

**BANK OF ALBANIA INTERVENTIONS IN THE MONEY MARKET AND FOREIGN
EXCHANGE MARKET
OVER 2023 Q4**

1. BANK OF ALBANIA INTERVENTIONS IN THE MONEY MARKET OVER 2023 Q4**1.1. Open market operations and factors affecting liquidity shortage in the banking system**Table 1 Temporary open market operations
(*in ALL billion¹.) Source: The Bank of Albania.

DATE	R/REPO overnight	R/REPO 1-week	R/REPO >1-week <3-month	REPO Overnight	Total injected liquidity
5-October-23		23.96			43.65
12-October-23		33.53			53.22
19-October-23		43.64			63.33
24-October-23			8.10		63.35
26-October-23		42.73			62.44
2-November-23		23.03			42.73
9-November-23		21.20			40.91
16-November-23		22.65			42.36
23-November-23		22.97			42.68
24-November-23			4.30		42.68
30-November-23		28.08			47.70
7 - December -23		19.80			39.41
14 - December -23		23.32			42.94
21 - December -23		29.36			48.97
24 - December -23			2.66		48.97
28 - December -23		26.01			41.01

In 2023 Q4, the Bank of Albania intervened in the money market through the open market operations to inject liquidity.

Average daily injections through liquidity injecting operations with maturity 1-13 weeks has decreased at ALL 47.70 billion on average, against the record of ALL 54.20 billion in the previous quarter, and ALL 44.65 billion on average in the first six months of 2023. Shortage reached its maximum levels above ALL 60 billion in October, while trending downwards at the beginning of November. At the end of December, the shortage amounted around ALL 40 billion. **The liquidity**

¹The figures are expressed in liquidity value.

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shortage fell as liquidity in the Government's account declined by around ALL 23.5 billion. Out of ALL 13.7 billion drove the shortage coming down, while ALL 9.8 billion was the maturity effect of SWAP agreements.

The purchase of foreign currency in the foreign exchange market with an effect of ALL 5.35 billion was the other factor that positively affected the shortage fall, concentrated in the second part of the period due to the use of the forward option in the organised auctions. The currency in circulation had a minimum impact of ALL 500 million, but with a positive development compared to the seasonality of this indicator. **In total, the amount of currency in circulation increased by approximately ALL 6.8 billion during 2023, from around ALL 23 billion in the previous two years.** Portfolio transactions provided a minimum impact on the decrease in the shortage by ALL 600 million.

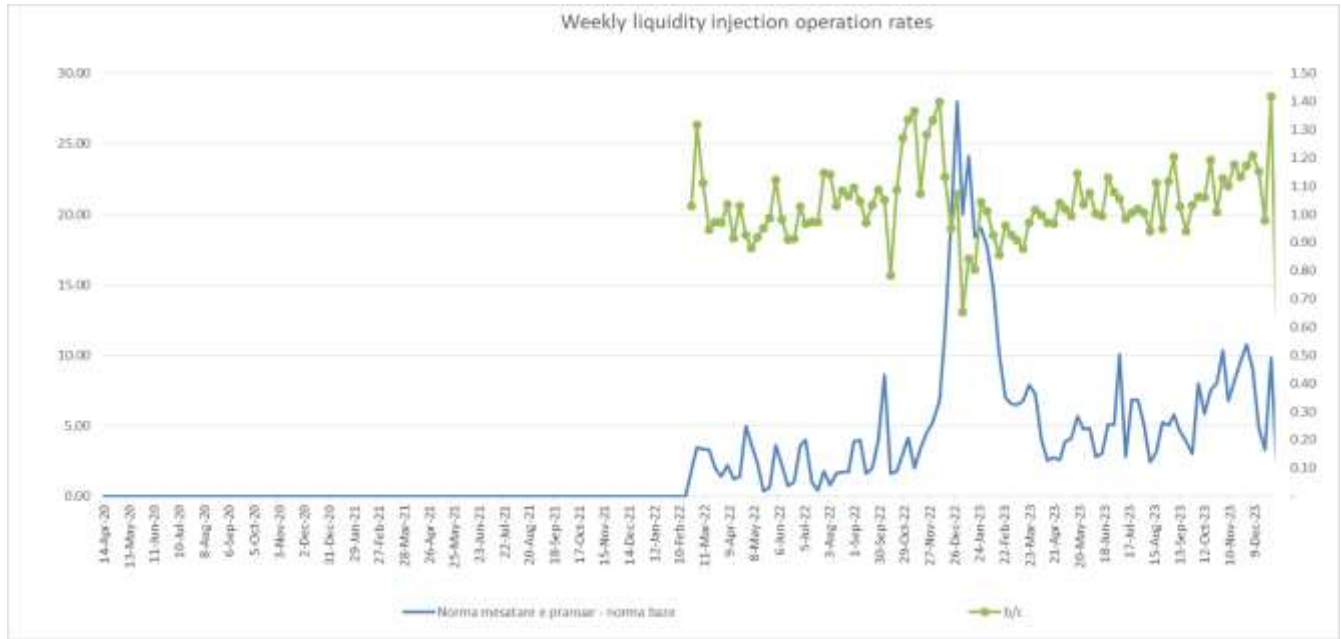
In the context of operations for liquidity management in the banking system, the Bank of Albania employed its main instrument - the one-week reverse REPO - to inject on average ALL 59.4% against 64%-68% in the first 9 months of the year.

Unlike the first nine months of the year, - when transactions primarily focused on targeting a higher liquidity amount due to shortage concentration across banks with limited financing opportunities, coupled with the pressure on the required rates in the Bank of Albania's injections- ,given banks' increased expertise in quoted rates and the negative impact of accommodation on traded volumes in the interbank market, **efforts were oriented towards promoting greater utilization of the interbank market for financing, as opposed to relying solely on Bank of Albania's operations for funding.** This change was considered favourable in the preparation of banks for the reduction of the amounts injected by the Bank of Albania, given the large spaces of the MoFE to spend the in last days of 2023 and the first weeks of January for the purposes of the 2023 budget.

Consequently, there was a gradual rise in auction coverage ratio, accompanied by increased trading volumes, attributed to a shift of the demand in the interbank market and heightened pressure for the overnight loan usage. Despite trading up to 50 bps above the policy rate, the average weekly interbank market trading rate remained within 20 bps above the policy rate, being averagely 8 bps higher during the period.

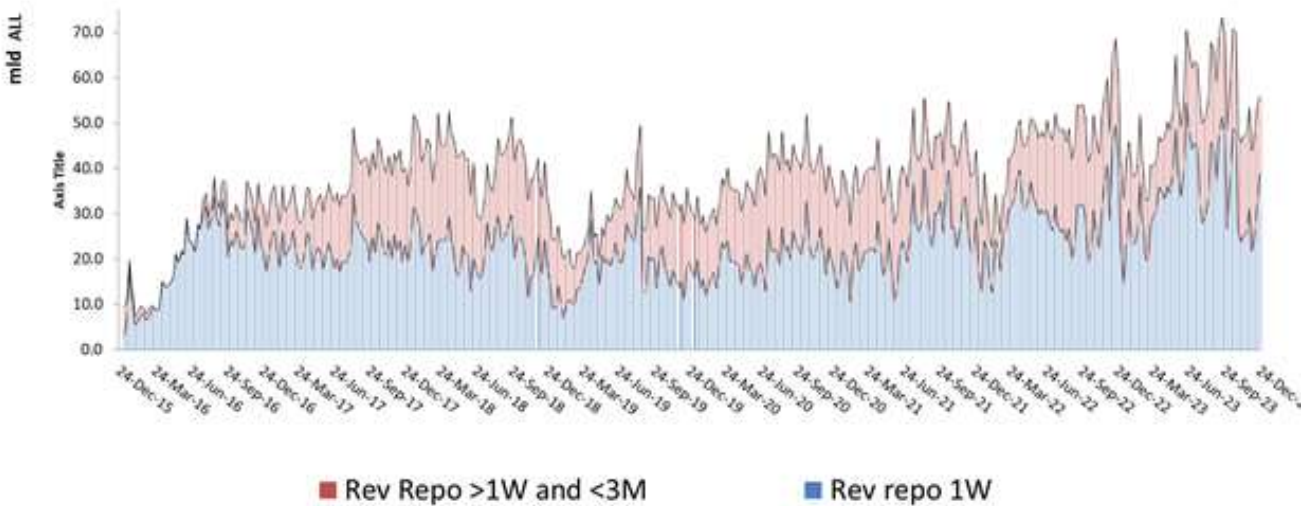
Bank of Albania interventions in the money market and foreign exchange market over 2023 Q4

In addition to the rise in the average trading rate within the weekly market, the rate of weekly injections by the Bank of Albania has also edged up, on average, to 7.8 bp above the policy rate, against 4-5 bp in the period April-September against 13bp in 2023 Q1.



Source: The Bank of Albania.

Reverse Repo by maturities for the period 2016-2023



1.2 Use of standing facilities

Bank of Albania interventions in the money market and foreign exchange market over 2023 Q4

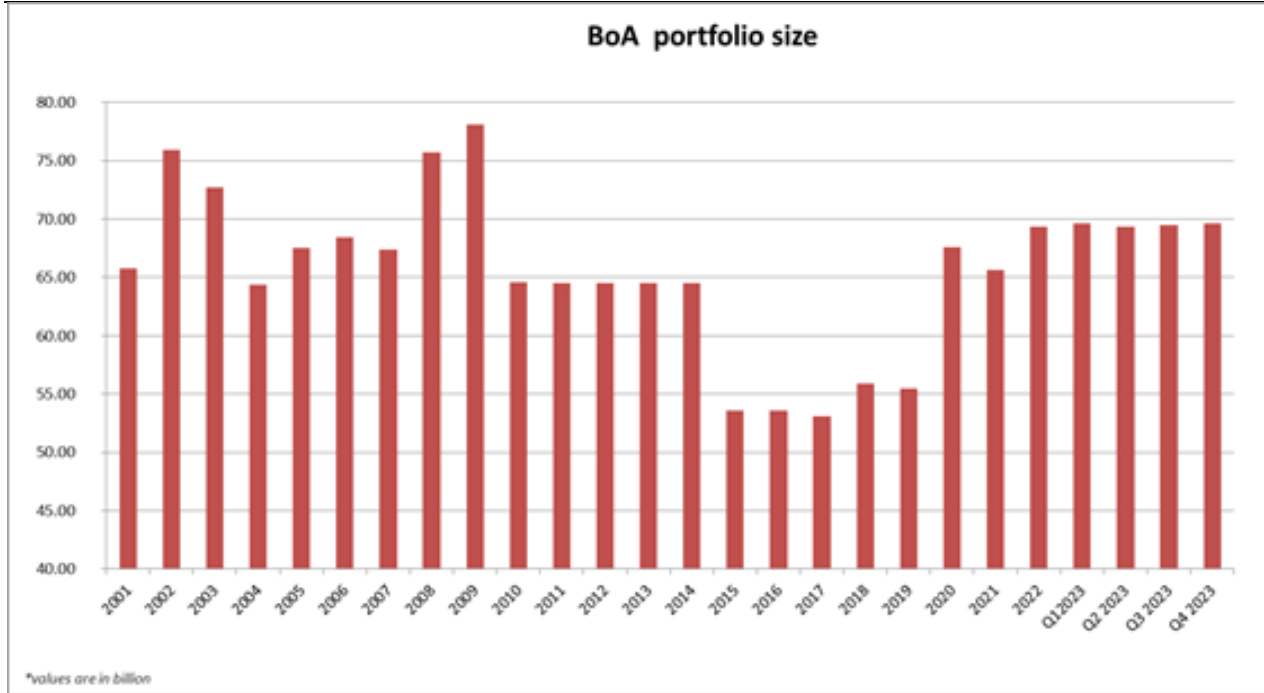
The use of overnight deposit facility increased during the period, to ALL 4.7 billion on average, from only ALL 0.5 billion in the previous period. Compared to previous periods, the number of banks that use the overnight deposit facility both at the end and in the middle of the minimum required reserve period is increasing.

The overnight loan facility was used in 14 cases, 11 of which were from the American Bank of Investments. In January-September period, the overnight loan facility was employed in 39 cases, all of which by the American Bank of Investments.

1.3 Structural operations to manage banking system liquidity through the Bank of Albania's portfolio

In 2023 Q4, the Bank of Albania has continued tending to increase the portfolio through auctions for the purchase of securities. Participation of banks' participation, as throughout 2023, has been quite low, driving the portfolio to increase by only ALL 600 million in 5 auctions, thus remaining at values close to the lower level of the approved band. Reluctance to participate due to the good performance of government securities and the reclassification of most portfolios into HTM during 2022 have once again been the factors behind the low level of participation.

The value of the Bank of Albania's T-bills portfolio amounts to ALL 69.65 billion, close to the noted maximum levels, but in relative terms against public debt issued in national currency, the amount of the portfolio is below 10% compared to around 25% in the early 2000s.



1.4 Use of fine-tuning operations

In the period under review, the regulatory interventions were conducted at the end of the required reserve (RR) of the September-October period, at the beginning of the RR of November-December period, and also on the last day of 2023.

Fine-tuning operations in October and December were carried out due to unexpected needs in weekly injections by banks with excess liquidity, while in November there was a negative deviation of factors during the period of consecutive days off for official holidays (24-30 November).

Overnight loan facility was employed at the moment of injection operation of October. In November the weekly average rate of market was up by 20 bp above the policy rate. In December both loan facility and market rate increased by 10 bp above the policy rate. The injected amounts were ALL 2.5-5.00 billion.

2. BANK OF ALBANIA INTERVENTIONS IN THE DOMESTIC FOREIGN EXCHANGE MARKET DURING 2023 Q4

2.1 Transactions with commercial banks

Bank of Albania interventions in the money market and foreign exchange market over 2023 Q4

During 2023 Q4, as announced on 13 December 2022 and revised on 3 August 2023, the Bank of Albania has held four auctions for the purchase of foreign currency, one of them with the SPOT option.

A total of EUR 66 million were purchased in these auctions. This figure is almost the same as that purchased in the previous quarter in 5 auctions. Only four auctions, totalling ALL 5.35 billion, contributed to the effect on the liquidity injected during the quarter, as the last auction involved a forward transaction with a value date 22 January 2024. ALL 25.1 billion were injected into the banking system, over 2023, through the purchase of foreign currency from auctions.

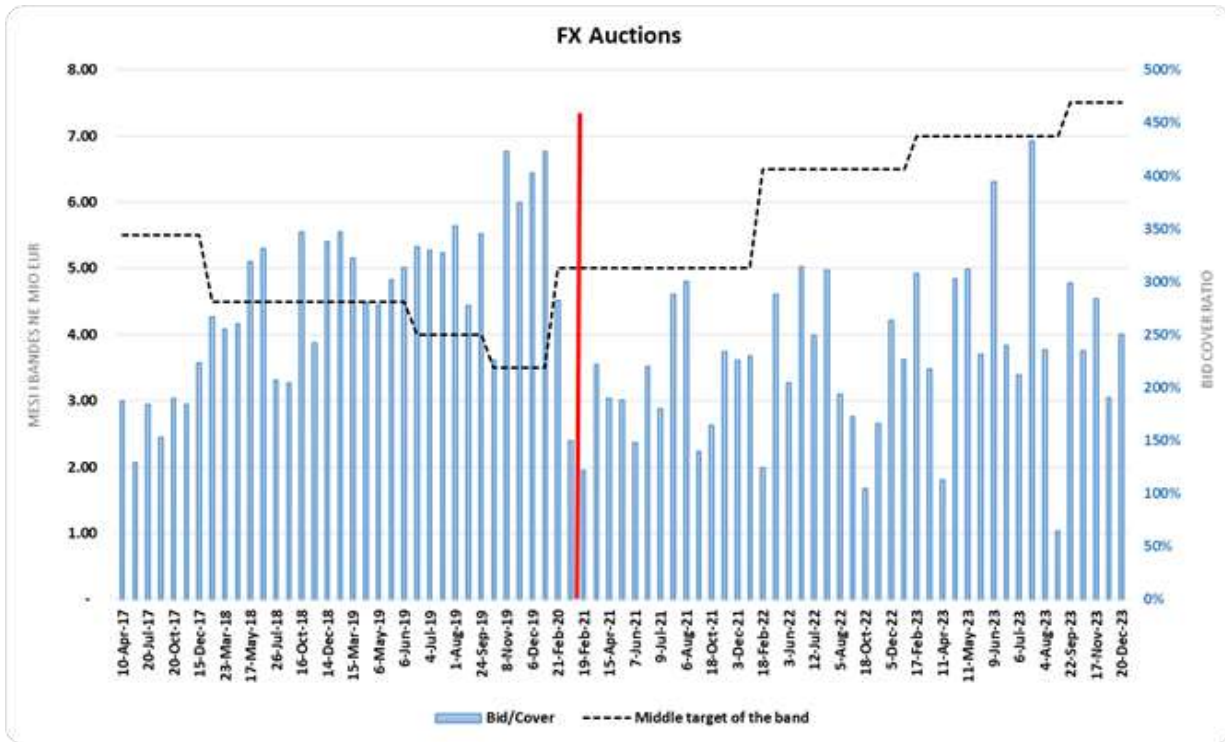
The further increase in the amounts requested by the Bank of Albania in auctions for the purchase of foreign currency (5-10 million), has interrupted the upward trend of the coverage ratio, which however remains at levels sufficient to have competitive auctions, above 1.5. **For this reason, in the calendar published in December 2024, where the purchase target was increased, it remained substantially the same and the number of auctions has increased to 20 compared to 17 held in 2023.**

During 2023, with the objective to increase the international reserve, the Bank of Albania, intends to buy EUR 160-220 million through auctions.

Calendar of interventions for 2023

	Date	Amount in the first round (in euro)	
1	17/02/2023	5-9 mio	1 mo FW
2	17/03/2023	5-9 mio	1 mo FW
3	11/04/2023	5-9 mio	1 mo FW
4	20/04/2023	5-9 mio	
5	11/05/2023	5-9 mio	
6	26/05/2023	5-9 mio	
7	09/06/2023	5-9 mio	
8	21/06/2023	5-9 mio	1 mo FW
9	06/07/2023	5-9 mio	
10	20/07/2023	5-9 mio	
11	04/08/2023	5-9 mio	
12	18/08/2023	5-9 mio	1 mo FW
13	22/09/2023	5-10 mio	
14	18/10/2023	5-10 mio	1 mo FW
15	17/11/2023	5-10 mio	1 mo FW
16	06/12/2023	5-10 mio	
17	20/12/2023	5-10 mio	1 mo FW

* When the auction falls on a public holiday, it will be organized on the next working day.



Calendar of interventions- 2024			
	Date	Amount in the first round (in euro)	
1	16/02/2024	5-10 mln	1 mo FW
2	15/03/2024	5-10 mln	
3	26/03/2024	5-10 mln	1 mo FW
4	19/04/2024	5-10 mln	
5	30/04/2024	5-10 mln	1 mo FW
6	17/05/2024	5-10 mln	
7	24/05/2024	5-10 mln	1 mo FW
8	06/06/2024	5-10 mln	
9	13/06/2024	5-10 mln	1 mo FW
10	21/06/2024	5-10 mln	
11	12/07/2024	5-10 mln	
12	19/07/2024	5-10 mln	
13	26/07/2024	5-10 mln	
14	09/08/2024	5-10 mln	
15	16/08/2024	5-10 mln	1 mo FW
16	17/09/2024	5-10 mln	1 mo FW
17	18/10/2024	5-10 mln	1 mo FW
18	20/11/2024	5-10 mln	1 mo FW
19	05/12/2024	5-10 mln	
20	20/12/2024	5-10 mln	1 mo FW

**When the auction falls on a public holiday, it will be organized on the next working day.*

During 2024, with the objective to increase the international reserve, the Bank of Albania, intends to buy EUR 250-330 million through auctions.

After recording consecutive low levels, the EUR/ALL exchange rate stabilized during the quarter in a relatively narrow trading area ALL 101.20 - 106.20 with an average trading level around ALL 104.00. However, strengthening pressures remain as at the end of the period the level of ALL 103.30 is around 2.8% lower than that of ALL 106.20 at the beginning of the quarter. The high volatility of recent periods has led the interbank market spreads to stabilize at higher levels than historical ones, without however significantly impacting trade.

2.2 Operations with other institutions

During the fourth quarter of 2023, the MoFE matured the SWAP agreement for EUR 85 million, bringing it to 0. However, the expectation is that this option will be used again in 2024, as MoF has requested an increase in the possible amount to ALL 50 billion, from ALL 25 billion provided for in the basic agreement between the institutions.

EUR 2.1 million were purchased from MoFE from IPA program funds.