



REPUBLIC OF ALBANIA
BANK OF ALBANIA
SUPERVISORY COUNCIL

DECISION
No. 80, dated 16.12.2020

ON

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

Pursuant to Article 3, paragraph 2, Article 43 (a), (b) and (c); Article 60, paragraph 2; and Article 61 (a) of the Law No. 8269, dated 23 December 1997 “On the Bank of Albania”, as amended, and the Decision of the Supervisory Council No. 29, dated 2.3.2016 “On the organisation and functioning of the Monetary Operations Department”; having regard to the proposal of the Monetary Operations Department, the Supervisory Council of the Bank of Albania,

DECIDED TO:

1. Approve the Regulation on “Procedures of the Bank of Albania’s intervention in the domestic foreign exchange market”, attached therein.
2. The Monetary Policy Implementation and Advisory Committee, the Monetary Operations Department, the Financial Stability Department and the Governor's Office shall be responsible for the implementation of this Decision.
3. The Governor's Office shall be responsible for publishing this Decision in the Official Journal of the Republic of Albania and the Research Department for publishing it in the Official Bulletin of the Bank of Albania.

This Decision shall enter into force 15 days after its publication in the Official Journal of the Republic of Albania.

SECRETARY

Elvis ÇIBUKU

CHAIR

Gent SEJKO

CHAPTER I

General provisions

Article 1

Subject matter

This Regulation aims to lay down the procedures for the intervention of the Bank of Albania in the domestic foreign exchange market.

Article 2

Legal grounds

The implementation of this Regulation shall take place in compliance with the requirements set forth in the following legal acts:

- a) Law on the Bank of Albania, as amended;
- b) Regulation of the Supervisory Council “ On the organisation and function of the Implementation and Advisory Committee of monetary policy”;
- c) Regulation of the supervisory Council “On the organisation and function of Monetary Operations Department”;
- d) The Regulation of the Supervisory Council “On Transparency and Confidentiality at the Bank of Albania”;
- e) Guideline of the Governor “On the classification and management procedures of the information classified as “banking/professional secret” at the Bank of Albania”.

Article 3

Definitions

For the purposes of this Regulation, the following terms shall apply:

- a) **“Government”** – is the Council of Ministers of the Republic of Albania ;
- b) **“the Bank”** - is the Bank of Albania;
- c) **“banks and branches of foreign banks”** – are the legal entities being granted a licence by the Bank to conduct the banking activity pursuant to the Law No. 9662, dated 18.12.2006 “On banks in the Republic of Albania”, as amended;
- d) **“Law on the Bank of Albania”** – is the Law No. 8269, dated 23/12/1997, “On the Bank of Albania”, as amended”;
- e) **“Spot”** – is a foreign exchange contract, whereby the parties agree on the exchange rate and the transfer of funds to the respective accounts, within 2(two) business days following the deal date;
- f) **“Forward”** – is the foreign exchange agreement, whereby parties agree on the exchange rate and the transfer of funds to their respective accounts on a specific date that corresponds to more than 2 (two) business days following the deal date;
- g) **“Swap”** –is a simultaneous purchase and sale of one currency for another with a different value date;
- h) **“Value-date”** – is the presumed date by both parties for the transfer of funds to their accounts to carry out a foreign currency financial transaction;

- i) **“Quotation”** - is the statement of willingness by the Bank and/or the counterparty to trade a foreign currency versus the lek for a defined amount and price.
- j) **“Sterilization”** - is the neutralisation of intervention effect in the domestic FX market in liquidity situation. Sterilization may take place through the use of liquidity management instruments or through outright purchase or sale of Government securities.
- k) **“Intervention procedure”** - is the way of proposing, making decision, and conducting a domestic foreign exchange market intervention by the Bank.
- l) **“Intervention in the domestic foreign exchange market”** – means the action taken by the Bank to affect the demand and/or supply for the lek versus foreign currencies;
- m) **“Intervention type”** - is the method used by the Bank to conduct an intervention in the domestic foreign exchange market.
- n) **“Intervention instrument”** – is the means used by the Bank to carry out the intervention in the domestic foreign exchange market.
- o) **“Intervention through action”** – is the execution of a financial transaction to buy or sell a foreign currency in exchange for lek via concluding spot, forward or swap agreements, or announcement of an auction for buying/selling foreign currency.
- p) **“Direct intervention”** – means the interest or the bilateral agreement between the Bank and trading partner for the selling or buying of foreign currency against lek through spot, forward or swap contracts.
- q) **“Direct intervention instrument”** – is the spot, forward or swap financial transaction in foreign currency against lek.
- r) **“Intervention through auction”** - is the announcement by the Bank for an auction to buy or sell foreign currency against the domestic currency from banks and branches of foreign banks, which may quote for buying or selling foreign currency pursuant to the established rules and procedures, and the Bank meets the quotations in a progressive manner starting from the most financially favourable quotations.
- s) **“Conduction of the intervention through action”** - are the defined rules for: selecting the trade partner; specifying the trading amount; and trading price.
- t) **“Intervention through statement”** – means any Bank’s verbal or written statement on the lek exchange rate level against foreign currencies, aimed at clearly affecting the current/future fluctuation level of the exchange rate.
- u) **“International financial institution”** –are institutions that provide financial support and professional consultancy related to economic and social development activities in developing countries and promote international economic cooperation and stability;
- v) **“Disorder in domestic foreign exchange market”** - is
 - i. Lack of liquidity as a result of which the trading counterparties have difficulties in exchanging the lek against foreign currencies and are unable to maintain open positions and risk to withdraw from the market, hence difficulties in exchanging the lek against foreign currencies;
 - ii. Unjustified increase in the pace of exchange rate changes in one direction or high exchange rate volatility of the domestic currency against foreign currencies, or increase in the exchange rate fluctuation of the national currency against foreign currencies;
 - iii. Widening of bid-ask spread between the domestic currency and foreign currencies, which are quoted in the foreign exchange market;

- iv. concentration of supply or demand in one or very few market participants, accompanied by a decrease in the volume of operations performed in the foreign exchange market;
- v. Non-functioning of the flow of foreign currency from its supplier to the one demanding.
- w) **“Domestic foreign exchange market”** - is the market in the Republic of Albania where the trading counterparties conduct the foreign exchange activity of foreign currencies against lek.
- x) **“Exchange rate** – is the domestic currency price of a unit of foreign currency.
- y) **“Market rate”** - is the rate calculated similarly as the official exchange rate at the moment of conducting other financial transactions.
- z) **“Limit”** - is the maximum amount that banks and branches of foreign banks are willing to trade with the Bank in a single transaction, applicable for the transactions in direct interventions. This limit is equal to EUR/USD 100.000, or multiples of this amount.
- aa) **“Suspending the contacting”** – is the temporary exclusion of a bank or branch of a foreign bank from being a counterparty in a transaction intervention.
- bb) **“Committee”** – is the Monetary Policy Implementation Committee of the Bank.
- cc) **“Trigger point”** – is the level of the exchange rate, the achievement of which will determine the moment of commencement of the intervention in the case of intervention according to the objective set out in Article 4 "c" of this Regulation.

CHAPTER II

Decision-making process

Article 4

Objectives of intervention in the domestic foreign exchange market

Pursuant to the Law on the Bank of Albania, the intervention’s objectives of the Bank of Albania in the domestic foreign exchange market are:

- a) Increasing or decreasing the foreign exchange reserves;
- b) Preventing disorder in the domestic foreign exchange market;
- c) Meeting the monetary policy or financial stability’s objectives, whenever the intervention in the domestic foreign exchange market is deemed indispensable in view of these objectives.

Article 5
Intervening to change the foreign exchange reserve

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

Article 6
Intervening to prevent disorder in the domestic foreign exchange market

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

Article 7
Intervening for the monetary policy or financial stability’s objectives

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

Article 8
Intervention decision

1. The decision of the Committee on the intervention in the domestic foreign exchange market shall contain at least one of the following elements:
 - a) Intervention objective;
 - b) Intervention type;
 - c) Intervention instrument; and
 - d) Intervention duration, except of the intervention taking place pursuant to Article 7.
2. The Decision of the Committee on the intervention in the domestic foreign exchange market may also include other elements, such as:
 - a) Preliminary scheduling of auctions;
 - b) Agreement type, spot or forward;
 - c) Maximum intervention amount;
 - d) For the intervention pursuant to Article 7, the time when the intervention will be effective;
 - e) “*Trigger points*”;
 - f) Operational objective
 - g) Intervention sterilisation or non-sterilisation;
 - h) Maximum participation rate of a counterpart in trade in every auction, pursuant to Article 13 of this Regulation;
3. The Decision of the Supervisory Council on the intervention in the domestic foreign exchange market, pursuant to Article 7 of this Regulation, shall contain one or some of the elements set forth in paragraphs 1 and 2 of this Article, and shall delegate to the

Committee the other elements to be included in a decision accordingly. The Decision of the Supervisory Council on the intervention in the domestic foreign exchange market may contain other elements as well, which differ from those in defined in paragraphs 1 and 2 of this Article. In this case, the Decision of the Committee shall contain elements/instructions that enable the Monetary Operations Department to implement this Decision.

4. The Supervisory Council, the Committee, or the Governor, may take the decision on intervention in the domestic foreign exchange market, related to the type of verbal intervention. The decision on verbal intervention may be in paper form or not and is not mandatory to contain all the elements set forth in paragraphs 1 and 2 of this Article.

Chapter III

Implementing the decisions on intervention

Article 9

Trading counterparties

1. The Bank shall intervene in the domestic foreign exchange market through banks and branches of foreign banks, which have an account with the Bank.
2. In the event banks and branches of foreign banks are not able to meet the objective/objectives, the Bank may intervene in the domestic foreign exchange market through the foreign exchange bureaus.
3. The Government, the Albania Deposit Insurance Agency and other international financial institutions, may be counterparties of the Bank in trade, only with reference to Article 14 of this Regulation.

Article 10

Types of interventions by instrument and objective

1. The Bank shall intervene in the domestic foreign exchange market through a statement and intervention through action. Intervention through action may be a direct one or through an auction.
2. Intervention through a statement is employed to meet each of objectives laid down in Article 4 of this Regulation. It is realised through intervention instruments, as a statement in the written media, electronic media, press conference, and/or through any other communication method, via which market participants and public at large may be reached.
3. Direct intervention is used in the event of intervention to meet the objectives set forth in Article 4 “b” and “c” of this Regulation. Contacting the counterparties to conclude a spot or forward agreement is the instrument for realising this intervention.
4. Auction intervention is used in the event of intervention to meet the objectives set forth in Article 4 “a” of this Regulation. The announcement on the organisation of the auction with banks and branches of foreign banks for buying or selling a foreign currency, through spot or forward financial transactions, is the instrument for realising the auction 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 direct intervention

I. Announcement

Direct interventions will not be announced in advance, unless decided otherwise.

II. Implementation

The Monetary Operations Department shall execute the direct intervention, including the timing and number of interventions, in compliance with the elements entailed in the Decision on the intervention set forth in Article 8 of this Regulation.

III. Selection of trading counterparties for the direct intervention

1. The Monetary Operations Department shall determine the number of banks and branches of foreign banks, which will be counterparty to trade of the Bank for intervening in the domestic foreign exchange market through direct agreements. The bank shall contact at least three banks.
2. The criteria for selecting banks and branches of foreign banks as counterparties are the following:
 - a) The competitiveness of selling or buying foreign exchange rates depending on the position of the Bank; and/or
 - b) The trade limits as defined by banks and branches of foreign banks.
3. In the event banks and branches of foreign banks are not able to meet the objective/objectives, the Committee shall decide to intervene through the foreign exchange bureaus and the Monetary Policy Department shall compile the execution manner of the intervention.

IV. Suspension of trading counterparties

1. In the event banks and branches of foreign banks disregard the announced limit on the bilateral transactions, or in any case of breach of their obligations and responsibilities in relation to foreign currency financial transactions, the Bank may suspend them from any action intervention.
2. The Monetary Operations Department may decide to suspend the trading partner in accordance with paragraph IV, point 1 of this Article, until the next meeting of the Committee. The latter may decide on the extension of the suspension period and the conditions under which it may be lifted.
3. The suspension, in any case, shall not exceed 15 business days, an interval during which the Bank intervenes in the domestic foreign exchange market through direct interventions.
4. 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 suspension.

V. Intervention exchange rate

The exchange rate for each intervention in the domestic foreign exchange market shall be determined by:

- a) Quotes of banks and branches of foreign banks; or
- b) Monetary Operations Department quote; or
- c) A combination of the above “a” and “b”.

VI. Intervention amount

The amount for every intervention in the domestic foreign exchange market shall be determined by:

- a) Limits adopted by banks and branches of foreign banks; or
- b) the opinion of the Monetary Operations Department related to financial transactions lower than the limit communicated from the bank or higher, in the event the trading counterparty accepts a higher amount

Article 13

Realisation of through auction

I. Announcement and publication

1. The auction date shall be announced, as a rule, at least one month prior to its execution date.
2. The Bank, immediately upon the decision of the Committee, shall publish in Reuters and its website the annual schedule of auctions and the range of annual minimum and maximum amounts of bays/sales.
3. Publication of the annual calendar of auctions, laid down in paragraph I, point 2, of this Article, as a rule shall take place in advance to the end of the previous calendar year and at least one month prior to the execution of the first auction.
4. The Bank shall notify the banks and branches of foreign banks via at least one of the communication means, as follows: Reuters, Bloomberg, internet or any other means it deems reasonable.
5. The Bank shall notify the timing of individual auctions, two or three days prior to its execution. In the respective announcement, the Bank also shall notify the maximum participation rate, if the latter is defined the relevant decision of the Committee.

II. Auction procedures

1. Intervention through auction shall be conducted only with banks and branches of foreign banks, unless decided otherwise.
2. Each participant in auction may place up to three quotas.
3. Each participant in the auction shall quote the minimum amount of EUR/USD 100,000 per each quota or multiple of this amount.
4. 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 auction.
5. The determination of the winner/winners shall take place as follows:
 - a) The Monetary Operations Department, after ranking the quotes from the most financially favourable quotation to the most unfavourable quotation, will determine as the first winner, the first bid in a row and will continue with the subsequent quotations in descending order until fulfilment of the minimum auction amount;
 - b) The Monetary Operations Department is entitled to decide on the accordions of quotations after meeting the minimum amount up to the maximum auction amount;
 - c) Under no circumstances shall the maximum amount be exceeded.
 6. When an auction is over, the Monetary Operations Department, considering the auction results, market conditions, purpose of the auction scheduling and other information, is entitled to continue with the implementation of the intervention in the domestic foreign exchange market, through the second round, as follows:
 - a) The Monetary Operations Department offers to one, some or all winning trading partners the opportunity to trade at the weighted average price of the amounts received at auction. The weighted average price is rounded to 2 digits after the comma;
 - b) The Bank chooses to contact the winning trading partners within 60 minutes following the auction completeness time, starting with the bank and the branch of the foreign bank with the most competitive rate in the auction;
 - c) Each of the selected winning partners is given the right to trade an additional amount equal to the amount awarded as the winning auction. The selected counterparty is entitled to exercise this right in whole or in part.
 7. In the event of inability of banks and branches of foreign banks to meet the objective/objectives, the Committee shall decide to intervene through the foreign exchange bureaus and the Monetary Operations Department is responsible for drafting the manner of carrying out the intervention.
 8. In case of infringement of the auction procedures, the suspension is applied according to Article 12, paragraph IV of this Regulation.

III. Increase and cancellation of auctions

1. The Committee, upon the proposal of the Monetary Operations Department, may plan additional auctions, which are not included in the initial annual auction calendar, respecting the minimum 1-month notice period according to paragraph I of point 1 of this Article.
2. In event of planning additional auctions, the Bank notifies the banks and branches of foreign banks via at least one of the means of communication: Reuters, Bloomberg, the internet or any other tool it deems reasonable.
3. The Committee, upon the proposal of the Monetary Operations Department, cancels one or more auctions at any time prior to its/their execution, by notifying the trading partners and the public, as in the case of announcing auctions.

4. The cancellation of one or more auctions is decided in the event: the auction objectives are achieved; the execution of the scheduled auctions contradicts the objectives pursued by the Bank; or in the event the organization of the auction may trigger disorders in the domestic foreign exchange market.

Article 14

Other financial foreign exchange transactions

1. In addition to the interventions in the domestic foreign exchange market defined in this Regulation, the Bank may also intervene in the domestic foreign exchange market in cases of approval of bids initiated by the Government, ADIA (Albanian Deposits Insurance Agency) and international financial institutions.
2. The Bank carries out foreign currency financial transactions in accordance with point 1 of this Article, only after the approval of the request (relevant instructions in written form or SWIFT message), sent by the authorized representative of the Government, ADIA (Albanian Deposit Insurance Agency) and the international financial institutions.
3. The Head of the Monetary Operations Department shall approve the foreign currency financial transactions amounting up to EUR 1 million or their equivalent. These foreign exchange financial transactions are rare, and are conducted when they are operational in nature, as well as when they do not affect the fulfilment of the objectives set out in Article 4 of this Regulation.
4. The Bank Administrator, tasked with overseeing the Monetary Operations Department, shall give the approval for foreign currency financial transactions amounting up to EUR 10 million or their equivalent, but which do not exceed the cumulative EUR 20 million within 1 calendar month. These foreign exchange financial transactions are performed when they do not affect the fulfilment of the objectives set out in Article 4, "b" and "c" and the impact on the objective set out in Article 4 "a" of this Regulation is minimal. Irrespective the above definitions of amounts and objectives, in the event that such transactions are frequent, the Administrator may reject the request, and in this case, the Monetary Operations Department shall send it to the Committee for approval.
5. The Committee shall approve the foreign exchange financial transactions for values higher than those defined in point 4 of this Article. These foreign exchange financial transactions are conducted to meet the objective set out in Article 4 "b" of this Regulation.
6. The exchange rate for the purpose of performing other spot financial transactions fluctuates up to $\pm 2.00\%$ of the market rate, at the time of entering into the agreement. The exchange rate for forward financial transactions or forward financial transactions that are part of a swap agreement is determined by the spot exchange rate and the spread in market interest rates for the term of the agreement, of the currencies involved in the financial transaction, in accordance with international trading standards.

Article 15

Communication after the intervention

1. The Bank shall publish on its official website the amount of intervention in the domestic foreign exchange market in the last week of the quarter that follows the quarter when the interventions were made.
2. In the event of direct interventions with a uniform exchange rate, the Bank shall inform all the counterparties with which it has contacts on the intervention and the foreign exchange rate of the intervention.
3. In the event of direct interventions, which are conducted by using various foreign exchange rates, the Bank shall inform the counterparties with which it has contacts, only on the fact that it has intervened in the domestic foreign exchange market, and not on the intervention foreign exchange rates.
4. In the event of direct intervention, the bank may inform, at any moment, the public at large, on the intervention, its objective and the traded amount.
5. 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, as well other elements that might be considered necessary, depending on the specific case.
6. In the event of an agreement concluded in the second round after the auction, as foreseen, the Bank shall publish immediately the traded amount and the exchange rate.

Article 16 Confidentiality

1. All the documents and information related to the Decision on the intervention in the domestic foreign exchange market shall be treated as non-public professional information in accordance with the Regulation of the Supervisory Council “On Transparency and Confidentiality in the Bank of Albania”, as amended, and the guidelines of the Governor “On the rules for the use and classification of information as “banking secret” at the Bank of Albania.
2. In addition to the stipulations in Article 15 of this Regulation, the decision-making bodies for the intervention in the domestic foreign exchange market shall make public the decision either partially or entirely.

Article 17 Final Provisions

1. The Committee, the Monetary Operations Department, Monetary Policy Department, Financial Stability Department and Governor's Office will be responsible for the implementation of this Decision.
2. Decision No. 2, dated 16.01.2012 of the Supervisory Council of the Bank of Albania, “On the procedures of the Bank of Albania intervention in the domestic foreign exchange market” shall be repealed, upon the entry into force of this Decision.

**Chair of the Supervisory Council
Gent SEJKO**

