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Financial Liquidity Management in the Algerian Housing Bank: Challenges and Strategies

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Abstract:

This paper examines the financial liquidity management practices of the Housing Bank of Algeria, a critical institution in the country's housing finance sector. By exploring the bank's strategies to maintain optimal liquidity levels, the study identifies the key challenges faced in a fluctuating economic environment. Through a detailed analysis of financial statements, regulatory frameworks, and market conditions, the paper provides insights into effective liquidity management techniques. Recommendations for improving liquidity management practices are also presented, aiming to enhance the bank's financial stability and support its role in promoting accessible housing.

Keywords: Housing Bank of Algeria, Financial Liquidity Management, Economic Environment, Financial Stability, Housing Finance in Algeria.

Outline 1: Introduction and Background

1. Introduction

Financial liquidity management in banking refers to the process of ensuring that a bank has enough liquid assets to meet its short-term obligations, such as customer withdrawals and loan disbursements, without experiencing liquidity crises. Liquidity management is vital for banks to maintain stability and trust among depositors, as well as to support their lending activities and overall financial health.

The importance of financial liquidity management in banking cannot be overstated. It serves as the backbone of a bank's operations, allowing it to fulfill its commitments promptly and efficiently. Effective liquidity management enables banks to:

- **Meet Withdrawal Demands:** Banks must have enough cash and liquid assets to accommodate customer withdrawals, ensuring that depositors can access their funds whenever needed.
- **Support Lending Activities:** Liquidity management enables banks to provide loans and credit to individuals and businesses, fostering economic growth and development.
- **Manage Risks:** Adequate liquidity safeguards banks against unforeseen events, such as financial market disruptions or sudden deposit outflows, reducing the likelihood of insolvency or bankruptcy.
- **Maintain Regulatory Compliance:** Regulators often impose liquidity requirements on banks to ensure their stability and resilience. Effective liquidity management helps banks comply with these regulations and avoid penalties.

The Algerian Housing Bank (AHB) is a prominent financial institution in Algeria, specializing in housing finance and related services. Established to facilitate access to affordable housing for Algerian citizens, AHB plays a crucial role in the country's real estate sector and socio-economic development. As a state-owned bank, AHB operates under the supervision of the Algerian government and adheres to regulatory standards set by the Central Bank of Algeria (Banque d'Algérie). The purpose of this paper is to analyze the financial liquidity management practices of the Algerian Housing Bank (AHB) within the context of the banking industry in Algeria. Specifically, the paper aims to:

- Evaluate the liquidity position of AHB and its effectiveness in managing liquidity risks.
- Assess the impact of regulatory requirements on AHB's liquidity management strategies.
- Identify challenges and opportunities for improving liquidity management practices at AHB.
- Provide recommendations for enhancing AHB's liquidity resilience and overall financial performance.

By examining the liquidity management framework of AHB, this paper seeks to contribute to the understanding of liquidity risk management in the Algerian banking sector and offer insights for policymakers, regulators, and banking practitioners.

2. Literature Review

The relationship between financial liquidity management and the housing sector in Algeria is complex and multifaceted, as highlighted by various studies. Effective liquidity management is critical for the stability and growth of the housing sector, ensuring that construction firms and real estate developers have the necessary cash flow to sustain operations and invest in new projects. Studies such as those by Adair et al. (2003) and Bensmail and Tazekrit (2015) emphasize the significant role of government policies and financial intermediaries in shaping the financial landscape. The Algerian government's interventions, through subsidies and regulatory frameworks, have been pivotal in influencing the availability of finance for housing development (Boughrara & Mebarki, 2017). Additionally, challenges specific to developing economies, such as limited access to capital markets and political instability, further complicate liquidity management in Algeria (Mishkin, 2006). Overall, the reviewed literature underscores that while effective financial liquidity management can bolster the housing sector, it is also highly dependent on supportive government policies and a robust financial infrastructure.

3. Background on Algerian Housing Bank

The Algerian Housing Bank (AHB) traces its roots back to its establishment as a specialized financial institution with a mandate to facilitate access to affordable housing for Algerian citizens. Founded with a mission to address the housing needs of the population, AHB has evolved over the years to become a cornerstone of Algeria's housing finance system. Its commitment to providing innovative financial solutions and supporting the government's housing initiatives underscores its dedication to serving the community.

AHB offers a diverse range of financial products and services tailored to the housing sector's requirements. These include mortgage loans, housing savings schemes, construction financing, and real estate development funding. By catering to a wide spectrum of customers, including individuals, developers, and housing cooperatives, AHB strives to foster homeownership, stimulate construction activity, and promote sustainable urban development. Its target market encompasses both urban and rural areas, aiming to address the housing needs of diverse socio-economic groups across the country.

AHB plays a crucial role in Algeria's housing sector by providing essential financial support and expertise to facilitate the construction, acquisition, and renovation of residential properties. As a key player in the housing finance ecosystem, AHB collaborates closely with government agencies, regulatory bodies, and industry stakeholders to implement housing policies, promote affordable housing solutions, and address market challenges. Its initiatives contribute to the realization of national development objectives, including poverty alleviation, job creation, and infrastructure improvement.

The establishment of the National Housing Bank (NHB) represents a significant development in Algeria's housing finance landscape, signaling the government's commitment to diversifying funding sources, enhancing financial inclusion, and promoting sustainable housing development. As the successor to the National Housing Fund (CNL), the NHB is poised to build on AHB's legacy and expand its reach through innovative product offerings, expanded banking networks, and strategic partnerships. By leveraging its institutional strength and expertise, AHB is well-positioned to support the NHB's mission and contribute to the continued growth and resilience of Algeria's housing sector.

4. Financial Liquidity Management in Banking: Principles, Metrics, and Regulatory Requirements.

Financial liquidity management is a critical aspect of banking operations, ensuring that institutions have sufficient liquid assets to meet short-term obligations and unexpected demands. This paper provides an in-depth analysis of financial liquidity, its significance in banking, key principles and metrics used in liquidity management, and regulatory requirements governing liquidity in the banking sector.

4.1. Explanation of Financial Liquidity and its Significance in Banking:

Financial liquidity refers to the ability of a bank to convert its assets into cash quickly and without significant loss in value. It ensures that banks can honor their payment obligations, including customer withdrawals, operational expenses, and loan disbursements, even during periods of financial stress or market turmoil. Liquidity is essential for maintaining depositor confidence, supporting lending activities, and safeguarding the stability of the banking system as a whole.

4.2. Key Principles and Metrics Used in Liquidity Management:

Asset-Liability Management (ALM): ALM involves matching the maturity and cash flow profiles of assets and liabilities to minimize liquidity risk. Banks strive to maintain a balance between short-term liquidity needs and long-term profitability by diversifying their asset and liability portfolios. And also Liquidity Coverage Ratio (LCR): The LCR measures a bank's ability to meet its short-term liquidity needs under stress conditions. It compares a bank's high-quality liquid assets (HQLA) to its total net cash outflows over a specified period, providing insight into its liquidity resilience. In addition, net Stable Funding Ratio (NSFR): The NSFR evaluates a bank's long-term liquidity risk by comparing the amount of available stable funding

to its required stable funding. It encourages banks to maintain a stable funding profile over the long term, reducing reliance on short-term wholesale funding sources.

Finally, cash Flow Forecasting: Banks use cash flow forecasting models to predict future cash inflows and outflows accurately. By analyzing various scenarios and stress testing assumptions, banks can assess their liquidity needs and develop appropriate contingency plans.

4.3. Overview of Regulatory Requirements for Liquidity in the Banking Sector:

Regulators impose liquidity requirements on banks to ensure their resilience to liquidity shocks and systemic risks. These requirements aim to promote financial stability, protect depositors, and mitigate the likelihood of bank failures. Key regulatory measures include:

- **Basel III Liquidity Standards:** The Basel Committee on Banking Supervision introduced liquidity standards as part of the Basel III framework to strengthen global liquidity regulation. These standards include the LCR and NSFR, which require banks to maintain adequate liquidity buffers and stable funding sources.
- **Supervisory Stress Testing:** Regulators conduct supervisory stress tests to assess banks' resilience to adverse economic scenarios and liquidity shocks. Banks must demonstrate their ability to withstand severe market disruptions and meet regulatory liquidity requirements under stress conditions.
- **Reporting and Disclosure Requirements:** Banks are required to regularly report their liquidity positions and compliance with regulatory standards to supervisory authorities. Transparent disclosure of liquidity risk exposures and mitigation strategies enhances market discipline and promotes investor confidence.

Financial liquidity management is essential for ensuring the stability and resilience of banks, enabling them to meet their payment obligations and support economic activity. By adhering to key principles, metrics, and regulatory requirements, banks can effectively manage liquidity risk and contribute to a safe and sound banking system. Compliance with liquidity regulations not only protects banks from liquidity crises but also enhances overall financial stability and promotes depositor confidence.

Outline 2: Current Challenges in Financial Liquidity Management at AHB

1. Internal Challenges

Inefficient cash flow management within banking institutions can lead to a myriad of challenges, including liquidity shortages, increased borrowing costs, and diminished profitability. One common inefficiency stems from poor forecasting techniques, where banks may fail to accurately predict future cash inflows and outflows, resulting in liquidity mismatches. Additionally, inefficient cash allocation practices, such as excessive reliance on short-term funding sources or underutilization of idle cash reserves, can exacerbate liquidity constraints and hinder the bank's ability to meet its financial obligations promptly. Inefficiencies in cash flow management also manifest in suboptimal utilization of liquidity buffers, where banks may hold excessive levels of low-yielding liquid assets, thereby reducing overall profitability. Addressing these inefficiencies requires robust cash flow forecasting models, proactive liquidity monitoring mechanisms, and strategic allocation of cash reserves to optimize liquidity utilization and enhance financial resilience.

Algeria has a population of 44.6 million people and a land area of 2 382 million square kilometers. Algeria's urban population has risen from 60% in 2000 to 74% of the total population in 2021. To facilitate this rapid urbanisation, the authorities provide dwellings through housing supply programmes. These programmes have helped to eradicate the majority (90%) of the country's slums.

The COVID-19 epidemic has harmed the country's economy, which is expected to decrease by 4.9% in 2020. This expansion was explained by revenues from hydrocarbon marketing, which account for 30% of GDP, 60% of budget revenues, and more than 95% of exports. The economy began to revive in 2021, with GDP growth of 4.1%. In 2021, inflation rose to 7.5%, accompanied by a loosening of monetary policy. The rate of multidimensional poverty fell from 2.1% to 1.4%. These characteristics, along with the 2.2% population growth rate, increase the demand for housing, estimated at 200 000 units per year, with a high proportion of young applicants. Inability to meet demand favours informal marketplaces. 80% of real estate transactions occur in informal marketplaces.

Algeria's financial sector is non-banking (82% of GDP) and banking (73% of GDP). Mortgage loans are expected to be less than DA400 billion (US\$2.8 billion), or 2% of GDP. At the end of March 2021, public bank loans were over 9,711 billion (US\$66.2 billion). State subsidies continue to dominate housing allocations. Mortgages are still reserved for households with sufficient, stable, and consistent income (one-third of monthly income can be used as a monthly repayment), excluding households in the informal sector.

In the midst of growing climate hazards, Algeria has a legal structure, the Disaster Risk Management, that focuses on reconstruction rather than prevention and mitigation. Floods, earthquakes, droughts, and forest fires make it hard for the government to act in the housing industry, especially in cities. The Algerian government has delivered 579,500 housing units between 2021 and 2024 as part of a new one-million-home construction program. The government has implemented a number of investor-friendly policies to stimulate real estate investment, particularly in the country's capital. A new investment law, issued in the Official Journal on July 31, 2022, intends to simplify and digitise operations while also providing several tax benefits to investors. And between 2020-2024 more than 1.5 million housing unit delivered, because of new strategy reforms of the sector.

Inadequate liquidity risk assessment practices pose significant challenges to banks' ability to identify, measure, and mitigate liquidity risks effectively. Insufficient data granularity and reliance on static liquidity metrics may result in a superficial understanding of liquidity risk dynamics, overlooking emerging vulnerabilities and interdependencies within the bank's balance sheet. Moreover, traditional liquidity risk models often fail to capture the complex interactions between market conditions, funding sources, and asset quality, leading to underestimation of liquidity risk exposures. Inadequate stress testing frameworks further compound these challenges, as banks may not adequately simulate severe liquidity shocks or scenario-specific stress events, thereby underestimating their liquidity needs under adverse conditions. Enhancing liquidity risk assessment practices requires the adoption of dynamic liquidity models, incorporating scenario-based stress testing scenarios, and leveraging advanced analytics to identify and mitigate emerging liquidity risks effectively.

Non-performing loans (NPLs) exert a significant impact on banks' liquidity positions, posing challenges to their ability to fund ongoing operations and meet depositor withdrawals. As NPLs accumulate on the bank's balance sheet, they tie up valuable capital and liquidity resources, reducing the bank's capacity to extend new loans or honor maturing obligations. Additionally, NPLs impair the quality of the bank's asset portfolio, eroding investor confidence and limiting access to funding markets, further exacerbating liquidity pressures. The resolution of NPLs through loan restructuring, provisioning, or write-offs entails direct liquidity costs for banks, as they allocate resources to cover potential credit losses and maintain regulatory capital adequacy. Furthermore, the contagion effect of NPLs, where deteriorating asset quality spreads across interconnected financial institutions, amplifies systemic liquidity risks and undermines financial stability. Mitigating the impact of NPLs on liquidity necessitates proactive credit risk management practices, early detection of deteriorating loan portfolios, and timely resolution strategies to minimize liquidity drains and restore investor confidence.

2. External Challenges

Algeria has grappled with persistent economic instability, characterized by challenges such as fiscal imbalances, volatile oil prices, and sluggish growth. The country's heavy reliance on hydrocarbon revenues exposes its economy to external shocks, as fluctuations in global oil markets directly impact government revenues and fiscal sustainability. Structural issues, including high unemployment rates, youth disenchantment, and inadequate diversification of the economy, exacerbate social and economic pressures, contributing to persistent macroeconomic imbalances. Moreover, political uncertainty and governance concerns have hindered investment inflows and impeded economic reforms, further undermining Algeria's economic resilience. The prevalence of economic instability poses significant challenges to banks' liquidity management, as they navigate uncertain market conditions, manage credit risks, and adapt to changing regulatory environments.

Algeria's banking sector faces increasing regulatory and compliance pressures, driven by domestic and international regulatory reforms aimed at strengthening financial stability and mitigating systemic risks. The Central Bank of Algeria (Banque d'Algérie) has implemented stringent prudential regulations and capital adequacy requirements to enhance the resilience of banks and safeguard depositor interests. Additionally, compliance with international standards, such as Basel III liquidity and capital standards, requires banks to enhance risk management practices, improve transparency, and strengthen governance frameworks. The evolving regulatory landscape imposes compliance costs and operational challenges on banks, necessitating investments in technology, human resources, and risk management infrastructure. Non-compliance with regulatory requirements exposes banks to legal and reputational risks, eroding investor confidence and diminishing market competitiveness. As banks navigate regulatory complexities, they must strike a balance between regulatory compliance and business profitability while maintaining robust liquidity management practices.

Market competition in Algeria's banking sector has intensified in recent years, driven by factors such as liberalization policies, technological innovation, and the entry of new market players. Established banks face competition from both domestic and foreign institutions vying for market share, leading to pricing pressures, margin compression, and heightened customer expectations. To remain competitive, banks must differentiate their products and services, enhance customer experience, and leverage digital channels to expand their reach and enhance market penetration. However, increased competition also poses challenges to liquidity management, as banks strive to balance loan growth objectives with liquidity preservation strategies. Aggressive lending practices, in a bid to capture market share, may expose banks to higher credit risks and liquidity mismatches, particularly in periods of economic downturn or market stress. Therefore, effective

liquidity management becomes paramount for banks to navigate competitive pressures, maintain financial resilience, and sustain long-term growth in Algeria's dynamic banking landscape.

3. Operational and Technological Challenges.

Operational and technological challenges pose significant hurdles for banks in effectively managing liquidity and ensuring operational resilience. These challenges stem from limitations in existing financial technologies, the imperative for improved data management and analytics, and the operational risks affecting liquidity. The banking sector in Algeria, like many others globally, grapples with outdated or inadequate financial technologies. Legacy systems may lack the flexibility and efficiency required to adapt to changing market dynamics and evolving regulatory requirements. Manual processes and siloed systems hinder real-time visibility into liquidity positions and increase the likelihood of errors or delays in transaction processing. Moreover, legacy systems may struggle to integrate with emerging technologies, such as artificial intelligence and blockchain, limiting banks' ability to innovate and optimize liquidity management processes.

Effective liquidity management relies on timely access to accurate and comprehensive data. However, many banks face challenges in aggregating and analyzing data from disparate sources, resulting in incomplete or inconsistent information. Inadequate data quality and governance processes further compound these challenges, undermining the reliability and integrity of liquidity risk assessments. Enhanced data management capabilities, including robust data infrastructure, standardized data formats, and advanced analytics tools, are essential for banks to gain actionable insights into liquidity trends, identify emerging risks, and make informed decisions in real-time.

Operational risks, including internal fraud, system failures, and human error, pose significant threats to liquidity management. Operational disruptions can disrupt transaction processing, impair access to funding markets, and erode depositor confidence. Inadequate business continuity planning and resilience measures leave banks vulnerable to operational failures, particularly in the face of cyber threats or natural disasters. Additionally, the complexity of banking operations, including multi-jurisdictional activities and outsourcing arrangements, introduces operational risks that can have cascading effects on liquidity. Strengthening operational resilience requires robust risk management frameworks, investment in technology infrastructure, and regular testing and monitoring of operational controls to mitigate liquidity-related operational risks effectively.

Addressing these operational and technological challenges requires a strategic approach that prioritizes investment in modernizing technology infrastructure, enhancing data management capabilities, and strengthening operational resilience. By embracing innovation and adopting best

practices in risk management, banks can overcome these challenges and enhance their liquidity management processes to navigate the dynamic banking landscape effectively.

Outline 3: Case Studies and Future Directions

Several global banks have demonstrated exemplary practices in liquidity management, setting benchmarks for the industry. For instance, JPMorgan Chase, one of the largest banks in the United States, is renowned for its robust liquidity risk management framework. The bank utilizes sophisticated liquidity metrics and stress testing scenarios to assess and monitor liquidity risks proactively. By maintaining diversified funding sources and a high-quality liquid asset portfolio, JPMorgan Chase has successfully navigated volatile market conditions and regulatory challenges, ensuring resilience in times of economic uncertainty.

Similarly, HSBC, a multinational banking and financial services institution, has implemented innovative liquidity management strategies to optimize liquidity utilization across its global operations. The bank leverages advanced cash flow forecasting models and liquidity buffers to mitigate liquidity risks and enhance funding flexibility. HSBC's emphasis on liquidity stress testing and scenario analysis enables it to anticipate and respond effectively to liquidity shocks, safeguarding its financial stability and reputation.

Algerian banks can draw valuable lessons from their global counterparts to enhance liquidity management practices. While the Algerian banking sector faces unique challenges, such as regulatory constraints and economic volatility, adopting best practices in liquidity risk management can help mitigate these risks and improve overall resilience.

For example, “Société Générale Algérie”, a leading bank in Algeria, has implemented comprehensive liquidity risk management policies aligned with international standards. The bank emphasizes liquidity stress testing, contingency funding planning, and liquidity risk appetite frameworks to ensure adequate liquidity buffers and mitigate funding risks. By investing in technology infrastructure and talent development, Société Générale Algérie has strengthened its liquidity management capabilities and positioned itself to navigate evolving market dynamics effectively.

Looking ahead, the Algerian Housing Bank (AHB) can explore innovative approaches to liquidity management to enhance operational efficiency and financial resilience. Embracing digitalization and automation technologies can streamline liquidity monitoring and reporting processes, enabling real-time visibility into liquidity positions and facilitating proactive risk management.

AHB should prioritize long-term strategic planning to ensure sustainable liquidity management amid changing market conditions and regulatory requirements. This entails developing robust

liquidity risk management frameworks, diversifying funding sources, and optimizing liquidity buffers to withstand potential shocks and disruptions.

AHB must remain vigilant to emerging trends in the Algerian and global banking sector that could impact liquidity dynamics. Factors such as technological advancements, regulatory developments, and macroeconomic trends can influence liquidity conditions and funding availability. By staying abreast of these trends and proactively adapting liquidity management strategies, AHB can position itself for sustained growth and resilience in the future banking landscape.

Conclusion

In conclusion, the interplay between financial liquidity management and the housing sector in Algeria underscores the critical importance of robust financial practices and supportive government policies in fostering sectoral growth. Effective liquidity management ensures that housing developers and construction firms can navigate financial uncertainties, maintain operations, and drive new investments. However, the unique challenges faced by developing economies, including Algeria, such as limited capital market access and economic volatility, necessitate comprehensive government intervention and a resilient financial infrastructure. The literature reveals that strategic government policies, such as subsidies and regulatory frameworks, are instrumental in enhancing the availability of finance and sustaining housing market stability. Therefore, the continuous improvement of financial liquidity management practices, combined with proactive government support, is essential for the sustainable development of Algeria's housing sector.

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