The Legal Framework of Islamic Banking in Algeria: An Analysis of Opportunities and Challenges

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Received: 11/ 11/ 2025 *Accepted: 15/ 04/ 2026* *Published: 26/ 04/ 2026*

Abstract:

Islamic banking in Algeria is considered one of the most important forms of financing that various countries rely on due to its efficiency in financing. The demand for Islamic banks has increased due to the fact that the latter have proven in recent years great success and the ability to withstand and survive despite all the crises that shook the global economy, the reason for This is due to the effective strategies adopted by Islamic banks to confront these crises.

Algeria, like other Arab countries that have witnessed many and varied experiences and applications in the field

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of Islamic banking, has witnessed in recent years a rapid trend towards Islamic financial banking.

Islamic banks have emerged as a fair alternative and an urgent necessity to respond to the desire of customers who refuse to deal with usury, on which the work of traditional banks is based.

Keywords: Legal Framework,Algeria,Sharia-Compliant Finance, Banking Law.

1. INTRODUCTION

The growth of the Islamic financial industry in the modern era has become a necessity in light of the economic crises that have negatively affected the economies of many countries. The origins of Islamic banking date back to the establishment of *Bayt al-Mal* (the Treasury of Muslims), where financial transactions were limited to traditional dealings aimed at meeting the essential needs of society.

However, in the present time, trade has expanded to include all parts of the world, accompanied by economic growth, increased investment, and rising consumer demand due to population growth. Consequently, the role

of banks has become essential in promoting economic development. To confront financial instability resulting from reliance on conventional banking, Islamic societies have called for the expansion of *Sharia-compliant finance* as the main source for funding projects and meeting consumption needs—based on its fundamental principle of prohibiting interest (*riba*).

Like many Arab countries such as Egypt, Saudi Arabia, the United Arab Emirates, and Jordan, Algeria has recently shown a growing interest in developing its Islamic finance industry. This orientation was primarily embodied in the enactment of the **Law on Money and Credit**, along with its subsequent amendments and related regulations, which opened the way for Islamic banking activities. The issuance of this law marked a turning point in the history of Algeria's financial system, followed by **Ordinance 03/11**, **Regulation No. 18/02** on participatory finance, and **Regulation No. 20/02** defining Islamic banking operations.

In this context, the following main question arises: **What are the main opportunities and challenges facing Islamic banking in Algeria?**

To answer this question, the study is divided into two main sections:

- **Section One:** The openness of the Algerian banking system to Islamic banking.
- Section Two: The challenges facing Islamic banking in Algeria

2. The Openness of the Algerian Banking System to Islamic Banking

It can be said that the Algerian banking system has opened up to Islamic banking through the legal developments that have taken place in banking legislation, encompassing both legal and regulatory texts. These developments have resulted in the establishment of Islamic banks as well as Islamic banking windows, as detailed below.

This section examines the legislative and regulatory instruments that paved the way for the emergence of Islamic banking in Algeria.

2.1 Legislative Texts

Before the promulgation of **Law No. 90-10 [1]on Money and Credit**, banking activity in Algeria was monopolized by public banks only—those whose capital was entirely owned by the State or one of its institutions. Until 1990, all Algerian banks were state-owned. However, after the enactment of Law No. 90-10, the Algerian banking system shifted towards allowing the private sector to establish banks with private capital. One of the most notable results of this reform was the creation of the first Islamic bank in Algeria — **Al Baraka Bank**

2.1.1 Al Baraka Bank

Al Baraka Bank was the first Islamic bank in Algeria, established on **May 20, 1991**, with mixed public and private capital amounting to **500 million Algerian dinars**, and began its operations in **September 1991**. Its shareholders include the **Bank of Agriculture and Rural Development (BADR)** and the **Al Baraka Banking Group of Bahrain**. After the promulgation

1 -Law No. 90-10 on Currency and Credit, promulgated on April 14, 1990, published in the Official Gazette, No. 16.

of **Ordinance 03-11**[2], Al Baraka Bank obtained authorization to conduct all types of banking operations, including financing and investment, provided that they comply with the principles of Islamic Sharia.

It can be stated that Al Baraka Bank is a genuinely Islamic bank, strictly observing the conditions and procedures of Islamic banking. According to the bank's official website, Islamic finance is presented as one of the bank's core foundations, and the institution relies on a panel of experts specialized in Islamic sciences to ensure Sharia compliance[3]

2.1.2. Al Salam Bank

Al Salam Bank is a comprehensive banking institution that operates in accordance with Algerian laws and Islamic Sharia principles in all its

[2]-Ordinance No. 03-11 relating to Money and Credit, dated 26 August 2003, Official Journal No. 52, published on 27 August.

[3]-*Ramdhani Al-Ali, Am El-Kheir El-Broud,* Challenges of Opening Islamic Windows in Traditional Banks: The Case of Algeria, Al-Imtiaz Journal of Economic and Management Research*, Vol. 1, No. 2, December 2017.p152.*

transactions. The bank was licensed in **2008** as the second Islamic bank in Algeria, providing services to both companies and individuals, including financing, savings, and other banking operations.

According to its official website, each of its banking operations follows a specific Sharia-compliant contract form such as *Murabaha*, *Istisna'a*, or *Mudaraba*. Like Al Baraka Bank, Al Salam Bank has a Sharia Supervisory Board composed of eminent scholars in Islamic law and economics, with expertise in religious sciences, economic systems, and Islamic financial transactions. Members of this board are appointed upon the recommendation of the Board of Directors and approval of the General Assembly

2.2 : Regulatory Texts

In the field of Islamic banking, the Algerian banking law recognizes two major regulatory instruments issued by the **Money and Credit Council** within its powers as a monetary authority: **Regulation No. 18-02** and **Regulation No. 20-02**

2.2.1 Regulation No. 18-02 on Participatory Finance[4]

Regulation 18-02, which sets the rules for the exercise of participatory banking operations by banks and financial institutions, represents the first legal and regulatory framework specifically dedicated to transactions compliant with Islamic Sharia principles. Article 1 of this regulation explicitly states:

"This regulation aims to define the rules applicable to participatory products that do not result in the collection or payment of interest."

Thus, for the first time, this regulation recognized the possibility for banks to conduct financial operations without charging or paying interest, which is prohibited under Islamic law.

However, Regulation 18-02 was not effectively implemented due to several circumstances, including political changes that led to presidential elections at

[4] -Regulation No. 18-02, dated 4 November 2018, sets out the rules for conducting banking operations related to participatory (Islamic) banking by banks and financial institutions.

the end of 2019, followed by the global economic downturn caused by the COVID-19 pandemic and the sharp decline in oil prices — all of which negatively affected the national economy. Nevertheless, these challenges did not prevent the issuance of **Regulation No. 20-02**, which specifically governs Islamic banking operations.

2.2.2 Regulation No. 20-02 Defining Islamic Banking operations[5]

Regulation 20-02, which defines Islamic banking operations and the rules governing their practice by banks and financial institutions, **repealed** all provisions of the previous Regulation 18-02.

Article 2 of Regulation 20-02 provides the following definition:

"For the purposes of this regulation, an Islamic banking operation means any banking transaction that does not involve the collection

[5] - Regulation No. 20-02, dated 15 March 2020, defining the banking operations related to Islamic banking and the rules governing their implementation by banks and financial institutions.

> or payment of interest. These operations must comply with the provisions referred to in Articles 66 to 69 of Ordinance 03-11 on Money and Credit, as amended and supplemented."

Despite the growing opportunities for the expansion of Islamic banking activities due to the increasing demand for Sharia-compliant financial services, several obstacles continue to hinder the full development of Islamic banking in Algeria. These can be summarized as follows:

3. Opportunities and Challenges Facing Islamic Banking in Algeria

Despite the growing opportunities for the expansion of Islamic banking activities due to the increasing demand for Sharia-compliant financial services, there are several obstacles that continue to hinder the development of Islamic banking in Algeria. These can be outlined as follows:[6]

[6] - Henni, Djafar Mohamed. "Islamic Finance Windows in Conventional Banks as an Entry Point for Developing

3.1 Opportunities for the Development of Islamic Banking

One of the most significant opportunities for Islamic banking in Algeria is the increasing public interest in the services provided by Islamic banks, which align with the cultural and religious beliefs of consumers.

The Algerian government seeks to diversify sources of financing, complementing traditional funding channels.

There exists a substantial amount of capital circulating outside the formal Algerian banking system, which can potentially be mobilized by Islamic banks.

The continuous growth of the **small and medium-sized enterprise (SME) sector** offers Islamic banks an opportunity to expand by providing services tailored to the unique needs of this vital sector

3.2 Challenges Facing Islamic Banking

Islamic Banking in Algeria." *Journal of Algerian Institutional Performance*, Issue 12, 2017, p. 93.

One of the main challenges facing Islamic banks is the **development of qualified human resources**, as many employees lack sufficient knowledge of the principles and foundations of Islamic banking and its specific operational requirements.

Another challenge lies in the **legislative and regulatory environment**, including commercial and tax laws, particularly the legal and regulatory framework governing banking activities, which often fails to consider the unique nature of Islamic banks.

The **relationship with the Central Bank** poses difficulties, as the current mechanisms and policies do not fully account for the distinctive nature of Islamic banks, treating them similarly to conventional commercial banks.

The **absence of a developed financial and monetary market** in Algeria significantly limits the operations and growth of Islamic banks.[7]

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[7] -Al-Ajlouni, Mohammad Mahmoud. *Islamic Banks: Their Rules, Principles, and Banking Applications*. Dar Al-Maseera for Printing and Publishing, Jordan, 2017, p. 30.

> The **limited geographical presence of Islamic bank branches** across the country also restricts accessibility and expansion.[8]

In addition to these, Islamic banks also face various **risks inherent to banking activities**, including compliance, liquidity, and market risks, which require effective management mechanisms aligned with Sharia principles.

4. CONCLUSION The nascent experience of Islamic banking in Algeria, represented by **Al Baraka Bank** and **Al Salam Bank**, has faced numerous challenges that have somewhat hindered its performance and slowed its expansion. Perhaps the most significant issue is the **lack of specific legislation** regulating the operations of this type of bank, as they currently operate under the same laws governing conventional banks, and the **Bank of Algeria** treats them using the same mechanisms and tools applied to conventional institutions.

Based on the above, the following recommendations can be proposed:

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[8] - Sheikhoun, Mohammad. *Islamic Banks*. Dar Wael for Printing and Publishing, Jordan, 2002, p. 75.

-Developing Islamic banking in Algeria by creating favorable conditions for its operation, aiming to increase the number of Islamic banks in the future. This would allow the national economy to benefit from the contribution of Islamic banks in financing various sectors, especially since Islamic finance is in higher demand among Algerian citizens compared to conventional interest-based financing.

-Regulating Islamic banking through specific legislation, by establishing laws that accurately govern Islamic banks from their inception, the execution of their operations, and the mechanisms for oversight, while taking into account their distinctive nature. This approach would prevent conventional banking practices from being the sole reference for Islamic banking in Algeria and protect the rights of customers dealing with Islamic banks.

-Training bank employees in the principles, fundamentals, and operations of Islamic finance through specialized programs and courses in Islamic banking, ensuring that staff possess the necessary expertise in Sharia-compliant financial transactions.

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