The Role of the Legal and Regulatory Framework in Enhancing the Capacity of Islamic Finance to Attract Cash Liquidity from the Parallel Market: An Insight into the Algerian Experience (2019–2024)

AKSA Ahlem *	AYED Hanane
Financial and Accounting Studies Laboratory	The Diversification and Digitalization of the Algerian Economy Laboratory
University of Sidi Bel Abbes (Algeria)	University of Guelma (Algeria)
ahlem.aksa@univ-sba.dz	*Ayed.hanane@univ-guelma.dz*

Received: 28/09/2025 **Accepted:** 09/04/2026 **Published:** 10/06/2026

Abstract :

This study aims to analyze the role of the legal and regulatory framework in enhancing the ability of Islamic finance to attract liquidity from the parallel market in Algeria during the period from 2019 to 2024. The study focused on the effectiveness of the legal and regulatory reforms, particularly after the regulation 20-02, in integrating cash circulating outside official channels into the banking system. A descriptive analytical methodology approach was adopted based on an examination of legal and financial developments, supported by quantitative data on the volume of liquidity outside the banking system and the development of Islamic banking activity in terms of the number of Islamic windows and deposits.

The study concluded that a clear and flexible legal and regulatory framework is required to boost the legitimacy of Islamic financial institutions and make them an effective means of absorbing funds that have accumulated outside of the banking system.

Keywords: Islamic finance, liquidity, parallel market, Laws and legislation.

JEL classification codes: E42; E51; G21

* **Corresponding author: Aksa Ahlem, ahlem.aksa@univ-sba.dz**

Introduction:

Islamic finance has emerged as one of the most prominent financial alternatives in recent years, particularly in Muslim-majority countries such as Algeria. This form of finance seeks to provide financial solutions that comply with Sharia principles while simultaneously addressing the needs of economic and social development. Given Algeria's economic challenges, especially the prevalence of the parallel (informal) market that absorbs the majority of liquidity outside of official channels, it is imperative to determine the extent to which Islamic finance can attract this liquidity and redirect it toward lucrative investments within the official financial system.

Finding out how well Islamic finance operates in Algeria as a means of generating revenue from the black market, examining the regulations and laws that impact this function, and determining whether Islamic financial institutions are able to provide goods and services that satisfy the demands of depositors and investors in a market where the formal and informal markets compete with one another are the research problems.

Based on this problem, the study proposes the main hypothesis that strengthening the regulatory and legislative frameworks of Islamic finance in Algeria significantly contributes to attracting cash liquidity from the parallel market by providing Sharia-compliant financial

The goals of this study are to:

Look into how Algeria's black market helps Islamic finance by giving them cash.

Learn how hard it is for Islamic finance to get money and direct it to legal financial channels.

Regarding research methodology, the study employs an analytical approach that blends a descriptive method to examine Algeria's legal and regulatory frameworks for Islamic finance with an analytical method to evaluate data on cash liquidity and the size of the parallel market. It also includes a review of relevant literature and empirical studies to give a complete and integrated picture of what Islamic finance really does to attract liquidity and move it to the formal market.

In this way, the study aims to make a scientific contribution that helps us understand how Algeria's parallel market and Islamic finance are connected and gives us practical ways to grow the Islamic financial sector and boost the national economy.

I. Theoretical background:

1. Overview of Islamic banking regulations in Algeria:

The origins of Islamic banking in Algeria go back to the project proposed by the Algerian scholar Abu al-Yaqzan in 1928, which called for the establishment of a national bank operating in accordance with Islamic Sharia law. However, the colonial powers prevented this. In Algeria, Islamic banking has recently developed and gained momentum since financial liberalization in the 1990s (Benamraoui, 2008, p. 118). The experience of Islamic banking in independent Algeria began on a limited scale in the 1990s with Al Baraka Bank and Al Salam Bank in early 2006. Islamic banking in Algeria began with the establishment of Al Baraka Bank on May 20, 1991, marking the country's entry into this unique financial sector. As the first Islamic bank in Algeria, it combined public and private ownership and enjoyed the support of key stakeholders such as the Dallah Al Baraka Group and the Algerian Bank of Agriculture and Rural Development. Initial capital was set at 500 million Algerian dinars (BENDJEBBES, 2024, p. 81).

Islamic banking has progressed under legal frameworks such as Law No. 03-11, issued in August 2003, which established guidelines for Sharia-compliant banking (Azzaoui & Bedrouni , 2020, p. 377). However, the full growth of Islamic banks remains limited, with only two banks currently operating compared to countries with more robust Islamic finance systems.

The 2008 global financial crisis prompted a reassessment of conventional banking services, prompting Algeria to integrate Islamic finance, targeting its Muslim-majority population. While conventional banks are capable of offering Sharia-compliant products, significant institutional challenges remain. The sector gained further momentum beginning in 2020, thanks to government efforts to promote this sector as part of its strategy to diversify funding sources and support the national economy.

Islamic banks in Algeria lack an adequate regulatory framework to operate comfortably, given the recent and serious reforms to the legal framework for Islamic banking in Algeria. Referring to the Algerian legal system, we find that Islamic banks conducted their contracts in accordance with the provisions of civil and commercial law. The Monetary and Credit Law 10-90, issued in 1990 and amended in 2003 by Order 11-03, did not grant Islamic banks special treatment, nor did it recognize or prohibit them.

The first signs of legal reform appeared with the legal establishment of participatory banking in Algeria under Bank of Algeria Regulation No. 18-02. The passage of Law No. 18-02 signifies a significant development in the establishment and regulation of Islamic banking in Algeria, aligning financial activity with Shariah principles. This legislation supports participatory banking models, encouraging a more equitable financial ecosystem by regulating the provision of Islamic financial products.

Law No18-02 mandates that banks follow strict regulatory guidelines to ensure compliance with Islamic law. With an emphasis on safety measures that protect clients and preserve the integrity of the banking sector, it offers a framework for banks looking to offer Islamic banking services (Saadane, 2023, p. 241).

Furthermore, Law No. 18-02 permits traditional banks to establish "Islamic windows," which allow them to offer Sharia-compliant goods and services in addition to their regular offerings," (The Official Gazette of the People's Democratic Republic of Algeria, 2018). This approach aims to increase competition in the banking industry and facilitate access to Islamic financing.

This regulation was quickly abandoned and repealed due to the lack of clarity and ambiguity of the terminology used to establish a legal system befitting Algeria's financial system. The term "participatory" does not mean "Islamic" and is largely similar to the participatory finance commonly used by conventional banks and cooperatives. For these reasons and others, it was replaced by Regulation 20-02 of March 15, 2020, which explicitly included the term "Islamic banks" for the first time and defined banking operations related to Islamic banking and the rules for their practice by banks and financial institutions. The rules for Islamic banking operations are further outlined in Regulation No. 02-20, which highlights how crucial it is to adhere to Sharia law in all dealings. Additionally, it specifies the requirements for Central Bank approval and calls for National Fatwa Authority certificates of conformance. The creation of these Islamic windows has been essential in luring capital from investors seeking Sharia-compliant goods. They have also backed the nation's larger economic development programs. Additionally, Instruction 20-03, which defines Islamic banking products, was released on April 2, 2020.

To comply with these regulations, banks must adhere to specific guidelines ensuring alignment with Islamic principles. This involves obtaining certifications from the National Sharia Authority for the Islamic Financial Industry for their products, forming Sharia Supervisory Boards to oversee adherence to Sharia rules, and maintaining operational and financial autonomy for their Islamic banking units.

Additionally, a partnership between Algeria's central bank and international organizations like the Islamic Development Bank (IsDB) focuses on enhancing technical skills and regulatory frameworks to support the Islamic banking sector. This collaboration is crucial for capacity building and advancing infrastructure financing through sukuk issuances (IsDB, 2025).

These reforms, which Algeria undertook to support Islamic banks, required more robust legal reforms to establish a clearer Islamic banking system. In this context, Law No. 23-09, which includes the Monetary and Banking Law issued in 2023, provides the infrastructure for Islamic banking activities in Algeria. This step represents a qualitative leap in providing Islamic banks with a clear legal framework for their operations. It includes the regulation of Islamic contracts such as Murabaha, Musharaka, and Ijara, and defines the regulatory framework for marketing Islamic financial products. It also requires banks to obtain special approval from the Fatwa Committee at the Supreme Islamic Council before offering any Islamic product.

2. Cash liquidity in the parallel market:

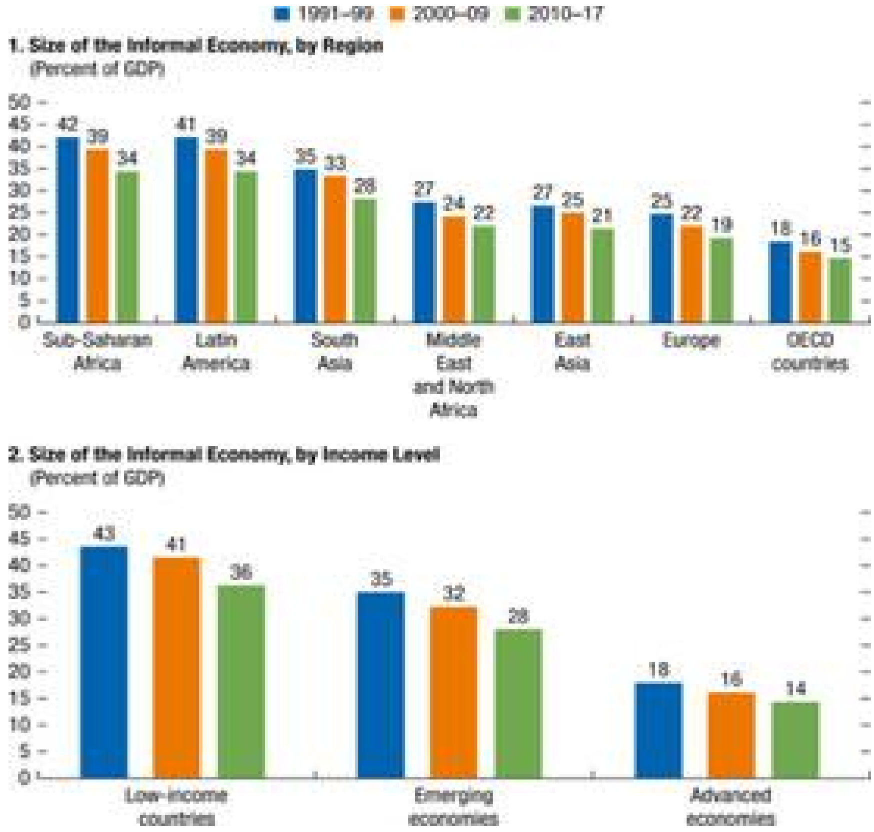
Cash liquidity is essential for the banking system to fulfill its financial commitments on schedule (Hacini et al., 2021, p. 68). Bank liquidity refers to the ability of a bank the ability to supply cash in adequate amounts and at the correct moments to fulfill its financial needs at affordable costs. A bank is said to be well-liquid when it can fulfill its cash expenses without delay or high cost, whether it be by keeping liquid cash on hand or by being able to get cash fast by borrowing or selling assets (BOUSTILA & BENCHIHA , 2024, p. 263).

Algerian banks maintain high liquidity levels with few maturity mismatches, with retail deposits accounting for 52% of liabilities and 46% of total assets being liquid. Public banks, particularly those involved in the export of hydrocarbons, have an abundance of liquidity. Because it allows for timely obligation fulfillment at reasonable prices, managing liquidity risk is crucial for banks worldwide, including those in Algeria. This means figuring out the net funding requirements, ensuring market access, and creating contingency plans.

The informal economy is defined by the International Monetary Fund (IMF) as "activities that have market value and would add to tax revenue and GDP if they were recorded" (DELÉCHAT & MEDINA, 2020, p. 54). Another definition, from the women's advocacy organization WIEGO, describes the informal economy as "a diversified set of economic activities, enterprises, jobs, and workers that are not regulated or protected by the state".

According to the (International Labour Organization, 2023, p. 15), about 2 billion workers, or 60 percent of the world's employed population ages 15 and older, spend at least part of their time in the informal sector. The size of the informal sector slowly decreases as economies develop, but with wide variations across regions and countries. Today, the informal sector still accounts for about a third of low- and middle-income countries' economic activity—15 percent in advanced economies (see chart).

Figure (1): size of the informal economy



The source : (DELÉCHAT & MEDINA, 2020, p. 55).

A mix of social, cultural, and economic factors affects how people get involved in the black market. Unemployment rates, income inequality, and the number of legitimate job openings are all examples of economic variables. When there aren't many legal ways to make money, people may turn to the black market to stay alive or improve their quality of life. This choice, which is often seen as a last resort, can keep people in cycles of poverty and crime, making them more likely to stay in the underground economy. Also, how people in a culture feel about illegal activities can affect how many people take part, since some communities may see black market activity as a normal or even good thing. This point of view can make things complicated, with both legal and illegal economies existing side by side and the lines between right and wrong often getting blurred. Because of this, people may have to deal with moral issues while trying to find their way to economic stability through these other paths. Anyone can do these things, no matter how old they are, how much money they have, how much education they have, how healthy they are, how good they are with technology, or what their qualifications are (some may not even be able to read). This openness can bring together a wide range of people, each with their own skills and experiences. But it also makes people worry about being taken advantage of and the chance of harm in these markets that aren't regulated. It's important to look at both the chances and the risks (Merad Boudia & Bounoua, 2023, p. 118). There are many reasons why people might choose to actively participate in their informal activities, such as poverty, unequal pay, gender inequality, underemployment, unstable jobs, and unemployment. According to Doing Business, Algeria has the 157th worst business climate out of 190 countries. This is because of things like poverty, unemployment, wage rigidity, political unrest (like in Algeria and many other countries), financial and economic crises (like the global crisis of 2008), a lack of infrastructure, corruption, more red tape, population growth, frequent institutional changes without a strong regulatory foundation, Algeria's poor business climate, and a lack of funding (ZOUAOUID & BENCHAA , 2024, p. 548).

Cultural influences also play a significant role. A large portion of the population follows Islamic principles that prohibit usury, which drives them to seek Sharia-compliant financial solutions. Since conventional banks do not offer these products, people typically gravitate toward informal networks or alternative institutions that align with their religious values, creating demand for Sharia-compliant financing options.

The informal market in Algeria plays a key role in the country's economy, a huge market encompassing around 50% of Algeria's overall economy (as economist Djilali Slimani estimated in November 2021) (BTI, 2024, p. 21), particularly influencing conventional banks' liquidity. This unregulated system thrives because of severe controls in the formal sector, driving many Algerians to distrust financial institutions and seek alternatives. Many of the transactions take place outside of the established financial channels.

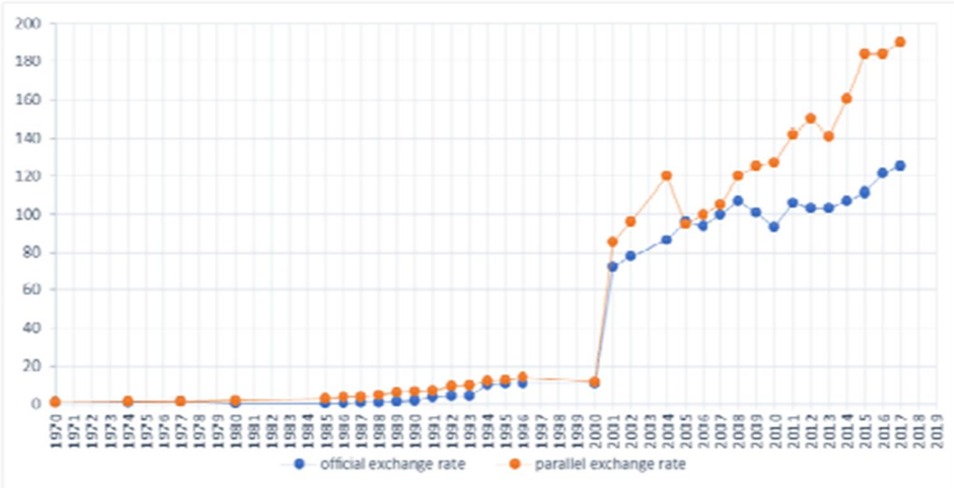
One prominent effect of this illicit market is its influence on currency rates. Tightly constrained foreign currency regulations limit lawful access, forcing individuals to unlawful market options. The gap between official and informal currency rates produces economic volatility and influences liquidity management. This growth in the informal sector reflects fundamental challenges in Algeria's economy, such as high unemployment and underemployment among young people. When formal jobs are scarce, many people turn to informal businesses to supplement their income, highlighting shortcomings in the official economy and the urgent need for suitable policies (ZOUAOUID & BENCHAA , 2024, pp. 554-556).

Moreover, the thriving informal market hinders government regulation efforts, making it difficult to implement monetary policies accurately. It leads to significant revenue losses from unreported transactions that evade taxation.

The Algerian economy is grappling with significant challenges due to the prevalence of parallel markets, which are influenced by a cash-dominated informal economy and extensive cash transactions.

The existence of parallel exchange rates poses serious risks to economic stability. Similar to many developing countries, these parallel currency markets create market distortions that lead to rising inflation, stifle private sector growth, deter foreign investment, and ultimately hinder economic development. Moreover, the correlation between parallel rates and corruption threatens both domestic economic stability and access to external funding sources, including initiatives from the World Bank.

Figure (2): The evolution of the Official Exchange Rate and parallel exchange rate in Algeria (1970-2017)



The source : (KHALLOUT , 2020, p. 647).

Currency exchange rates in Algeria's parallel market differ significantly from the official rate. In February 2024, the official exchange rate was 145 Algerian dinars to the euro, while the parallel market rate was 241 dinars, representing a 66% difference. This is due to Algeria's strict restrictions on foreign exchange trading, forcing residents and businesses to resort to the parallel market to obtain dollars or euros. These restrictions extend even to basic needs, such as performing the Hajj pilgrimage or visiting relatives from the large Algerian community in Europe. This significant disparity reflects a lack of confidence in the local currency and points to chronic imbalances in the foreign exchange market.

3. Impact of Islamic finance on attracting liquidity from the parallel market:

The legal and regulatory framework for Islamic finance is essential in attracting liquidity from the parallel market because it addresses the unique challenges faced by Islamic financial institutions (IFIs) and makes it easier to develop Shariah-compliant liquidity management tools and markets.

Key impacts include (Abdullah, 2010, pp. 16-17):

- Providing Shariah-compliant liquidity instruments: A strong legal framework enables the use of Islamic liquidity management techniques, such as sukuk, agency money market products, Islamic certificates of deposit, and Islamic promissory notes (Central Bank of Oman, 2025) (Central Bank of Nigeria, 2012, p. 3). These products are essential for absorbing excess liquidity and meeting short-term financial obligations without violating Shariah principles (Önal, 2013, p. 311).

- Improving market infrastructure and standardizing its standards: Laws that encourage open and transparent market practices, standardize Shariah interpretations, and standardize documentation enhance market participant confidence and encourage liquidity flows from other Islamic financial markets (Khodijah , 2018, p. 138).
- Attracting new investors: Sukuk issuances, including those from non-Muslim countries, are attracting a growing number of investors, particularly from the Middle East and Asia, who favor Sharia-compliant investments. This increases the liquidity available to Islamic financial institutions and directs funds from informal or alternative markets to regulated markets.
- The Islamic financial system fosters the creation of a liquid secondary market for Islamic assets, facilitating transactions and building investor confidence. For example, sukuk are inexpensive and contribute to short-term cash flow when used to settle cross-border commodity transactions (murabaha). This helps pool global liquidity and attract capital from other sources.
- Role in economic and social development: The issue of sukuk, also known as an Islamic bond, is another way that Islamic finance supports economic growth. Sukuk provides an alternative type of long-term financing for key sectors such as infrastructure (KHAN, 2016, p. 82). This Sharia-compliant instrument has recently emerged as an important element in funding government projects. The infrastructure needs for Islamic economies are in many cases nearing their historical and functional peak. Infrastructure needs not only include new projects, but also maintenance of existing infrastructure. It also links investments with socioeconomic objectives by allocating cash to infrastructure, healthcare, social finance, and renewable energy programs.

In summary, Islamic finance attracts money from the parallel market by delivering Sharia-compliant alternative financial instruments and liquidity management solutions that fulfill the objectives of Islamic investors and institutions. Continued market development and improved regulation are necessary to fully harness this potential.

II. Analyse cash liquidity in the parallel market in Algeria (2019-2024):

Algeria's financial sector underwent significant transformation in the late 1980s and early 1990s, with a focus on reforms that relied on market forces and competition. With the passage of the Money and Credit Law in 1990, the central bank was empowered to operate independently of the Ministry of Finance. This change in the law made it clear how the treasury and the financial system should work together so that both public and private businesses can get the same amount of credit. Even after these changes, banks in Algeria still had a structural liquidity deficit because they couldn't manage their liquidity well because of changing hydrocarbon revenues. One idea for helping the foreign exchange market grow was to gradually make exporters' forward contracts more flexible. Algeria also had to deal with the problems that come with having two currency markets at the same time. These made it harder for foreign investors to come in and the private sector to grow, and they also made inflation rates go up. We must address exchange rate issues if we hope to achieve sustained economic growth.

Between 2019 and 2023, the Algerian economy faced considerable challenges due to falling oil prices and the impacts of the COVID-19 pandemic. The country's GDP declined from approximately $171.07 billion in 2019 to about $147.6 billion in 2020, adversely affecting Algeria's international economic position. In 2023, economic activity continues its sustained growth, driven by a significant rebound in production in the extractive industries sector, as well as remarkable performances in the agriculture, construction, and services sectors. With a growth rate of 4.1% in 2023, up from 3.6% in 2022 (The World Bank, 2024, p. 11), these rates confirm the recovery of the Algerian economy after a period of intense health crisis, recording a record growth rate between 2015 and 2023.

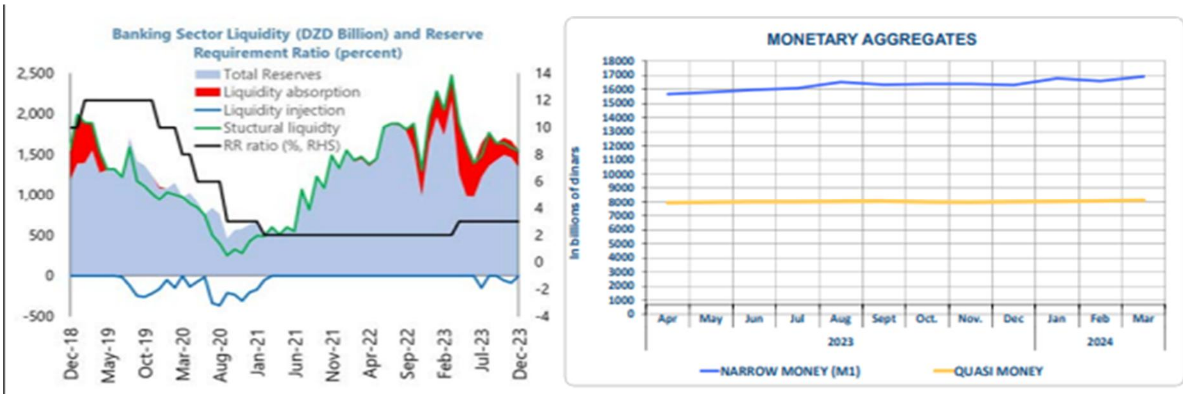
In 2021, Algeria had 19 active banks with total assets around $147 billion, matching its GDP. The banking sector accounted for roughly 99.5% of the formal financial sector's overall assets, while non-banking financial institutions represented less than 1%.

At the end of 2023, the Algerian banking system included 28 banks and financial institutions, all headquartered in Algiers. It is worth noting that twelve (12) out of the 20 banks offer Islamic finance products and services; six (6) are public banks and six (6) are private banks, two (2) of which specialize exclusively in Islamic finance.

1. Evolution of banking system liquidity:

Banking liquidity experienced significant fluctuations during the study period. It fell from 1,100.8 billion dinars at the end of 2019 to 461.8 billion dinars in September 2020, its lowest level ever, before gradually recovering to 632.3 billion dinars at the end of 2020. Following the 2020 crisis, banking liquidity recovered considerably, reaching 2,475 billion dinars at the end of March 2023 and 1,809.1 billion dinars at the end of 2022 (Figure 3).

Figure (3): Evolution of banking system liquidity



The source : (INTERNATIONAL MONETARY FUND, 2024, p. 16) (Bank of Algeria, 2024, p. 11)

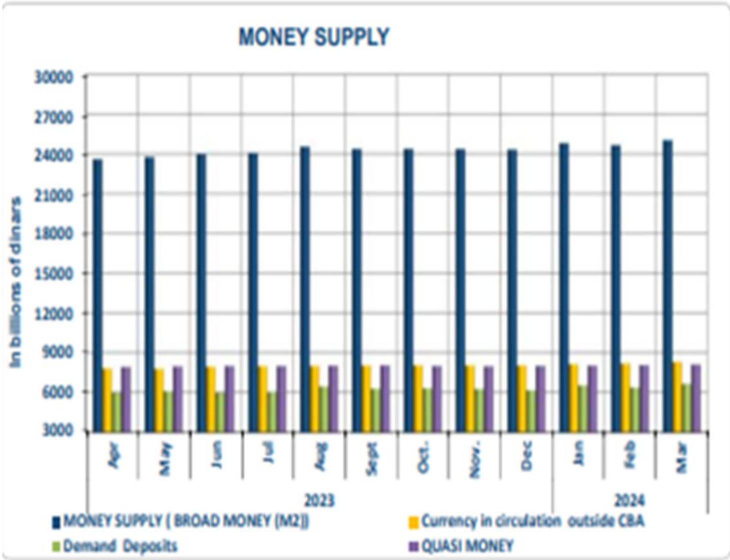
This development was brought about by the monetary policies of the Bank of Algeria, which included reducing the reserve requirement ratio from 12% to 1% provide the markets with the liquidity they required. Thus, banking sector liquidity increased by 25.9% in the first quarter of 2023, followed by a sharp decline of 43.5% in the second quarter, driven by a one-point increase in the reserve requirement ratio, followed by a 17.6% increase in the third quarter. Overall, the first nine months of 2023 saw a 16.4% decline in banking liquidity (Bank of Algeria, 2024, p. 17). During this period, the Bank of Algeria maintained its key interest rate at 3% but raised the reserve requirement ratio to 3% in April 2023. These decisions come within the context of reducing banking liquidity and expanding the scope of bilateral liquidity absorption operations. The Central Bank of Algeria's statement indicated a desire to limit excess liquidity (which the central bank considered potentially inflationary) while maintaining a liquidity level sufficiently high to avoid displacement or an increase in the cost of credit. The key interest rate has remained at 3% since December 2020, while inflation exceeded 9% (INTERNATIONAL MONETARY FUND, 2024, p. 15).

2. Development of liquidity circulating outside banks:

It is noted that money circulating outside the banking system experienced steady growth during the study period, rising from 5,437.6 billion dinars at the end of 2019 to 6,140.7 billion dinars at the end of 2020, registering a growth rate of 12.93%. This upward growth continued, reaching 7,392

.81 billion dinars at the end of 2022 and then 8,030.76 billion dinars at the end of 2023, registering an annual growth rate of 8.6%.

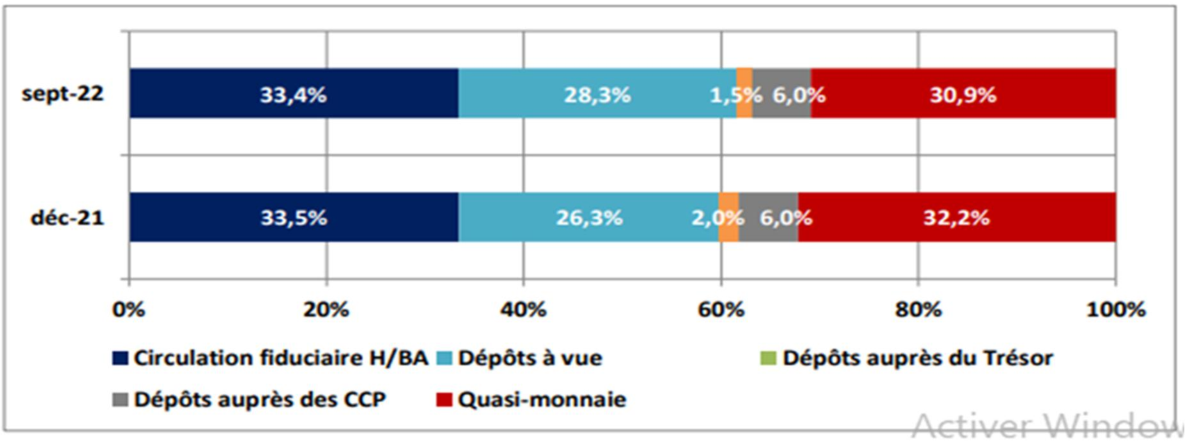
Figure (4): money supply



The source : (Bank of Algeria, 2024, p. 11)

Cash circulation excluding banks contributed 46.7% to the growth in the money supply in 2023. This represents a significant portion of the money supply, estimated at 34% of the total, posing a major challenge to financial inclusion in Algeria. At the end of September 2022, it constituted *33.4%* of the total money supply, down from 33.5% at the end of 2021. means that the volume of paper currency in circulation outside banks increased by 8.6% in 2023 compared to 10.1% in 2022, rising from 7,392.81 billion dinars at the end of December 2022 to 8,030.76 billion dinars.

Figure (5): Structure of the money supply



The source : (Bank of Algeria, 2023, p. 24).

At the end of December 2022, demand deposits increased by 18.76% compared to the end of 2021, rising from 5,278.2 billion dinars at the end of December 2021 to 6,268.2 billion dinars at the end of September 2022. They constitute 28.27% of total money supply, compared to 26.32% at the end of 2021 (Bank of Algeria, 2024, p. 23).

At the end of 2023, the Algerian banking system comprised 28 banks and financial institutions, all headquartered in Algiers. It should be noted that twelve (12) of the twenty banks offer Islamic financial products and services; six (6) of these are public banks and six (6) are private banks, two (2) of which specialize entirely in Islamic finance. The banking network comprised 1,649 branches at the end of 2023, comprising 400 private bank branches and 1,249 public bank branches. Of these, 89 were dedicated to Islamic finance by the end of 2023, compared to 75 at the end of 2022. By the end of 2023, there were 71 private bank branches, including 58 affiliated with Islamic banks, compared to 18 public bank branches dedicated to Islamic finance (Bank of Algeria, 2024, p. 46).

The new Monetary and Banking Law, which took effect in June 2023, began the process of changing the rules that govern the Bank of Algeria's missions and the actions of other people who work in banking. This was a big step toward the public authorities' goal of changing the banking and financial system. This law aims, in particular, to modernize the missions and governance of the central bank, as well as its monetary policy framework. Thus, this law broadens the scope of monetary policy instruments and adapts them to the specificities of banking operations, particularly in the areas of Islamic finance and green finance.

3. Growth of Islamic deposits and financing:

Islamic banking in Algeria has witnessed remarkable growth since its official launch in 2020. At the end of 2023, total Islamic deposits amounted to more than 680.1 billion dinars. This was up from 554.8 billion dinars at the end of 2022 and 444.7 billion dinars at the end of 2021. This is a rise of about 22.6%, which is a little less than the 24.8% rise that happened the year before. The main cause of this development was the significant rise in deposit accounts, which increased by 65.8% to reach 422.6 billion dinars at the end of 2023 from 254.8 billion dinars at the end of 2022. On the other hand, after rising by 29.1% at the end of 2022, investment account deposits fell 14.2% to 257.5 billion dinars. By bank type, the amount of deposits linked to Islamic financing at the level of public banks kept increasing, reaching 137.4 billion dinars at the end of 2023 at a growth rate of 89% (Bank of Algeria, 2024, p. 55). Therefore, public banks account for 20.21% of total outstanding deposits by the end of 2023, up 7.11 percentage points from the previous year (13.10%), while private banks continue to hold a 79.79% share. By the end of 2023, the total amount of deposits in these banks had grown to 542.6 billion dinars, a 12.5% growth rate, up from 14.3% at the end of 2022. As last year, banks that specialize in Islamic finance held 69.4% of all outstanding deposits, which was 471.18 billion dinars.

Islamic financial institutions in Algeria, such as Bank Al Baraka of Algeria, face liquidity challenges due to constraints on Islamic inter-bank markets. Their ability to raise funds is limited by restricted access to traditional financial markets and the lack of a robust secondary market for Islamic financial products. To improve liquidity for these banks, enhancing the existing money market infrastructure is essential.

The analytical study of parallel market liquidity in Algeria during the period 2019-2024 indicates a continuous increase in the volume of money circulating outside the banking system, which currently represents more than a third of the total money supply. This phenomenon, coupled with the thriving parallel foreign exchange market, poses a significant challenge to monetary policy and requires comprehensive, radical reforms that go beyond security and oversight measures to address the deep structural causes fueling this phenomenon. According to the analysis, Algeria's legal and regulatory framework for Islamic finance has made noticeable strides in luring liquidity from the black market, particularly since Regulation 20-02 was adopted in 2020. The success of this strategy in drawing hoarded liquidity and guiding it toward the formal economy is evidenced by the ongoing expansion of Islamic financing and deposits, which have now reached over 600 billion dinars in deposits.

III. Conclusion

In conclusion, the study highlights the significant potential of Islamic finance as a strategic tool to attract liquidity from the shadow market and channel it into the formal financial system in Algeria. The analysis shows that well-designed regulatory and legislative frameworks are essential to enhance the credibility and attractiveness of Islamic financial institutions, thereby enhancing investor and depositor confidence. Such confidence is essential to improve the transfer of funds from informal channels to Sharia-compliant financial products and services.

Despite the promising prospects, the study also identifies several challenges that prevent the full exploitation of this potential, such as the limited availability of diversified Islamic financial instruments, regulatory gaps, and the need to raise awareness and educate the public on Islamic finance. Addressing these challenges requires concerted efforts by policy makers, regulators, and financial institutions to develop a robust ecosystem that fosters innovation, transparency, and inclusion.

Ultimately, the role of Islamic finance in Algeria is not only to reduce the size of the shadow market, but also to promote financial inclusion and sustainable economic development, in line with the country's social and cultural values. The findings of this study highlight the importance of ongoing reforms and innovation in the Islamic finance sector to maximize its potential as a catalyst for economic growth and stability.

IV. Bibliography List

1. Abdullah, D. (2010). *Liquidity Management in Institutions Offering Islamic Financial Services* . ISLAMIC FINANCIAL SERVICES BOARD.

2. DELÉCHAT, C., & MEDINA, L. (2020). What Is the Informal Economy? *FINANCE & DEVELOPMENT International Monetary Fund*.

3. Hacini, I., Boulenfad, A., & Dahou, K. (2021). The Impact of Liquidity Risk Management on the Financial Performance of Saudi Arabian Banks. *Emerging Markets Journal, 11*(1), 68-75.

4. Merad Boudia , H., & Bounoua, C. (2023). The Informal Economy In Algeria: The Embryo Of A New Society, Survey Of Companies In The Western Region Of Algeria For The Period (2016-2020). *Revue d'économie et de statistique appliquée, 20*(1), 112-123.

5. Önal, M. (2013). Islamic Liquidity Management:The Way Forward. *Afro Eurasian Studies, 2*(2), 306-314.

6. Saadane, A. (2023). The Islamic windows in the Algerian public banks - A study of the Algerian National Bank's experience. *Abaad Iktissadia Review, 13*(2), 235-249.

7. Azzaoui , K., & Bedrouni , A. (2020). Study and Analysis of an Islamic Finance Window in Algeria Requirements for Separation of Conventional and Islamic Bank Activities at the Housing Bank Level. *Roa Iktissadia REVIEW, 10*(1), 375-388.

8. Bank of Algeria. (2023). *TENDANCES MONETAIRES ET FINANCIERES Neuf Premiers Mois 2022.*

9. Bank of Algeria. (2024). *QUARTERLY STATISTICAL BULLETIN N66 First Quarter 2024.*

10. Bank of Algeria. (2024). *RAPPORT ANNUEL 2023 EVOLUTION ECONOMIQUE ET MONETAIRE.*

11. Bank of Algeria. (2024). *TENDANCES MONETAIRES ET FINANCIERES Neuf Premiers Mois 2023.*

12. Banque d'Algérie. (2024, Janvier). *TENDANCES MONETAIRES ET FINANCIERES Neuf Premiers Mois 2023*.

13. Banque d'Algérie. (2024, Janvier). *TENDANCES MONETAIRES ET FINANCIERES Neuf Premiers Mois 2023.*

14. Benamraoui, A. (2008). Islamic banking: the case of Algeria. *International Journal of Islamic and Middle Eastern Finance and Management, 1*, 113-131.

15. BENDJEBBES, Y. (2024). The Reality and Requirements of Developing the Islamic Banking Industry in Algeria. *International journal of economic performance, 7*(1), 73-87.

16. BOUSTILA, i., & BENCHIHA , k. (2024). The impact of liquidity on the profitability of Algerian banks Case study of the Algerian external bank. *Journal of Economic Integration, 12*(3), 262-273.

17. BTI. (2024). *BTI 2024 Country Report Algeria.* Bertelsmann Stiftung's Transformation Index (BTI).

18. Central Bank of Nigeria. (2012). *IQUIDITY MANAGEMENT UNDER NON-INTEREST (ISLAMIC) BANKING, Understandig Monetary Policy N17.*

19. Central Bank of Oman. (2025). *Islamic Liquidity Management Products*. Récupéré sur https://cbo.gov.om/Pages/IslamicLiquidityManagementProducts.aspx

20. International Labour Organization. (2023). *Women and men in the informal economy: A statistical update.*

21. INTERNATIONAL MONETARY FUND. (2024). *Algeria: 2023 Article IV Consultation-Press Release; Staff Report.*

22. IsDB. (2025, Islamic Development Bank (IsDB) 6). *IsDB Strengthens Cooperation with the Bank of Algeria to Advance Islamic Banking and Development Financing*. Retrieved from Islamic Development Bank (IsDB): https://www.isdb.org/news/isdb-strengthens-cooperation-with-the-bank-of-algeria-to-advance-islamic-banking-and-development-financing

23. KHALLOUT , M. (2020). The impact of the parallel exchange market premium On economic growth in Algeria: An Application of Auto-Regressive Distributed LAG (ARDL) Bound Testing Approach. *Journal of Financial, Accounting and Managerial Studies, 7*(1).

24. KHAN, N. (2016). The role of Islamic finance in economic development. *Lingnan Journal of Banking, Finance and Economics , 6*.

25. Khodijah , I. (2018). The Role of Islamic Finance In Economic Development. *IQTISHADUNA: Jurnal Ilmiah Ekonomi Kita, 7*(2), 131-143.

26. Official Gazette, No. 82. (2020, Decembe 30). The Constitution.

27. The Official Gazette of the People's Democratic Republic of Algeria. (2018). Issue 73, December 9. Alger.

28. The World Bank. (2024). *Algeria Economic Update A Holistic Framework for Sustained Export Growth.*

29. ZOUAOUID , L., & BENCHAA , O. (2024). The Parallel Economy Dilemma in Algeria: An Examination of Causes, Effects, and Solutions. *Forum for economic studies and research journal, 8*(2), 545 -560.