

The ability of Islamic banks to attract deposits to the Algerian banking sector and its impact on the development of the national economy

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Abstract:

Through this study, we attempt to clarify the effects of the widespread presence of Islamic banks, whether private or Islamic windows, in many banks operating in Algeria and their role in the Algerian economy, the results of which we attempt to deduce in many economic sectors over the years under study. We also work to understand the ability of Islamic banks to attract deposits to the Algerian banking sector and measure it in developing the national economy.

We seek to achieve the diagnosis of the experience of Islamic banks in Algeria and determine the extent to which Islamic banks can achieve financial inclusion in Algeria also highlight the ability of Islamic banks to attract deposits to the banking sector.

Keywords: Islamic Banks, national economy, economic development, financial inclusion, Job Opportunities

JEL Classification Codes : G21 ; G24

1. INTRODUCTION

Bank deposits are among the most important deposits collected by commercial banks from their customers. These deposits are relied upon to carry out their various activities, particularly their most important function, which is profit, namely bank credit. Therefore, any decrease in the volume of bank deposits impacts the activity of commercial banks. This prompts commercial banks to rush to mobilize more savings in the form of various types of deposits to ensure their continuity in the banking arena, which is witnessing intense competition, especially between public and private banks, both foreign and local.

This competition relies on a range of strategies ranging from the traditional, long-standing, to the modern, innovative, and more modern ones that align with current customer needs.

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On the other hand, Islamic banking has achieved rapid growth and expansion rates across the world in recent years. Given the expansion of the Islamic finance industry and the growing interest in the Islamic economy, as a result of the quality and variety of financial services provided to investors and market participants, countries need to keep pace with this development, given its positive economic benefits for the country's economy. Furthermore, it aims to achieve the concept of solidarity among members of society. Islamic banks have also been able to attract deposits to the Algerian banking sector and have a significant impact on the Algerian economy.

Main Problem of the Study:

- Do Islamic banks have the ability to attract deposits? What are their effects on the national economy?

Sub-Problems:

- What is the role of Islamic banks in Algeria in achieving economic development?
- Do Islamic banks achieve financial inclusion in Algeria?
- Do Islamic banks increase employment opportunities?

Research objectives:

In this study, we aim to:

- * Explain the experience of Islamic banks in attracting deposits;
- * Determine the extent to which Islamic banks can achieve financial inclusion in Algeria;
- * Clarify the role of Islamic banks in achieving financial inclusion.

Study methodology:

In this study, we adopted a descriptive and applied approach, describing the phenomenon and studying it practically using statistical programs.

2. Theoretical Framework

2.1 Sources of Savings and in Islamic Banks

Savings sources in Islamic banks consist of various types of deposits collected from individuals. These can be defined as: a deposit entrusted by individuals or entities to a

bank for use in its activities, in exchange for a commitment to return the deposit or an equal amount (M,S Ashour, H,A ,Tas,2018, p 83) They are divided into the following:

2.1.1 Current Deposits: These are deposits received by the bank without any conditions for deposit or withdrawal. These deposits can be used as they see fit without prior permission from the depositor, provided the depositor undertakes to return them in full upon request. They are considered a good loan from the depositor to the bank. (I, A , Karsana, 2013 , p. 5)

2.1.2 Savings Deposits: These refer to funds deposited by their owners in a special account for an indefinite period. The owner cannot withdraw the balance in one lump sum, but they can withdraw from it at any time. The owner receives a lower return than investment deposits, up to the amount invested. (N,B, Nahar, 2020, p 78)

2.1.3 Investment Deposits: These are deposits deposited by their owners on the basis of profit and loss sharing. Their return is determined based on the results achieved. The depositor is not entitled to withdraw any portion of the deposit until after the project has concluded and the agreed-upon term has expired. (I,A, Ibrahim Al-Obaidi, 2015,p 127)

2.2 Methods that help attract savings in Islamic banks: The most important of which are the following:

2.2.1 The role of Islamic banks in attracting savings: The main function of the bank is financial mediation between savers and investors. Although there are subjective and objective determinants that control the savings decision of individuals, the bank has a significant influence on them. (M, R, Mesmish, (2017 , p. 90).

Among the mechanisms and tools that the bank can use to influence the process of attracting savings are the following:

- Providing a rewarding return on savings and non-cash incentives to savers;
- Geographical expansion to include diverse members of society, in addition to diversifying and innovating financial products;
- Improving the form and content of services offered while ensuring speedy delivery.

2.2.2 Bank marketing and its role in attracting savings: The competition between conventional and Islamic banks to attract customers, whether they are investors or savers, makes the latter strive to provide their customers with many banking facilities and services that are characterized by a set of factors that ensure a competitive advantage for them over their conventional counterparts. Among the most important factors that achieve this are the development of various financing formulas and the

development of banking services in addition to the innovation of banking services that do not conflict with the provisions of Islamic Sharia. (M, M Fahd, 2013, p15).

2.2.3 Motives for individuals to engage with Islamic banks and their role in attracting savings:

Islamic banks are characterised by their non-interest dealings and their commitment to the provisions of Islamic Sharia in all their dealings. This is the basis through which they can attract the savings of individuals who do not engage with conventional banks due to their religious beliefs, which necessarily contributes to reducing and combating the phenomenon of hoarding and investing these funds in financing projects and the economic process.

2.2.4 Methods of attracting newly developed savings (Sukuk):

Islamic Sukuk are among the most important financial instruments that Islamic banks can invest in as an alternative to traditional securities. They are among the financial instruments that are easily liquid and can be traded in the financial markets at any time, especially when there is a need for emergency liquidity to confront sudden customer crises. This contributes to improving the capital adequacy ratio of Islamic banks on the one hand and attracting individual savings in the financial markets on the other hand. (M, Ghazal, 2021 , p10).

3. The most important indicators for evaluating the performance of Islamic banks in attracting savings:

The role played by banks in attracting savings is evaluated according to the following indicators:

3.1 The relative importance of deposits to total financing in Islamic banks:

This indicator shows the degree to which banks rely on depositors' funds and their use of them to meet their customers' financial needs. Its principle is the necessity of a direct and permanent relationship between deposits and financing, which results from the fact that the bank is a financial intermediary whose primary function is to do so (A, Bataher, (2015, p208) .

The existence of this relationship reflects its ability and efficiency to attract deposits. A low relationship reflects a decline in the banks' creative power that is disproportionate to their financing orientations. Monetary theory has shown that a portion of this financing will return to the banking system in the form of new deposits. (A, Latif , 2006 , p 79).

3.2 Expansion of the Attracted Customer Base:

The rate of deposit growth is one of the indicators for assessing banking performance in attracting customer savings. This is a manifestation of the strength of banking performance, as it is a manifestation of the ability of banks to attract more customer deposits and encourage them to increase their savings.

3.3 Per capita share of bank deposits and its comparison with their share of GDP:

The implication of this relationship is that every increase in the per capita share of GDP necessarily entails an increase in their share of bank deposits, and vice versa. In other words, an increase in their share of GDP without an increase in their share of deposits explains the weak role of banks in stimulating demand for deposits. It also indicates the high consumer tendency of individuals (A, Zitzeni. S, Darbali, 2012 , p65).

3.4 Islamic Bank Deposits and GDP Changes:

This indicator includes the following:

3.4.1 Average Propensity to Bank Deposits:

The average propensity to bank deposits reflects the ability and effectiveness of Islamic banks in attracting deposits based on their share of GDP. Through this indicator, we can evaluate banks' performance and their strategies in stimulating demand for deposits in general, and savings deposits in particular.

3.4.2 Marginal Propensity to Bank Deposits:

The marginal propensity to bank deposits indicator measures the rate of change in bank deposits resulting from changes in GDP. Using this indicator, Islamic banks can determine their strength or weakness in changing the trend toward bank deposits, which requires them to maintain or change their policies to stimulate demand for bank deposits.

3.4.3 Internal elasticity coefficient of bank deposits:

The internal elasticity coefficient of bank deposits shows the degree of responsiveness of bank deposits to changes in the gross domestic product and the nature of this response. If this coefficient is greater than one, then the response is regular, while if its value is otherwise, it is irregular.

4.Application framework

Through this study, we will try to investigate the ability of Islamic banks operating in Algeria to attract deposits to the Algerian banking sector. We will also try to measure Islamic banks in developing the national economy. In this research, we will evaluate them through a set of elements that we believe will answer this problem. They are a set of indicators that evaluate the position and ability of Islamic banks in strengthening the Algerian banking sector and measuring them in developing the national economy. We will try to evaluate them through:

- Average Islamic Bank Deposit Propensity Index;
- Marginal Islamic Bank Deposit Propensity Index;
- Internal Elasticity Analysis Index;
- Ratio of Islamic Bank Deposits to Total Bank Deposits in the Economy;
- Importance of Islamic Bank Deposits in Covering Financial Activity Index
- Relative Importance of Islamic Bank Deposits in Fixed Capital Formation Index;
- Contribution of Islamic Banks to GDP Index;
- Banking Inclusion Index;
- Role of Islamic Banks in Job Creation Index

4.1 Average Islamic Bank Deposit Propensity Index

This index is calculated using the following law for the period (2019-2023):

$$\text{Average propensity to deposit Islamic banks} = \text{Total Islamic bank deposits} / \text{GDP}$$

Table 01: Average propensity index for Islamic banking deposits in Algeria ((2019-2023

	2019	2020	2021	2022	2023
Total deposits of Islamic banks	115.698	141.985	146.987	150.697	175.698
GDP	17176.39	14574.23	16347.81	22556.62	23990.78
Average propensity for Algerian Islamic bank % deposits	0.673	0.974	0.899	0.668	0.732

Source: Prepared by the researcher based on the annual reports of Al Baraka Bank, Bank of Algeria, and Bank of Algeria 2019-2023

We note from the table before us that the total deposits of Islamic banks witnessed a continuous increase from 2019 to 2023, with a close increase each year, moving from 115,698 in 2019 to 175,698 in 2023. As for the average propensity index for Algerian bank deposits, all indicators did not exceed 1 percent, which is considered low. The reason is due to the decline in the gross domestic product in these years, which played a major role in this decline. This is due to the decline in oil prices between 2019 and 2020, in addition to the Corona crisis, which had an indirect impact, especially in 2020, which reached 14,574.23 compared to the rest of the years.

4.2 Marginal propensity index for Islamic bank deposits

This indicator is calculated according to the following law for the period from (2019-2023):

$$\text{Marginal propensity to deposit in Islamic banks} = \frac{\Delta \text{Total Islamic bank deposits}}{\Delta \text{GDP}}$$

Table 2: Marginal propensity index for Islamic banking deposits in Algeria (2019-2023)

	2019	2020	2021	2022	2023
Δ Total deposits of Islamic banks	15.235	25.654	19.147	5.087	35.254
Δ GDP	132.21	1702.21	789.65	954.23	1025.87
Δ The modern propensity to deposit Islamic banks in % Algeria	0.115	0.015	0.0242	0.005	0.034

Source: Prepared by the researcher based on the annual reports of Al Baraka Bank, Bank of Algeria, and Bank of Algeria 2019-2023

We note from the previous table that the highest value of the marginal propensity for Islamic bank deposits in Algeria was in 2019, but it was generally positive from 2020 to 2023, as there is a direct relationship between the rise in the gross domestic product and the total Islamic bank deposits, which reached 35.254 in 2023, which corresponds

to the marginal propensity for Islamic bank deposits in Algeria at 0.034, which reflects the direct relationship between them.

4.3 Internal Resilience Analysis Index

This index is calculated using the following formula for the period (2019-2023):

$$\text{Internal elasticity analysis} = \frac{\Delta \text{ Total Islamic bank financing}}{\Delta \text{ GDP}} \div \frac{\text{Total Islamic bank financing}}{\text{GDP}}$$

Table 03: Internal Resilience Analysis Index for Islamic Banks in Algeria (2019-2023)

	2019	2020	2021	2022	2023
$\Delta \text{ Total Islamic Bank Financing} / \text{Total Islamic Bank Financing}$	0.125	0.141	0.161	0.173	0.189
$\Delta \text{ GDP} / \text{GDP}$	0.0325	0.0421	0.0521	0.0598	0.0621
Internal flexibility of Islamic bank deposits in Algeria	3.846	3.349	3.090	2.892	3.043

Source: Prepared by the researcher based on the previous table

We note from the following table that the internal elasticity of Islamic bank deposits in Algeria witnessed a significant increase over the study years, reaching its highest value in 2019, 2020, and 2021, respectively, at 3.846, 3.349, and 3.090. However, it experienced a very slight contraction in 2022 and 2023, reaching 2.892 and 3.043, respectively. This explains why the elasticity coefficient was greater than one in all study years, indicating the presence of inflation.

4.4 The ratio of Islamic bank deposits to total bank deposits in the economy.

This indicator is calculated according to the following law for the period (2019-2023):

Ratio of Islamic deposits to total deposits in the economy = Total Islamic bank deposits / Total bank deposits in the economy

Table 04: Ratio of Islamic banking deposits to total deposits in Algeria (2019-2023)

	2019	2020	2021	2022	2023
Total deposits of Islamic banks	115.698	141.985	146.987	150.697	175.698
Total deposits of public and private banks	7325	8214	9154	9758	9998
Total private bank deposits	932.5	1058.2	1256.4	1498.2	1529.6
Ratio of bank deposits to % total deposits in Algeria	1.579	1.728	1.605	1.544	1.757
The ratio of Islamic bank deposits to private bank % deposits in Algeria	12.407	13.417	11.699	10.058	11.486

Source: Prepared by the researcher based on the previous table and the annual reports of the Bank of Algeria, Bank Al Salam, and Bank Al Baraka 2019-2023.

The table shows that the ratio of Islamic bank deposits to private bank deposits in Algeria has seen significant changes from 2019 to 2023, reaching 12,407 in 2019 and then 11,486 in 2023. The ratio of bank deposits to total deposits in Algeria reached its highest value in 2023, at 1.75 percent. Looking at the overall picture, it becomes clear that the share of Islamic banks compared to public banks in Algeria is very small. This is due to the relatively recent experience, with the exception of Al Baraka Bank, which has been operating since 1990. However, overall, and based on the reforms undertaken by the Algerian state, efforts have begun to increase the share of Islamic banking in Algeria in the coming years.

4.5 Banking Inclusion Index

This index is calculated according to the following law for the period from 2019 to 2023:

$$\text{Banking Inclusion Index} = \frac{\text{Total number of Islamic bank branches}}{\text{Total population} \times 10,000}$$

Table 05: Islamic Banking Inclusion Index in Algeria (2019-2023)

	2019	2020	2021	2022	2023
Number of branches of Islamic (banks (Al Baraka and Al Salam	55	56	57	61	61
(Population (thousand people	42710	43455	44182	44909	45615
Islamic Banking Inclusion Index in Algeria	0.0012	0.0012	0.0012	0.0013	0.0013

Source: Prepared by researchers based on the annual reports of Al Baraka and Al Salam Bank 2019-2023 and the website of the National Bureau of Statistics.

Through this table, we attempt to determine the prevalence of Islamic banks in Algeria (Al Baraka Bank and Al Salam Bank) compared to the population per 10,000 people, as stipulated in the law. The index results show that they are generally well below one. This negative deviation explains the banks' inability to be present in all of Algeria's provinces and districts, meaning they are unable to reach the largest segment of citizens and investors.

4.6 Index of the Role of Islamic Banks in Providing Job Opportunities:

This index is calculated according to the following law for the period (2019-2023)

Table 06: Index of the role of Islamic banks in providing job opportunities in Algeria 2019-2023

	2019	2020	2021	2022	2023
Number of Islamic bank employees	1173	1258	1294	1398	1512
Total number of employees (thousand people)	10599	13547	14658	18569	20145
Index of the role of Islamic banks in providing job opportunities in Algeria	0.11	0.09	0.08	0.07	0.07

Source: Prepared by the researcher based on the annual reports of Al Baraka and Al Salam Bank 2011-2015 and the website of the National Bureau of Statistics.

We note from this table that the highest percentage of job opportunities provided by Islamic banks was in 2019, at 11 percent. However, this fluctuation has been recorded in subsequent years. However, this is considered logical due to the limited

distribution of Islamic banks across all the country's states, which leads to a decline in the demand for job opportunities.

5. Conclusion

Through this research, we examined the role of Islamic banks in the Algerian economy from two perspectives. The first part was an assessment of their ability to attract deposits. The second part was an assessment of their contribution to economic development, which has yielded several results through the indicators we measured in the study. This was in addition to the adoption of Islamic banking through the licensing of public conventional banks to provide Islamic banking services. This prompted us to evaluate the activity of Islamic banks in Algeria in terms of their ability to attract deposits and finance economic development using a set of indicators.

6. Study Results

A set of conclusions can be drawn:

- Islamic banks have the ability to attract deposits to the Algerian banking sector;
- Islamic banks play an effective role in achieving economic development;
- The greater the total assets of Islamic banks and the per capita share of the gross domestic product, the greater the financial inclusion index;
- Islamic banks have contributed to the diversification of financial services provided to customers;
- Islamic banks have contributed to increasing employment opportunities.

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