

DEPARTMENT



OF MONETARY
OPERATIONS

BANK OF ALBANIA

The Law "For the Bank of Albania" entitles the central bank to drawing up, adopting and implementing the monetary policy. Pursuance of the monetary policy requires that a number of direct and indirect tools are employed. Nowadays the Bank of Albania makes use of indirect instruments only. The Bank of Albania conducts its monetary policy through the Monetary Operation Department.

A - This department is assigned the task of operating on the open market with the aim of the accomplishment of the monetary policy objectives. Operations on the open market are largely ensured by organising weekly auctions of repurchase agreements (repo), or vice-versa. The rate of interest of this instrument is considered to be the basic rate. On the other hand, in an attempt to regulate the liquidity of the banking system in the short run, while keeping the short-term rate of interest within the limits of an acceptable band, the department offers standing facility accounts and credits to second-tier banks, as well. The department manages the liquidity of the banking system in the longer run by using repo or reverse repo (when the aim is to manage liquidity on a temporary basis), and through final purchase or sale of treasury bills (where there is a permanent change in the structure of the system).

Likewise, the mandatory reserve (10 per cent) and the Lombard credit are less flexible tools at the disposal of this department.

B - Operations on the money market are carried out through the spot sale and purchase of money (mainly Euro and USD). The Bank of Albania operates on the money exchange market in those cases where developments in the internal money exchange market might encroach on the normal functioning of the market in the short run (for instance, when extreme transfers in compliance with the currency demand/offer on the market, and speedy and irregular fluctuations of the exchange rate are observed). In any case, the Bank of Albania operates on the internal money exchange market by applying the free exchange rate regime.

C - Under the law, the Bank of Albania also plays the role of the fiscal agent. Performance of this role is also ensured through the activity of the Monetary Operations Department. The following is a description of its responsibilities:

- The department holds primary auctions for the issuing of treasury bills redeemable in three, six and twelve months time. Participation in these auctions is not limited to residents and non-residents. Attached to this department is an office handling the treasury bills, which was set up last year with a view to improving the quality of service offered to individuals. Applications for participation in the primary auctions of the treasury bills are submitted to this office.
- It keeps the government's deposits, and makes a record of all the operations (incomes, expenditure) carried out by second-tier banks, which are appointed by the Ministry of Finances.
- It provides direct credits to the Government of the Republic of Albania (via the Ministry of Finances) within the limits established by Law no. 8269, dated 23 December 1997, "For the Bank of Albania".
- It conducts operations in hard currency on behalf of and for the Ministry of Finances. This concerns basically payments in the framework of servicing the foreign debt, the transfer of various funds owned by it, and purchase/sale of hard currency with the Ministry of Finances as its partner.

D - The department is also involved in the following:

- It manages the hard currency reserve available at the Bank of Albania. It aims at administering the hard currency liquidity of the Bank by ensuring their ready availability at call, their security and the achievement of profit.
- It is concerned with the identification of the foreign debt of the Government of the Republic of Albania. This mainly comes down to highlighting the figures of the inherited old debt, incurred way ahead of 1992.

The Monetary Operations Department has performed well in a number of wide-ranging areas, and its achievements could be summed up in the following:

- a)** This department has improved the quality of operations concerning the pursuance of the monetary policy of the Bank of Albania. This performance has evolved along with how the monetary policy of the Bank of Albania has been conceived and implemented, and resulted in creating new tools, which are resorted to by the most well-known banks in the developed countries, as well. This process has taken place under the conditions of an ever expanding inter-bank market.
- b)** It has helped promote the role of banks on the money exchange markets. It has boosted the quality of the activity and the role of the Bank of Albania on this market, thus building up its reputation.
- c)** Remarkable achievements have also been attained with regard to the management of the hard currency reserve. The policy for and the management of the hard currency reserve, with the basic document regulating this process being adopted by the Supervisory Council of the Bank of Albania, has been subjected to consistent reviewing, thus reflecting the approach of the Bank of Albania towards the way investments are made, and the exposure to risks this Bank takes. Control of the latter has led to improvement in decision-making. The newly created Investment Committee and the Middle Office Division have been set up with a view to checking on the decisions taken.
- d)** It is worthwhile mentioning here that the improved way of issuing the treasury bills on the primary market, and the increased number of participants and individuals, in particular, are also part of the success.

In the future the department will basically aim:

- a)** To bring the monetary policy tools closer to those being employed by the entral European Bank;
- b)** To improve the forecasting ability concerning the liquidity of the system;
- c)** To boost transparency in relation to the activities occurring in the department;
- d)** To foster second-tier banks to develop the inter-bank market and the money exchange market.
- d)** To ameliorate professionalism in the management of the hard currency reserve of the Bank of Albania.