



**REPUBLIC OF ALBANIA  
-THE COMPETITION AUTHORITY-  
THE COMPETITION COMMISSION**

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**Decision  
Nr. 143, Date 15.03.2010**

**“On some recommendations for increasing competition in the primary and secondary market for treasury bills”**

The Competition Commission, with the participation of:

Ms. Lindita	MILO (LATI)	Chair
Ms. Servete	GRUDA	Member
Mr. Koço	BROKA	Member
Ms. Rezana	KONOMI,	Member,

In its meeting of 15/03/2010, reviewed the issue with:

**Objective:** Recommend central institutions to improve competition in the following respective market: the primary and secondary market for treasury bills

**Legal Basis:** ***Law Nr. 9121, date 28.07.2003 “On the protection of competition”, Article 24, letter d and f, and article 70, sub point 2.***

The Competition Commission, after reviewing the working group report “On the thorough investigation of Raiffeisen Bank possibly having abused its dominant position in the market for treasury bills”, after reviewing the narration of the Secretary General and after gathering the opinions and comments from the Ministry of Finance, Bank of Albania, and the Financial Supervision Authority,

OBSERVES THAT:

***I. The market for treasury bills***

The treasury bills market is one of the most important markets in the financial sector due to its function of fulfilling government demands for funds to cover short term domestic debt.

**II. Procedures followed**

During 2008, the Competition Authority has monitored the banking market in general and the t-bills market specifically to see whether the restriction on competition was a result of the market behavior of one or more market

participants, or a result of the way this market is regulated by the various legal and sub legal acts.

When the monitoring phase in the primary market for t-bills was finalized by the Research and Analysis Sector, the Secretary General of the Competition Authority, based on Article 42, point 1 of Law nr. 9121, date 28.07.2003 "On the Protection of Competition", decided, through decision nr. 8, date 15.07.2008, to "Open a preliminary investigation process in the primary market for treasury bills."

Through Decision nr. 98, date 18.12.2008, the Competition Commission decided to "Open a thorough investigation process against Raiffeisen Bank to assess whether it abused its dominant position in the primary and secondary market for treasury bills."

Before the decision was made, the Competition Commission held a consultative session on 27.11.2009 with participants from the Ministry of Finance, Bank of Albania, and the Financial Supervision Authority, where they voiced and presented their opinions and comments.

### **III. The respective market**

#### **III.1. The respective market of the product**

The respective market of the product is the market for treasury bills (short term domestic debt with 1 year maximum maturity) divided as follows:

1. The primary market for t-bills is where banks, financial institutions, and the public can regularly purchase short term debt (treasury bills) issued for the first time by the Ministry of Finances in the name of the Republic of Albania.
2. The secondary market for treasury bills is divided in two other submarkets:
  - a. The secondary inter-bank market: this is the market where banks that own treasury bills buy and sell them among each other regularly.
  - b. The retail secondary market: this market is organized near the counters of banks and other licensed operators that can intermediate these transactions between investors, which can be physical and judicial persons, as well as residents and non residents.

#### **III. 2 The respective geographical market**

Banks and financial institutions that participate in the primary and secondary markets for treasury bills are active in the entire territory of the Republic of Albania; hence, the whole Republic of Albania is recognized as the geographical market.

## **IV. DEVELOPMENTS IN THE MARKET FOR TREASURY BILLS**

### **IV.1. Legal and economic barriers to entry in the market for treasury bills**

#### **The primary market**

Participation in the primary market is opened to every physical and judicial person, both local and foreign. The minimum amount eligible for participation is 300.000 Lek, and this could be considered as a barrier to entry.

### **The secondary market**

To become part of the secondary retail market, banks and other subjects must hold a license from the FSA, which not only grants licenses for the secondary retail market but also oversees its activity. Also, to get a license to operate in the secondary market, the FSA requires operators to train the staff that will manage the exchange, as well as keep a daily account on stand by to be reported to the FSA. This could be considered an additional cost. Meanwhile, regarding individuals, they can participate in the secondary market by selling or buying treasury bills as long as they hold a minimum amount of 10.000 Lek. It is mandatory for the bank that sells t-bills in the secondary retail market to give a certification to the winning bidder from the auction in the primary market, as well as give him/her a proof of purchase for the selling actions from his/her own portfolio.

## **IV.2. Potential competition**

### **Primary market**

Raiffeisen Bank is the main holder of government debt which, according to data from the Ministry of Finance, covers more than 30% of total debt for the period between 2005 and 2008. Bank of Albania holds 22.98% of the debt portfolio but it can not influence the price of treasury bills due to the noncompetitive nature of the deal struck between the Bank of Albania and the Ministry of Finance (the ask price of the Bank of Albania is established by the average yield accepted in the auction after it is published by the Ministry of Finance).

Potential competitors are established in terms of the amount offered and, as a consequence, in terms of the yield level accepted on treasury bills. These competitors can be individuals as well as businesses that can directly participate in the auctions for t-bills in the counters of both the Bank of Albania and the Albanian Post Office.<sup>1</sup> For 2008, individuals held 7.26 percent of the portfolio of t-bills. This amount would be much higher if the Bank of Albania would not close the counter for individuals to invest directly in treasury bills.

When the counters were closed at the Bank of Albania during this time, the International Monetary Fund reported in its August 2005 Report for Albania nr. 05/267 that, in line with the FSAP recommendations, the window for selling treasury bills at the Bank of Albania should be kept open as a means of access of the public in the primary market for treasury bills. According to the IMF, the minimum amount of 300.000 Lek that is needed to make one eligible to participate in the primary auctions for treasury bills should remain the same and it can be made possible to charge commission when opening an account.

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<sup>1</sup> The Albanian Post Office offers cashing services for those individuals that need to cash their funds from their participation in the auction of treasury bills. Individuals can buy t-bills directly from the counters of the Albanian Post Office. They must have a mode of identification such as a passport, ID card, personal certificate with picture, to be able to carry any transaction.

The Bank of Albania changed its access policy for individuals and small businesses that wished to invest in treasury bills by obliging them to open an account at the Bank of Albania (so it did not push individuals away from its own counters) from where they could transfer the deposited funds in one of the second level banks by paying a commission that varied from 1/1000 of the deposit amount (but not less than 1000Lek) to 3500Lek. Adding to these costs the burden of information asymmetry between individuals at different banks regarding t-bills investments, we conclude that the barriers to participation in auctions have been further raised, thus restricting participation in the primary market for t-bills and further limiting competition between banks.

### **Secondary market**

Treasury bills are exchanged in the secondary market between banks (the inter bank market) and between banks and other non banks t-bills owners (the retail market). According to the Financial Supervision Authority there are 5 banks that operate in the secondary retail market for treasury bills, which means that this market is not very developed.

### **IV.3. Other market characteristics**

Other characteristics of the primary and secondary market for treasury bills are:

**Information asymmetry:** Individuals or small organizations do not have the possibility to gain ample information when making their decisions and choices. This is especially due to the fact that, in general, the information given by banks is incomplete and unclear, thus limiting choice opportunities for the client.

To evaluate the transparency level at banks that are involved in the exchange on treasury bills, we realized an observation session (on 29.02.2008 in several banks that offered treasury bills during the monitoring phase of the banking sector) in the following banks: RB, BE, BP, Credins, ABA, and BKT. The method followed was to act as a consumer interested in purchasing treasury bills. In many of the banks surveyed, the information given was very superficial and the customer was treated as if they had years of experience in such a market. Regarding paper work, commissions, and yields, the information given was more complete and clear. Of all banks asked, only BKT offered a written piece of information where it had already calculated the potential profit from buying t-bills and not depositing their money. Some banks, such as BP and BE, acted only as intermediaries in this market on the account of the central bank. Also, the information available was different in several branches of the same bank located in different geographical regions.

In general, given our observations in different banks that offered trade services for treasury bills in the secondary market, we could notice a lack of transparency in the way clients are informed regarding the activity in this market. Also, informational brochures regarding treasury bills were missing, which does not ease client's learning curve with the service offered by banks.

**FOR THESE REASONS:**

The Competition Commission, based on article 24, letter d, of law nr. 9121, date 28.07.2003 "On the protection of competition",

### **DECIDED:**

1. To propose to the Bank of Albania to bring back the cash deposit option in its counters in Tirana and in the 5 other branches around Albania where the bank holds auctions in the primary market for treasury bills, using this as a way to not only facilitate the process, but also to reduce administrative transaction costs applied towards the amount invested in treasury bills by the banks of the second level to the Bank of Albania.

2. To propose to the Ministry of Finance to raise promotional efforts for treasury bills as a product, to extend eligibility for participation beyond what is currently allowed for businesses, financial institutions and individuals, mainly through:

- Publicly announcing coming auctions in all written and electronic media (not only on TVSH and ATSH). Also, along the same line, informational pamphlets and brochures for businesses, bank clients, consumer associations, and so forth, should be published.
- Interactive marketing by Internet and other public communication instruments;
- International marketing campaigns for treasury bills to improve participation in the primary market.

3. Recommend to the Bank of Albania, as the central monetary authority, to take measures for reducing information asymmetry for clients at the banks of the second level.

The Bank of Albania, through a sub legal act (regulation, mandatory ordinance for second level banks), can regulate the problem of asymmetry of information by taking the following measures:

a) Banks of the second level should give complete, accurate, and clear information - in all their branches or agencies - to their clients on all products, costs, and respective interests offered (including those on treasury bills), by making especially sure to clarify potential profits for clients and comparing the different alternatives in terms of economic profit (such as deposits versus treasury bills).

b) The websites of second level banks should show data on treasury bills' auctions taking place in real time, as well as update changes in yield trends regularly.

c) Second level banks should inform their clients through the usual communication channels (email, phone, fax) for upcoming auctions for treasury bills, the required volume, due dates for depositing the money required for participation, and other required data.

d) Banks should have a special section in their infrastructure that addresses complaints and comments of clients, especially in cases where the complaint relates to issues of information asymmetry.

ç) Those clients that are not adequately informed should be effectively recompensed in case of foregone profits due to information asymmetry and/or disorientation by bank employees when participating in the primary market for treasury bills.

4. Recommend to the Financial Supervision Authority to intensify supervision efforts in the retail market for treasury bills and ensure its transparency.

Fulfilling its legal obligation to supervise the secondary retail market for government bonds, the FSA ought to monitor periodically the market for treasury bills and preparing the respective supervision reports (as it already does with the insurance market and the market for supplementary insurance and pensions) and to inform the Competition Authority on problems and issues encountered in this market that might come as a result of the restriction on competition.

The FSA ought to develop the necessary tools that respond to consumer protection claims in regards to the exchange of government bonds, as it is already doing with clients in the insurance market, by erecting dedicated units that are trained and specialized to deal with complaints of participants in the secondary market for t-bills as well as recompense them on potential consumer losses caused by second level banks.

5. It is the responsibility of the Secretary General of the Competition Authority to notify the Ministry of Finance, Bank of Albania, and the Financial Supervision Authority regarding the enforcement and application of this decision.

This decision is to be enforced immediately.

#### **THE COMPETITION COMMISSION**

**Servete GRUDA**  
Member

**Koço BROKA**  
Member

**Rezana KONOMI**  
Member

**Lindita MILO (LATI)**

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**CHAIR**