



**R E P U B L I C O F A L B A N I A
B A N K O F A L B A N I A
S U P E R V I S O R Y C O U N C I L**

DECISION

No. 02 of 16/01/2012

**ON APPROVAL OF THE REGULATION
“PROCEDURES FOR BANK OF ALBANIA INTERVENTION IN THE DOMESTIC
FOREIGN EXCHANGE MARKET”**

Pursuant to Article 3, paragraph 2, Article 43, letter “c”, and Article 61, letter “a” of the Law No. 8269, dated 23.12.1997 “On the Bank of Albania”, as amended; the Supervisory Council’s Decision No. 64, dated 20.07.2005 “On Establishing the Monetary Policy Implementation Committee”; and the regulation No. 16, dated 09.03.2011 “On organisation and functioning of the Monetary Operations Department”, upon the proposal of the Monetary Operations Department, the Bank of Albania’s Supervisory Council,

DECIDED:

1. To approve the Regulation “Procedures for Bank of Albania’s intervention in the domestic foreign exchange market”, according to the text attached to this Decision.
2. Monetary Policy Implementation Committee, Monetary Operations Department and all other Bank of Albania’s structures are responsible for implementing this decision.
3. Upon the entry into force of this Regulation, the Bank of Albania’s Supervisory Council’s decision No. 75, dated 11.10.2006, on approval of the Regulation “Procedures of the Bank of Albania’s intervention in the domestic foreign exchange market”, is abrogated.
4. Foreign Relations European Integration and Communication Department is responsible for the publication of this decision in the Official Bulletin of the Bank of Albania and in the Official Journal of the Republic of Albania.

This decision shall enter into force on the 15th date following its publication in the Official Journal of the Republic of Albania.

SECRETARY

Ylli Memisha

CHAIRMAN

Ardian Fullani

**B A N K OF ALBANIA
SUPERVISORY COUNCIL**

REGULATION

**“PROCEDURES FOR BANK OF ALBANIA INTERVENTION IN THE
DOMESTIC FOREIGN EXCHANGE MARKET”**

CHAPTER I

General Provisions

Article 1

Purpose

The purpose of this Regulation is to define the procedures for Bank of Albania's intervention in the domestic foreign exchange market.

Article 2

Legal basis

1. This Regulation is issued pursuant to and in line with:
 - a) The Law No. 8269 of 23/12/1997 “On the Bank of Albania”, Article 3, paragraph 2; Article 43, letters “a”, “b” and “c”; Article 60, paragraph 2; and Article 61, letter “a”;
 - b) The Supervisory Council's decision No. 64 of 20/07/2005 “On establishing the Monetary Policy Implementation Committee”;

- c) Regulation “On organisation and functioning of the Monetary Operations Department”, approved by the Supervisory Council’s decision, No. 16 of 09/03/2011;
- d) Regulation “On Bank of Albania’s transparency and confidentiality”, approved by the Supervisory Council’s decision, No. 53 of 21/06/2000, as amended.

Article 3

Definitions

For the purpose of this Regulation, the following terms shall mean:

- a) “**Government**” - is the Council of Ministers of the Republic of Albania.
- b) “**Bank**” - is the Bank of Albania.
- c) “**Banks and branches of foreign banks**” – are legal entities licensed by the Bank to conduct banking business pursuant to provisions of the Law No. 9662 of 18/12/2006 “On Banks in the Republic of Albania”.
- d) “**Spot**” - is a foreign exchange agreement, whereby parties agree on the exchange rate and the settlement of their accounts within 2 (two) working days following the deal date.
- e) “**Forward**” - is a foreign exchange agreement, whereby parties agree on the exchange rate and the settlement of their accounts on a future date that corresponds to more than 2 (two) days following the deal date.
- f) “**Swap**” - is a simultaneous purchase and sale of one currency for another with two different value dates.
- g) “**Value date**” - is a date predetermined by both parties for settlement of their accounts to make a foreign currency transaction.
- h) “**Quotation**” - is the statement of willingness by the Bank and/or the counterparty to trade a foreign currency versus the lek.
- i) “**Sterilization**” - is the outright purchase or sale of government securities to minimise the effects of foreign exchange intervention on the currency market.

- j) **“Counterparties”** - are banks and branches of foreign banks and/or foreign exchange bureaus.
- k) **“Intervention procedure”** - is the way of proposing, making decision, and conducting a domestic foreign exchange market intervention by the Bank.
- l) **“Domestic foreign exchange market Intervention”** – is the impact made by the Bank on the demand and or supply of the lek versus the foreign currencies.
- m) **“Intervention type”** - is the method used by the Bank to affect the supply and demand of the lek versus foreign currencies.
- n) **“Intervention instrument”** - is the means used by the Bank to conduct the intervention type.
- o) **“Transaction intervention”** - is the Bank’s verbal and/or electronic contacting with the counterparties, aiming to purchase or sell a foreign currency versus the domestic currency by concluding spot or forward agreements, or to halt a foreign currency purchase auction. Transaction intervention is in the form of direct intervention or intervention through auction.
- p) **“Direct intervention”** - is the Bank’s quotation for the counterparties, aiming to conclude *spot* or *forward* agreements for buying or selling foreign currency between the Bank and the counterparties.
- q) **“Intervention through auction”** - is announcement by the Bank for an auction to buy or sell foreign currency versus the domestic currency from banks and branches of foreign banks, via concluding spot or forward agreements.
- r) **“Way of conducting a transaction intervention”** - are certain rules defined for selecting counterparties, in order to specify the trading amount and the trading price.
- s) **“Verbal intervention”** - is Bank’s verbal or written statement on the exchange rate of the lek versus foreign currencies.

- t) **“Commercial foreign-currency transactions”**- are transactions for buying and selling domestic currency against a foreign currency that the Government carries out with other international financial institutions and clients other than the counterparties.
- u) **“Disorder in domestic foreign exchange market”** - is:
- i. Lack of liquidity as a result of which the counterparties are not able to maintain open positions and risk to withdraw from the market, hence difficulties in exchanging the lek against foreign currencies;
 - ii. Acceleration in the pace of exchange rate changes in one direction or high exchange rate volatility of the domestic currency against foreign currencies, in the context of lack of new information in the market;
 - iii. Widening of bid-ask spread between the domestic currency and foreign currencies, which are quoted in the foreign exchange market;
 - iv. Changes in the level and composition of the foreign exchange market turnover;
 - v. Non-functioning of the flow of foreign currency from its supplier to the one demanding it.
- v) **“Domestic foreign exchange market”** - is the market where the counterparties trade foreign currencies in the Republic of Albania.
- w) **“Exchange rate”** - is the domestic currency price of a unit of foreign currency.
- x) **“Market rate on commercial transactions”** - is the rate calculated similarly as the official exchange rate at the moment of making trading commercial transactions.
- y) **“Limit”** - is the maximum amount that banks and branches of foreign banks are willing to trade with the Bank in a single transaction and within one day. These limits are made known to the Bank by an official letter addressed to the Monetary Operations Department and shall be reviewed no earlier than once a six months.

- z) **“Suspending the contacting”** – is the temporary exclusion of a bank or branch of a foreign bank from being a counterparty in a transaction intervention.
- aa) **“Committee”** – is the Monetary Policy Implementation Committee of the Bank.

KREU II

Decision-making process

Article 4

Objective of intervention in the foreign exchange market

Objectives of Bank’s foreign exchange intervention are:

- a) Prevent disorder in domestic foreign exchange market
- b) Correct exchange rate misalignment according to the level determined by the macroeconomic fundamental factors; and
- c) Increase or decrease foreign exchange reserve.

Article 5

Intervening to prevent disorder in domestic foreign exchange market

The Committee or the Governor shall decide on intervening in the foreign exchange market to meet the objective defined in Article 4, letter “a” of this Regulation. The Committee shall decide based on the proposal of the Monetary Operations Department.

Article 6

Intervening to correct exchange rate misalignment

The Supervisory Council shall decide on intervening in the foreign exchange market to meet the objective defined in Article 4, letter “b” of this Regulation, based on the proposal of the Monetary Policy Department.

Article 7

Intervening to accumulate foreign exchange reserve

The Committee, based on the monetary program approved by the Bank's Supervisory Council and the Monetary Policy Department proposal, shall decide on intervening in the foreign exchange market to meet the objective defined in Article 4, letter "c" of this Regulation.

Article 8

Intervention decisions

1. The Committee shall determine the following in its decisions to intervene in the domestic foreign exchange market:

- a) Intervention objective;
- b) Intervention type (verbal and/or transaction);
- c) Intervention instrument; and
- d) Intervention timing.

2. The Committee has the right to include other elements in its decisions, such as:

- a) Preliminary scheduling of auctions;
- b) Agreement type, spot or forward;
- c) Maximum intervention amount;
- d) Intervention sterilisation or non-sterilisation.

3. The Governor shall decide on intervening in the domestic foreign exchange market only in the event of verbal intervention.

CHAPTER III

Implementing the intervention

Article 9

Trading counterparties

1. The Bank, as a rule, shall intervene in the foreign exchange market through banks and branches of foreign banks;
2. In specific cases, when the trading through banks and branches of foreign banks does not function, the Bank shall intervene in the foreign exchange market through the foreign exchange bureaus.

Article 10

Intervention instruments by type

1. The Bank shall intervene in the foreign exchange market through the following instruments:
 - a) A statement in the written media, electronic media and/or press conference, in the event of verbal intervention;
 - b) Contacting the counterparties to conclude a spot agreement or notifying of conducting an auction with banks and branches of foreign banks for buying or selling foreign currency, through spot or forward agreements, in the event of transaction intervention.

Article 11

Intervention currencies

1. To execute a transaction intervention, the Monetary Operations Department shall use the common European currency (EUR) or the United States Dollar (USD).
2. The Monetary Operations Department shall not quote both currencies simultaneously.

Article 12

Executing the foreign exchange market intervention

1. The verbal intervention on behalf of the Bank shall be carried out by the Governor or anyone of the Committee members, after receipt of authorisation from the Governor or the committee.
2. The Monetary Operations Department shall execute the foreign exchange market intervention, in accordance with the decision taken according to Article 5, 6 and 7 of this Regulation.
3. Aiming at increasing the effectiveness of the foreign exchange market intervention, the Monetary Operations Department shall decide on the number of interventions and the timing of intervention in the foreign exchange market.
4. The Committee shall decide on the transaction intervention terms, when foreign exchange bureaus are counterparties, as provided under Article 9, paragraph 2 of this Regulation.

Article 13

Transaction intervention terms

The Committee's decision shall decide on the transaction intervention in the domestic foreign exchange market.

I. Direct intervention

The Monetary Policy Department, in accordance with the Committee's decision, shall determine the direct intervention terms, consisting of:

- A. Counterparty selection;
 - B. Intervention exchange rate and/or
 - C. Intervention amount.
- A. *Counterparty selection shall be done as follows:*
- 1) The Monetary Operations Department shall determine the number of banks and branches of foreign banks that shall be counterparties of the Bank for

intervening in the foreign exchange market. Under no circumstances shall this number be less than four.

- 2) Criteria for selecting banks and branches of foreign banks as counterparties are the following:
 - i. The competitiveness of foreign exchange rates: and/or
 - ii. The limits determined by banks and branches of foreign banks.
- 3) In the event the banks and branches of foreign banks disregard the limit on the transactions that the Bank attempts to enter with them, through a rate quoted by them, the Bank shall suspend its contacting them.
- 4) The Monetary Operations Department shall decide to suspend contacting the bank or branch of foreign bank in accordance with paragraph 3 of this Article, until the next Committee meeting. The latter decides on furthering the contact suspension, which, in any case, shall not exceed 15 (fifteen) working days, during which the Bank intervenes in the foreign exchange market.
- 5) The Bank shall inform the banks and branches of foreign banks by an official notice on the decision taken by the Monetary Operations Department and/or the Committee in the event of contact suspension.

B. Intervention exchange rate is determined by:

- a) Commercial banks' quotes; or
- b) Monetary Operations Department quote; or
- c) A combination of the above letters, "a" and "b".

C. Intervention amount is determined by:

- a) Limits adopted by banks and branches of foreign banks; or
- b) Decision by the Monetary Operations Departments; or
- c) A combination of the above letters, "a" and "b".

II. Intervention through auction

Intervention through auction shall be conducted only with banks and branches of foreign banks.

- A. The auction amount offered by the counterparties shall meet all the following conditions:
- a) Not exceed EUR 5,000,000.00 or its equivalent amount;
 - b) Be equal to the limit presented at the Bank for trading; and
 - c) Be a single amount.
- B. The Monetary Operations Department shall determine the auction winners on the basis of:
- a) Competitiveness of foreign exchange rates offered by banks and branches of foreign banks;
 - b) Amount to be purchased/sold in the amount.
- C. The Monetary Operations Department is entitled to refuse any auction bid, when it deems that accepting it may urge disorder in the domestic foreign exchange market.
- D. Concluding a supplementary agreement after the auction
- When an auction is over, the Monetary Operations Department, considering the auction results and other information, is entitled to provide the winning bidders with possibilities to trade at the same rate, an additional amount not exceeding double the amount offered in the auction. The Bank shall contact banks and branches of foreign banks within 60 minutes following the auction completeness time, starting with the bank and branch of a foreign bank with the most competitive rate in the auction.

Article 14

Auction suspension

1. The Committee, upon proposal by the Monetary Operations Department, shall suspend one or some auctions at any time prior to its/their execution.
2. The Committee shall decide to suspend the auction upon proposal by the Monetary Operations Department, in the event the foreign exchange flows exceed the projections on which the auctions intervention is based.

3. The Committee shall decide to suspend the auction upon proposal by the Monetary Operations Department, when it deems that conducting the auction may urge domestic foreign exchange market disorders.

Article 15

Confidentiality

1. All proposals and discussions involved in the process of foreign exchange market intervention shall be treated as non-public professional information, in accordance with the conditions and requirements specified under the Regulation No. 53, dated 21.06.2000 "On Transparency and Confidentiality in the Bank of Albania", as amended, and other bylaws on the Bank's secret.
2. Decisions on foreign exchange market intervention shall be treated as non-public professional information, as provided under paragraph 1 of this Article, until their announcement and publication in accordance with Article 16 of this Regulation.

Article 16

Announcement and publication

1. The Bank informs on the foreign exchange market intervention in its periodic publications, and as well publishes the amount of intervention in the last week of the quarter that follows the quarter of the intervention.
2. The auction to be organised by the Bank of Albania shall be announced at least 30 calendar days prior to its execution. This announcement shall contain the date, currency, timing and amount of auction.
3. The Bank shall notify the banks and branches of foreign banks via at least one of the communication means (Reuters, Bloomberg, internet or any other means it deems reasonable).

4. In the event the exchange rate is uniform for all counterparties, the Bank shall publish the intervention exchange rate to all the counterparties with which it has contacts.
5. The Bank does not publish or make known the exchange rate of the foreign exchange intervention, in the event the transaction interventions are conducted by using different exchange rates, but announces via its communication means and notifies its counterparties of the fact that it has intervened in the foreign exchange market, in the event of direct interventions.
6. In the event of intervention through auction, the Bank as a rule, publishes the amount bid in the auction, the amount accepted, the range of the bid exchange rates, the range of the accepted exchange rates, the prorata in the highest accepted exchange rate and as well other elements that might be considered necessary, depending on the specific case.
7. In the event of a supplementary agreement concluded after the auction, as foreseen in article 13, section II, letter D of this regulation, the Bank publishes immediately the traded amount and the range of the exchange rates.

Article 17

Commercial foreign currency transactions

1. The Bank shall carry out commercial foreign currency transactions only after it has received respective instructions in a written form or via *SWIFT messages* from an authorised representative of the Government, international financial institutions as well as from other clients with which it conducts commercial foreign currency transactions.
2. The Bank's administrator gives his/her initial approval for the commercial transactions undertaken on the deal date between the Bank and the entities mentioned in paragraph 1 of this Article, which exceed USD 1 million or its

equivalent value in any other foreign currency. The heads of the Monetary Operations Department give the approval for transactions less than USD 1 million.

3. The exchange rate for spot transactions fluctuates within the range of ± 2.00 per cent of the market rate at the deal date. The exchange rate for forward direct transactions or for forward transactions that are part of a *swap agreement* shall be determined by the *spot* rate and the spread between the market interest rates over the deal term, of the currencies involved in the transaction, in accordance with the international trading standards.

CHAPTER IV

Final provisions

Article 18

1. The Committee, the Monetary Operations Department and other relevant structures of the Bank are charged with the implementation of this Regulation.
2. The entry into force of this Regulation abrogates the Bank of Albania's Supervisory Council's decision No.75 of 11/10/2006 "On adopting the Regulation on "Procedures of Bank of Albania's intervention in the domestic foreign exchange market", as amended.

CHAIRMAN OF THE SUPERVISORY COUNCIL

ARDIAN FULLANI