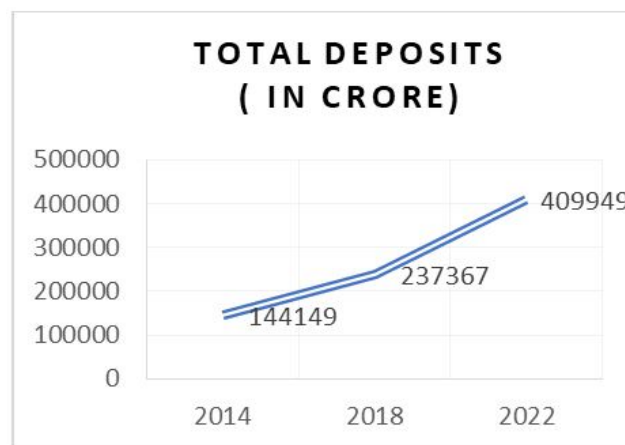
Total deposits by Islamic Banking in 2014, 2018 and 2022 are as follows-

(In crore BDT)

	2014	2018	2022
Deposits-			
a) Full-fledged Islamic Banks	136710	223657	379951
b) Conventional banks having Islamic banking branches	5172	7479	138300
c) Islamic banking windows	2267	6231	1611600
Total deposits (in crore)	144149	237367	409949

Table 1: Source: Bangladesh Bank 2014, 2018 and 2022)

The Bangladesh Bank (2014) reports that total deposits in Islamic banking industry reached Tk. 144149 crores at the end of December 2014, which increased by Tk. 5774.64 crores or by 4.17% compared to September 2014 and by Tk. 24993.88 crores or by 20.98% compared to corresponding December 2013.



The Bangladesh Bank (2018) reports that total deposits in Islamic banking industry reached at Tk. 237367 crores at the end of December 2018 quarter, which increased by Tk. 9552.47 crores or by 4.19% compared to previous quarter and by Tk. 23051.40 crores or by 10.76% compared to corresponding quarter of 2017.

The Bangladesh Bank (2022) shows that total deposits of Islamic banking system reached to BDT 409949 crores at the end of December. It was BDT 16838 crores or 4.28 percent higher as compared to the same quarter of the last year 2021. 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.

The Bangladesh Bank (2022) reports that at the end of December 2022, deposits in 10 full-fledged Islamic banks stood at BDT 3,79951 crore, while Islamic banking windows of conventional banks held BDT 16116 crore, and Islamic banking branches of conventional banks held BDT 13883 crore. The total deposits of the 10 full-fledged Islamic banks accounted for 92.68% of the Islamic banking system's total deposits. Among all Islamic banks, Islami Bank Bangladesh Limited (IBBL) held the largest share of deposits at 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%).

5.2. Total Investments by Islamic Banking

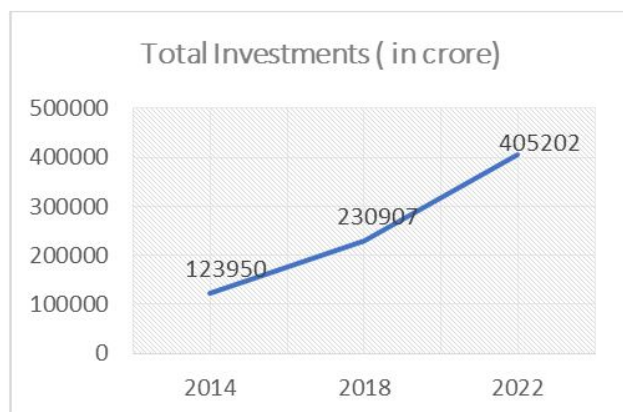
Total investments (Loans & Advances in conventional sense) by Islamic Banking in 2014, 2018 and 2022 are as follows-

(In crore BDT)

	2014	2018	2022
Investments-			
a) Full-fledged Islamic Banks	118147	219797	383584
b) Conventional banks having Islamic banking branches	4138	6161	10518
c) Islamic banking windows	1665	4949	11100
Total Investment	123950	230907	405202

Table 2: Source: Bangladesh Bank 2014, 2018 and 2022

At the end of the December 2014, total investments in the Islamic banking sector reached Tk. 123,950 crores, reflecting an increase of Tk. 6,849.22 crores (5.85%) from the previous September quarter and Tk. 21,231.85 crores (20.67%) compared to the previous year (Bangladesh Bank, 2014).



Total Investments in Islamic banking sector stood at Tk. 230907.28 crores at the end of December 2018, which went up by Tk. 10564.13 crores or by 4.79% and by Tk. 29807.69 crores or by 14.82% compared to previous quarter and same quarter of the preceding year respectively (Bangladesh Bank, 2018). At the end of December 2022, the total investment in the Islamic banking system reached BDT 4,05202 crore, marking an increase of BDT 18981 crore (4.91%) from the end of September 2022 and BDT 51754 crore (14.64%) compared to the December 2021. Islamic banks' total investment accounted for 29.20% of the overall loans and advances in the banking sector.

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%) (Bangladesh Bank, 2022).

5.3. Total Remittances by Islamic Banking

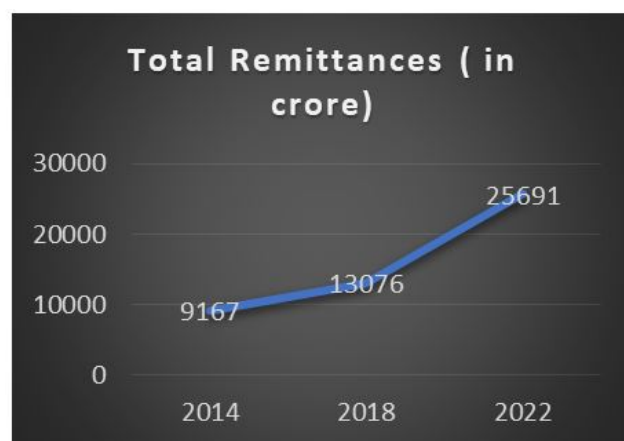
Total remittances by Islamic Banking in 2014, 2018 and 2022 are as follows-

(In crore BDT)

	2014	2018	2022
Remittances-			
a) Full-fledged Islamic Banks	9088	13001	25404
b) Conventional banks having Islamic banking branches	78	65	164
c) Islamic banking windows	1	10	123
Total Remittances (in crore)	9167	13076	25691

Table 3: Source: Bangladesh Bank 2014, 2018 and 2022)

At the end of the December 2014, total remittance in the Islamic banking sector stood at Tk. 9,167 crores, reflecting a decrease of Tk. 669.54 crores (6.81%) from the September 2022 but an increase of Tk. 134.66 crores (1.49%) compared to the same quarter of the previous year (Bangladesh Bank, 2014).



At the end of the December 2018 quarter, total remittances mobilized by the Islamic banking sector reached Tk. 13,076 crores, reflecting an increase of Tk. 793.86 crores (6.46%) from the September 2018 and Tk. 2,004.95 crores (18.11%) compared to the same quarter of the previous year (Bangladesh Bank, 2018).

During the December 2022, total remittances mobilized by Islamic banks reached BDT 25691 crores, marking an increase of BDT 5468 crores (27.04%) from the September 2022 and BDT 5323 crores (26.13%) compared to the December 2021. Islamic banks accounted for 54.53% of the total remittances mobilized by the entire banking sector during this period (Bangladesh Bank, 2022).

5.4. Total Branches of Islamic Banking

Total branches of Islamic Banking in 2014, 2018 and 2022 are as follows-

(In number)

	2014	2018	2022
Branches-			
a) Full-fledged Islamic Banks (10 Banks)	890	1197	1659
b) Conventional banks having Islamic banking branches	19	19	23
c) Islamic banking windows	25	25	535
Total Branches (in number)	934	1241	2217

Table 4: Source: Bangladesh Bank 2014, 2018 and 2022

At the end of the reviewed year 2014, the total number of Islamic bank branches, including Islamic branches/windows of commercial banks, reached 934 and 867 in the previous year (Bangladesh Bank, 2014).

At the end of the reviewed year 2018, the number of branches in the Islamic banking sector, including Islamic branches/windows of conventional commercial banks, reached 1241 and 1168 in the December 2017 (Bangladesh Bank, 2018).

By the end of December 2022, the number of branches of Islamic banks, including Islamic branches/windows of conventional commercial banks, expanded to 2217 compared to 2,080 at the end of December of the previous year (Bangladesh Bank, 2022).

5.5. Total Employment in the Islamic Banking

Total manpower of Islamic Banking in 2014, 2018 and 2022 are as follows-

(In number)

	2014	2018	2022
Manpower-			
a) Full-fledged Islamic Banks	26660	32446	48588
b) Conventional banks having Islamic banking branches	404	388	485
c) Islamic banking windows	138	193	778
Total Manpower	27202	33027	49851

Table 5: Source: Bangladesh Bank 2014, 2018 and 2022

From the above table, it clearly shows that total manpower is increasing from year to year. It indicates that activities of Islamic banking are growing.

Bangladesh Bank (2022) reports that at the end of December 2022, total employment in the Islamic banking sector reached 49851, up from 49433 at the end of September 2022 and 44223 at the end of December 2021 (Bangladesh Bank, 2022)

5.6. Performances of Islamic Banking Compared to all Banks

Total deposits, total investments, remittances of Islamic bank branches of different years have compiled and compared below. It is really mentionable that in all aspects of Islamic banking activities are growing day by day. Now it is needed to know that how much portion is covered by Islamic banks from all banks. The following table can give clear picture during the year 2022.

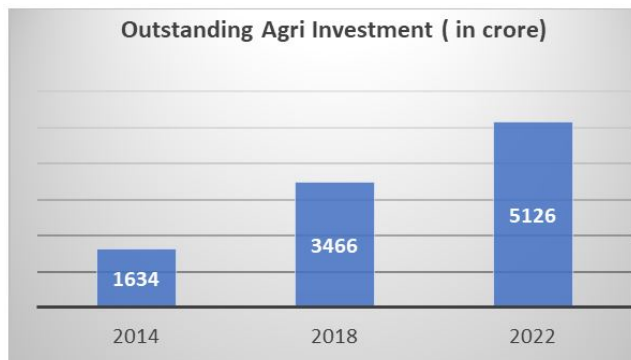
Year 2022			
	All Banks	Islamic Banks	Share of Islamic banks among all banks (percent)
Total deposits (In crore BDT)	1588254	409949	25.81%
Total investment (loans & advances in conventional banking) (In crore BDT)	1387565	4052.02	29.20%
Remittances (In crore BDT)	47111	25691	54.53%
Total number of bank branches (In Number)	11153	2217	19.88%

Table 6: Source: Bangladesh Bank, 2022

The market share of Islamic banks has been steadily increasing over time. By the end of December 2022, Islamic banks accounted for 25.81% of total deposits and 29.20% of total

investments in the banking industry, compared to 28.43% and 28.47%, respectively, at the end of September 2022. Besides, remittances of Islamic banks accounted for 54.53% of total remittances of all banks and Islamic Banks also occupies 19.88% branches from all.

5.7. Investment of Islamic Banks in the Agricultural Sector



The Islamic banking industry has made significant contributions to various sectors and sub-sectors of agricultural and rural investment programs. The outstanding agricultural investment of Islamic banking Industry was 1634 crores during December 2014.

During December 2018, outstanding agricultural investments in agricultural sector made by Islamic banking Industry was 3466 crores and higher by 149 crores than December 2017. During December 2022, outstanding agricultural investments in agricultural sector made by Islamic banking Industry was 5126 crores and higher by 639 crores than December 2021. Outstanding agricultural investment has been creased each year which is really good for inclusive economic improvement.

5.8. Financial Inclusion

Islamic banks have played a crucial role in promoting financial inclusion in Bangladesh, offering banking services to the unbanked population, especially among low-income groups. Islamic banks have increased their presence in both urban and rural areas, ensuring financial access to previously unbanked populations. Bangladesh Bank (2018) showed that there were 1241 Islamic banks branches in 2018 (including Full-fledged Islamic Banks, Conventional banks having Islamic banking branches, Islamic banking windows) in where 736 were in urban area and 505 were in rural area.

The introduction of Islamic microfinance products has allowed access to financial services for segments of society previously excluded from the formal banking system. The integration of mobile and internet banking has improved accessibility, enabling customers to perform transactions remotely. Additionally, financing for Small and Medium Enterprises (SMEs) has expanded, particularly in key sectors such as agriculture, trade, and manufacturing. Investment in agricultural projects has helped boost rural economies and reduce poverty.

5.9 Impact on Economy

Islamic banking holds a significant market share, with deposits representing 25.81% and investments (loans & advances) accounting for 29.20% of the total banking sector as of December 2022. The sector has experienced steady growth, expanding its customer base and branch networks in both urban and rural areas.

During the October-December 2022 quarter, Islamic banks mobilized 54.53% of the total remittances in Bangladesh, playing a crucial role in offering secure and Shariah-compliant remittance services, benefiting millions of migrant workers and their families.

Additionally, the Islamic banking sector has contributed significantly to employment, with total jobs reaching 49,851 by the end of December 2022. Many Islamic banks also provide training programs to develop skilled professionals in Islamic finance.

6. Discussion and Conclusion

Bangladesh Bank should develop clear guidelines to ensure that Islamic banks comply with international standards of Islamic finance, such as those outlined by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB) (Hasan & Karim, 2021). To broaden their customer base, Islamic banks should explore the introduction of innovative Shariah-compliant financial products like Islamic microfinance, Sukuk, and Takaful. By diversifying beyond traditional financial instruments such as Murabaha (cost-plus financing) and Mudarabah (profit-sharing), these banks can enhance their market competitiveness and cater to a wider array of customers (Chowdhury, 2023).

Building awareness of Islamic banking principles through educational campaigns, workshops, and partnerships with academic institutions will help foster trust and encourage a shift from conventional banking to Islamic banking (Ahmed, 2020). Collaboration with global Islamic financial institutions can open doors for knowledge sharing and foreign investment. By forming joint ventures with countries in the Gulf and Southeast Asia, where Islamic banking is more established, and Bangladeshi Islamic banks can unlock strategic growth opportunities (Hasan, 2022).

Over the years, the Islamic banking industry has expanded considerably, with its share of total banking deposits and investments steadily rising. As of December 2022, Islamic banking accounted for 25.81% of total deposits and 29.20% of total investments in the country's banking sector (Bangladesh Bank, 2022). This remarkable expansion highlights the increasing preference for Shariah-compliant financial services and the sector's role in fostering financial inclusion. One of the most significant contributions of Islamic banking in Bangladesh has been its role in promoting financial inclusion. The sector has been instrumental in expanding banking services to underserved communities, especially in rural areas, through rural investment initiatives and microfinance programs (Rahman & Karim, 2021). These initiatives align with the objectives of Islamic finance, which emphasizes social justice and equitable wealth distribution (Ahmed, 2020). By providing Shariah-compliant alternatives to interest-based loans, Islamic banks have enabled small and medium-sized enterprises (SMEs) to access financing, boosting entrepreneurship and employment generation. Another key aspect of Islamic banking in Bangladesh is its contribution to facilitating remittance inflows. As of December 2022, Islamic banks accounted for 54.53% of the total remittances in Bangladesh, reflecting the strong trust placed in them by migrant workers and their families (Bangladesh Bank, 2022). By offering secure and Shariah-compliant remittance services, these banks have enhanced financial stability, encouraged remittance-based savings, and boosted investments, thereby supporting overall economic growth.

In summary, Islamic banking in Bangladesh has achieved notable progress in financial inclusion, economic development, and investment growth.

However, sustaining this momentum requires strategic enhancements in regulatory frameworks, digital banking adoption, and product diversification. With ongoing policy support and innovation, Islamic banking is well-positioned to strengthen Bangladesh's financial sector, offering ethical and Shariah-compliant financial solutions that benefit both individuals and nation.

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