



**REPUBLIC OF ALBANIA
MINISTRY OF FINANCE**

No. 5360, on 18/04/2017



**REPUBLIC OF ALBANIA
BANK OF ALBANIA**

No. 1621, on 18/04/2017



**REPUBLIC OF ALBANIA
FINANCIAL SUPERVISORY AUTHORITY**

No. 1069, on 18/04/2017

MEMORANDUM OF COOPERATION

between

MINISTRY OF FINANCE

and

BANK OF ALBANIA

and

FINACIAL SUPERVISORY AUTHORITY

**TO INCREASE THE USE OF THE NATIONAL CURRENCY (ALL)
IN THE ALBANIAN FINANCIAL SYSTEM AND ECONOMY**

April 2017

ARTICLE 1: *Reasons for the implementation of the Memorandum of Cooperation*

Based on, but not limited to, their role as members of Financial Stability Advisory Group, the Ministry of Finance (MoF), herein representing the Government of the Republic of Albania, the Bank of Albania (BoA) and the Financial Supervisory Authority (FSA), which in this document will be referred to as the 'parties':

- assessing the considerable degree of foreign currency usage (euroization) in the Albanian financial system and the economy;
- recognizing the nature of the factors influencing this phenomenon, and of the challenges that go along with addressing it
- considering that this phenomenon represents a potential source of risk to the country's financial stability, an impairment to the full effectiveness of monetary policy and fiscal policy, as well as the sustainability of steady economic growth; and
- by reckoning that the established macro economic stability, sustainable public finances and a credible monetary policy preserving price stability, as preconditions that have been fulfilled, allow to address euroization in a more consistent manner;
- and by appreciating that the interinstitutional communication, cooperation and coordination, as well as the flexibility to adopt a long-term view in dealing with this phenomenon, are necessary to achieve effectiveness in possible measures adopted to mitigate euroization risks;

have agreed to sign this Memorandum of Cooperation (hereinafter the 'Memorandum') through which is defined the strategy to be followed in order to strengthen confidence in the national currency and promote its use in the Albanian financial system and economy (hereinafter the 'strategy').

ARTICLE 2: *Targets, actions and monitoring*

- 1.** The objective of the strategy is to create the necessary incentives for promoting the gradual but steady reduction of foreign currency use, hence to strengthen the use of the national currency, in the financial system and the economy.
- 2.** Actions relating to the strategy implementation, will be classified in the following groups, each of same importance and that will be pursued in parallel:
 - a) *the first group* includes actions related to fiscal policy and other legal improvements aiming at ensuring fiscal sustainability, reducing the informal economy, supporting the financial market development, improving legal requirements and strengthening their implementation in order to increase the use of national currency in transactions between economic agents;

- b) *the second group* includes actions related to monetary and supervisory policies on banks and other financial institutions, in order to preserve the stability of macroeconomic environment, sustain financial market and payment system development, and increase the use of national currency in the financial system;
 - c) *the third group* includes other activities which are not included in the previous two groups, which are considered necessary for the strategy implementation and the Parties can affect their application.
3. To assess the effectiveness of the measures and progress in achieving the objective, the Parties shall regularly monitor and analyze developments in financial, monetary, economic and legal areas, based on indicators specified in the Annex of this Memorandum.

ARTICLE 3: *The use of national currency as the monetary unit when expressing financial values*

In their activities the Parties shall translate and communicate in national currency, all values that are expressed in financial transactions and reports, in all cases where this is not specifically restricted by the law, contract or any other standards, as well as when it does not affect the perception of the value or nature of the activity.

ARTICLE 4: *Activities of the Parties*

1. Regarding fiscal and regulatory aspects, **MoF** is committed:
- a) to continue to pursue a fiscal policy aimed at maintaining and improving the sustainability of public debt, to increase the preference for borrowing in national currency by public institutions when issuing debt securities, to create as complete of a maturity structure as possible for debt securities issued in national currency to further the development of the financial market;
 - b) to offer its expertise and cooperation, in order to further develop primary and secondary debt securities market in national currency;
 - c) to use fiscal policy instruments and improve the relevant legal framework or its applicability, in order to further promote the formalization of the economy and to promote the use of Albanian Lek for financial transactions and as a store of value by economic agents;
 - d) on its own or through seeking the cooperation with other Government agencies, to undertake or support any other legal or operational measure that strengthens the use of Albanian Lek in the economy to discharge payment obligations.

2. Regarding monetary and supervisory aspects, **BoA** is committed:

- a) to maintain the current monetary policy framework, based on inflation targeting and the flexible exchange rate, as a necessary condition for maintaining macroeconomic stability and retaining the public's and markets' confidence in national currency;
- b) to further modernize the payment systems and adapt the regulatory, operational and supervisory framework of the banking activity, in order to reduce banking sector's foreign currency exposure and thus reduce risks to financial stability and prevent any impairment to the effectiveness of the monetary policy transmission;
- c) to strengthen the regulatory requirements to improve transparency for banking and other financial institutions products and services, in order for economic agents that interact with the banking sector to be in a better position to assess the risk associated with their exposure to operations in foreign currency on a stand-alone basis or combined with other risks;
- d) to contribute to the development of financial products and instruments that support the use by banks and by their customers of the national currency, including for borrowing and lending purposes, as well as improve their hedging against financial risks;
- e) to regularly analyze trends and risks arising from the foreign currency exposure of banks and their customers, and similarly assess the impact of measures taken to mitigate such risks or the need for any new measures;

3. As a regulator of the market for non-bank financial institutions, the **FSA** is committed:

- a) to improve the regulatory and supervisory framework in order to reduce liquidity and solvency risks arising from foreign currency operation of institutions it supervises;
- b) to undertake actions under paragraph 2, the letters 'c', 'd' and 'e' for the markets and institutions it supervises.

4. In meeting their commitments under this Memorandum, the parties will aim:

- a) to inform each other regularly;
- b) to act only on the basis of a cost-benefit assessment when benefits are deemed to exceed any expected side effect from the envisaged measures;
- c) to be substantiate their decisions if and when they will not fulfill their commitments pursuant to this Memorandum;
- d) to undertake or support actions that aim to educate and inform the public, on their own or in cooperation with institutions they supervise.

5. In accordance with this Memorandum:

- a) the parties will identify and support their internal structures that will monitor the discharge of commitments taken in this Memorandum;
- b) the FSAG Secretariat will serve as an instrument to facilitate communication among the parties.

ARTICLE 5: *Communication with the public*

1. Each of the parties will publish on their respective internet pages their analysis as defined in Article 2, paragraph 3 of this Memorandum, in the months of January and July of each year, starting from the year 2018.
2. Parties will regularly assess the need and the feasibility to produce a joint report, as a substitute for their individual analysis prepared under paragraph 1.

ARTICLE 6: *Others*

1. This Memorandum:
 - a) will be printed and signed in three units, one for each party;
 - b) will be published by each party in its internet page;
 - c) could change upon the request of each party, and after advance consultation with other signatories.
2. The Annex is part of the Memorandum.

MINISTRY OF FINANCE

Arben AHMETAJ

Minister
(signed, stamped)

BANK OF ALBANIA

Gent SEJKO

Governor
(signed, stamped)

FINANCIAL SUPERVISORY
AUTHORITY

Ervin KOCI

Executive General Director
(signed, stamped)

Annex: *Indicators that shall be included in the development assessment and the measures' impact within the framework of this Memorandum*

Within the objective and purpose of this Memorandum,

MoF shall include in the analysis it publishes, in a summarized way, at least:

- a) a list of indicators of public debt, revenue, expenditure, deficit financing, and their composition by currency;
- b) information on laws or regulations, procedures or operations of MoF that have changed or are expected to change, and are assessed to positively affect the use of national currency by economic agents;
- c) information on the weight and structure of borrowing in Albanian Lek;
- d) information on measures against informality in the economy and their impact.

BOA shall include in the analysis it publishes, in a summarized way, at least:

- e) information on the (absolute and relative) trends for credit in Albanian Lek, in foreign currency, in foreign currency where the borrower is exposed to exchange rate risk; the currency composition of liquid assets of the banking sector; the performance of the deposits in Albanian Lek and in foreign currency; the loan to deposit ratios in Albanian Lek and in foreign currency, borrowing in foreign currency from non-residents;
- f) information on the changes that have been implemented (or are expected to be implemented) in regards to its operations, payment systems oversight or supervisory regulations, that provide support for transactions in Albanian Lek;
- g) information on the exchange rate performance of Albanian Lek.

FSA shall include in the analysis it publishes, in a summarized way, at least:

- h) an information on the Albanian Lek and foreign currency portions for the activity of the group-institutions it supervises;
- i) a summary of the balance sheet main indicators for the supervised institutions, including the composition by currency for liquid assets and liabilities;
- j) information about changes that are implemented (or are expected to be implement) in regards to its activity or supervisory regulations, that promote transactions in Albanian Lek by the supervised institutions or their customers.

The End