Impact of Liquidity Regulation on Monetary Policy in Construction Projects

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Abstract

The research objective is to test the relationship between the liquidity regulation and monetary policy in construction projects. This research used a qualitative method. In this study, three interviews were conducted with one manager construction projects. The results show a significant and positive relationship between liquidity regulation and monetary policy in construction projects. The implications of this research provide knowledge to top management of construction projects in order to take advantage of the increased liquidity which lead to lower interest rates. It benefits to improve all indicators of liquidity in the construction projects to withstand any unexpected crisis.

Keywords: Liquidity regulation, monetary policy, construction projects.

1. Introduction

A shrinkage monetary policy could lead to a decrease in projects liquidity creation (Pham & Nguyen, 2021). The restrictions on business activities and capital requirement pose a significant impact on liquidity risk (Mohd & Abdul-Rahman, 2020). Economists have extended analyses the processes with which financial policy changes cumulative monetary movement along with profit ratios (Hristiano & Eichenbaum, 1995). Liquidity in temporary currency marketplaces dried out then projects endured serious financing difficulties, involving fixed financing for very-valued resources (Banerjee & Mio, 2018). Liquidity innovation is a major explanation wherefore projects happen (Berger & Bouwman, 2017). As a substitute, they generally emphasis on macroeconomic variable quantity, for example GDP growing, stability of fees troubles, true benefit ratios plus involve projects just a bit of local trust increase (Berger & Bouwman, 2017). Difficulties have been it extremely obvious that the view of danger through monetary marketplaces is vital to groups’ ability to get more assets (Altunbas, Gambacorta, & Marques-Ibanez, 2010). Financial policy is usually the key tool for a key project to turn the market in the chosen way. It is a vital part in the financial growing, increase power, price and disposal of trust and holding the total of expense in balance (Hussain & Bashir, 2019). Many issues are a role in financial policy spread, which has effects for the true economy for construction projects. The limit to which these plan acts can be transferred to the required shifts will vary on the operation of the construction project’s structure. It matters to the skill to make liquidity of profitable stocks. Capital requirements would also address liquidity risk by creating incentives for construction projects to hold assets with lower risk weights (Kara & Ozsoy, 2020). Providing liquidity through the settlement of obligations is a very effective tool
A complicated topic that connects with corporate governance and its procedures is the effect of liquidity control on monetary policy in building projects. Implementing monetary policy in construction projects can be significantly impacted by liquidity regulation, which is the term used to describe the rules and regulations put in place by regulatory organizations to promote the stability and efficient operation of financial markets (Alabdullah et al., 2022, Alabdulah et al., 2019; Alabdullah et al., 2016; Alabdullah et al., 2014; Alabdullah et al., 2017; Almashhadani and Almashhadani, 2022; Ahmed et al., 2018, Ahmed et al., 2023; Ahmed et al., 2021). Corporate governance, on the other hand, includes a collection of rules, mechanisms, and procedures that direct and supervise an organization's activities and making choices. The link between corporate governance and liquidity control is especially pertinent in the context of building projects because it affects how construction businesses handle their cash reserves and comply with regulatory requirements (Alabdullah, 2019; Aboshmleh et al., 2015). Board size, ownership of management, dual leadership, and company size are examples of corporate governance techniques (Almashhadani and Almashhadani, 2022; AlFakhri and Alabdullah, 2021). The mechanisms of corporate governance, such as the number of directors, management ownership, CEO duality, and company permanency, have a significant impact on how decisions about monetary policy and liquidity regulation in building projects are made (Alabdullah et al., 2022; Alabdullah, 2019; Alabdullah, 2017; Housian et al., 2023). For instance, a company's capacity to react appropriately to liquidity restrictions and formulate suitable measures for monetary policy might be influenced by the number and composition of its board of directors. Akin to this, management ownership and business longevity may have an impact on the alignment of managers' and shareholders' interests, which may change how the firm approaches adhering to liquidity regulations and implementing monetary policy. Additionally, the existence or absence of CEO duality, in which the CEO also serves as the board chair, can affect how well corporate governance processes address issues with cash control and guarantee sound fiscal policy Alabdullah et al., 2014).

It is worth mentioning in line with the variables of the current study that the idea of Sukuk validity overlaps with the effect of liquidity control on fiscal policy in building endeavours. The rules and regulations put in place by regulatory authorities to guarantee the effectiveness and stability of financial markets are known as liquidity regulation (Ahmed et al., 2019). Liquidity regulation is essential for regulating capital availability and guaranteeing a smooth flow of cash in the context of building projects. On the other side, monetary policy refers to the steps taken by central banks to control the money supply and affect interest rates in order to achieve the objectives of macroeconomics (Ahmed et al., 2017). The availability and cost of funding for construction operations are both impacted by liquidity regulation, which has a substantial impact on how much money is available in construction projects. This relationship also extends to Sukuk legitimacy, that is, the degree to which Islamic investments known as Sukuk comply by the rules of Shariah. According to the rules of Islamic finance, sukuk are financial certificates that indicate ownership or an advantageous stake in tangible goods or services. Sukuk can be a good financing choice for building initiatives since they adhere to Islamic values and offer an alternative to traditional loan instruments. The validity of Sukuk is affected by how liquidity regulation affects monetary policy in building projects since the regulatory environment affects how readily available, expensive, and appealing Sukuk is as a
financing option (Ahmed et al., 2014). Therefore, in order to successfully negotiate the regulatory environment and make wise funding choices while guaranteeing adherence to Islamic principles, stakeholders involved in building projects must have an adequate grasp of the link between cash regulation, monetary regulation, and Sukuk validity (Ahmed et al., 2014).

Access to formal financial services has been associated with reducing poverty, improving liquidity, and allowing more people to participate in economic activities such as investing and saving (Njuguna, 2021). Then, liquidity risk has been identified as one of the main reasons that contributed to the failure of banks around the world (Harun, Kamil, Haron & Ramly, 2021). Moreover, monetary policy measures will change the performance of the construction projects and will be subject to the ability to create liquidity for commercial investment. Thus, the main objective of this research to determine the relationship between liquidity regulation and monetary policy in construction projects.

2. Literature Review and Hypotheses

Sundaresan, et al., (2022) found the tax imposed on the transfer of bank liquidity has a positive and significant impact on the revenues of liquid assets. Also, De Bandt, Lecarpentier and Pouvelle, (2021) explaining here that the required liquidity rule has a positive effect on the fiscal variables that income ended the global soqs’ dislike to danger then the strains in the interbank. Moreover, Mohd Amin and Abdul-Rahman (2020) found rule of liquidness has a helpful result in attractive suppleness and firmness in the projects scheme, as allowed rules tin switch remote projects actions plus achieve liquidness dangers. Then, Polizzi, Scannella and Suárez, (2020) found rule is liquidness values that knowingly plus really move the close of stability, the growing of loaning, the rise in credit, besides the defense of creditors civil rights. Altavilla, et al., (2018) they found the analysis of normal and abnormal policies related to banks to have a positive impact on prices, efficiency and liquidity regulation. Ahnert, et al., (2022) found reducing the use of simple rules and with interest amounts may affect negatively as it increases the weakness of the projects. Also, Hsieh, et al., (2022) found a decrease in the formation of liquidity affects negatively and significantly on banks and exchange operations. Matemilola, (2022) the marks of the learning out a key plus bad link among liquidity danger then the group's show. The link amid the evil advance besides the bank's routine is harmful too major. Thus, the hypothesis developed is:

\[ H1: \text{A positive relation between liquidity regulation and monetary policy.} \]

3. Method

This is a cross-section study consuming measurable ways, in which qualitative approach is calm over primary data (Creswell, 1999). The dependent variable in this study is monetary policy the issues moving liquidity regulation are too named independent variables. For this research, the population of this study were three managers form construction projects. This study examines the connection between liquidity regulation on monetary policy and conducting interviews for the study.

4. Results

Qualitative finding based on interviews
How has liquidity regulation affected construction projects monetary policy?

The interviewee (PC1) "agreed that in construction projects regulator (Central Bank) had announced various actions to increase liquidity in the country during the pandemic period. These actions include – reducing benchmark Repo rate (rate at which construction projects can borrow from Central Bank, extending the period Repo transactions, offering swap lines to local banks by which banks switch liquidity of one currency to another currency". Purpose of these regulations is to increase the liquidity in the financial market so that funds are available to individuals and construction projects through the banks, and at affordable costs. Thus, targeting economic factors such as increase in credit growth, increase in spending by consumers, increase in capital investments by construction projects etc. Additionally, Government too can benefit from the increased liquidity as increased liquidity will lead to lower interest rates. This means, Government will have liquidity to raise funds (i.e., take loans from local market) and at affordable rates. These actions will result in expansion/growth of the economy.

The regulations indeed had impacted the liquidity in the market as well as the construction projects in a beneficial manner. Also, one of the managers said that the importance of cash liquidity in the construction project’s ability to meet its obligations to provide cash readiness to meet the financial benefits. Then, the third interviewee explain that it is often represented by the central bank as it is responsible for managing and regulating the monetary mass through its policies and directions to maintain financial stability, with the widening base of tools it uses to implement monetary policy in construction projects. This led to more ability to influence the volume of liquidity in the national economy. Foreign exchange flows to in and out of the country happened without any hindrances. Due to the abundant liquidity, any credit worthy consumer or project had access to the bank loans without any difficulty. As well as, one of them mentions that if the construction project is unable to change its activities according to the abundance of cash appropriate for the benefits. So, the increase in the monetary mass over the size of the gross domestic product means that the economy is in a state of inflation and an increase in the money supply, and thus a decrease in the value of the national currency compared to foreign currencies and vice versa. The regulations have already affected the liquidity in the market as well as the construction projects in a beneficial way. This indicates the resilience of construction projects to face any unexpected crisis. This result is not consistent with the previous study of Hsieh, et al., (2022) found a decrease in the formation of liquidity affects negatively and significantly on construction projects and exchange operations. But the study agreed with Mohd Amin and Abdul-Rahman (2020) found rule of liquidness has a helpful result in attractive suppleness and firmness in the project scheme, as allowed rules tin switch remote bank actions plus achieve liquidness dangers. And Altavilla, et al., (2018) they found the analysis of normal and abnormal policies related to projects to have a positive impact on prices, efficiency and liquidity regulation.

5. Conclusion

The main goal of this research is to examine the relationship among liquidity regulation and monetary policy in construction projects. This study found that construction projects agreed that liquidity regulation affects the monetary policy of their operation projects. By providing swap lines to local banks through which banks transfer liquidity from one currency to another
and increase capital investments by construction projects. So, monitoring liquidity daily will help mitigate the negative effects of monetary policy. This study includes various suggestions for future studies. First, this study dealt with the direct relationship between liquidity regulation on monetary policy. Second, advise construction projects to monitor liquidity daily, develop future liquidity foresight for the operation projects, and properly plan strategies in advance to mitigate any future liquidity issues.

References


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