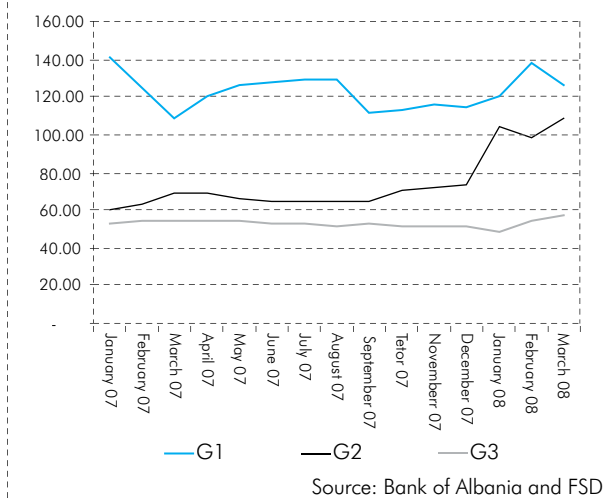


Chart 50 Interest expenditure to gross income by banking groups in %



to group borrowing for foreign currency funds with low interest rates. However, despite the difficult liquidity situation in the international financial markets, the cut in the key interest rates for the other main currencies is less probable to occur owing to the presence of continuous inflationary pressures. Hence, the effect of these interest rates oscillations on the encouragement of foreign currency lending in developing countries will be more moderate.

In terms of banking groups, it is evidenced that the increase of the interest margin ratio to gross income (chart 48) in the first quarter of 2008 was higher for G2 banking group.

The ratio of non-interest expenditure to gross income has had a downward tendency during the entire year 2007, reflecting a decreasing exposure to operational risk. However, this ratio has increased considerably during the first quarter, in particular for banks falling under G2 group, owing to the increase of provisions due to the deterioration of credit portfolio.

5. TECHNOLOGICAL INFRASTRUCTURE

A safe and efficient payment system is an important factor in settling transactions in the financial markets and in the financial system's stability. The role of the Bank of Albania in the supervision of payment systems aims to encourage and support the smooth operation of payment systems and instruments, in particular in order to achieve:

- Stability and credibility of the payment systems, while identifying, preventing and solving the plausible risks timely;
- Transparency and efficiency of the payment systems' operational framework;
- Preservation of public confidence in the payment instruments and services;
- Promotion of automation in using and processing payment instruments and the inter-operationality of supporting systems.

The Bank of Albania owns and manages two payment systems in lek: 'Albanian Interbank Payment System – AIPS'¹⁰ and 'Automated Electronic Clearing House System – AECH'¹¹. Both systems started to operate four years ago and they have been under constant improvement, aiming at preserving their efficiency. The technical operation characteristics indicate the safety and efficiency level. AIPS system has been accessible by the participants in 99.85% of its operational business hours; that is in 248 business days, the system has been unavailable for only 2 hours and 35 minutes due to technological or technical issues.

During the year 2007, the number of transactions processed in the AIPS system increased by 17% relative to 2006. While payments processed in the AECH system have almost doubled with a growth of 47% relative to 2006. The greatest number of transactions was concentrated in the last quarter of the year, in particular for the AECH system.

On average, there are around 183 transactions processed every day in the AIPS system, with a total value of 15.1 billion leks. Meanwhile, there are about 290 transactions in the AECH system with a daily total value of 48 million leks. The following tables show the number and total value of processed payments in the AIPS and AECH systems respectively, during 2007 vis à vis 2006:

AIPS system	2006	2007
Number of transactions	38,793	45,480
Value of transactions (in billion leks)	3,376	3,745
Average value of transactions (in million leks)	87.01	82.34

Source: Bank of Albania

Table 7 Transactions in the AIPS system

AECH system	2006	2007
Number of transactions	48,889	71,857
Value of transactions (in billion leks)	7.77	11.99
Average value of transactions (in million leks)	0.16	0.17

Source: Bank of Albania

Table 8 Transactions in the AECH system

In addition to the growing number of processed transactions in these systems, their value has seen considerable growth as well. The values of processed transactions in the AIPS and AECH systems in 2007 are reported to have grown by 11% and 56% relative to 2006. The total value of paid off balances in the payments systems during 2007 is almost four times as high as the value of GDP for the year¹².

In a more detailed fashion, the types of transactions processed in the AIPS system during 2007 and their relative share are presented in table 9:

Type of payment	Volume		Value (in billion leks)	
	Absolute value	Relative share	Absolute value	Relative share
BoA transactions	7,467	16.4%	2,166.55	57.9%
Fund transfer, cash	8,455	18.6%	221.43	5.9%
Interbank payments	7,831	17.2%	664.49	17.7%
Payments to clients	16,506	36.3%	134.93	3.6%
Disbursements (net basis)	3,224	7.1%	8.99	0.2%
Disbursement of government securities	1,997	4.4%	548.46	14.6%
Total	45,480	100%	3,744.85	100%

Source: Bank of Albania

Table 9 Types of transactions processed in the AIPS system

Vis à vis the same indicators of the last year, the number of payments to clients has a considerable share in the increase of the number of transactions.

With regards to the value of transactions, transactions initiated by the Bank of Albania and interbank transactions display high growth rates.

From the perspective of monitoring and assessing the payment systems' stability, it is also assessed the concentration level of payments in particular nodes of the net. Concentration indicators for both AIPS and AECH systems are shown in tables 10 and 11:

Table 10 Concentration indicators for the AIPS system

	Transaction volume	Transaction value (in billion leks)
AIPS	Share/Total	Share/Total
3 banks ¹³	33%	30%
5 banks	45%	39%
Total (absolute value)	45,480	3,745

Source: Bank of Albania

Table 11 Concentration indicators for the AECH system

	Transaction volume	Transaction value (in million leks)
AECH	Share/Total	Share/Total
3 banks ¹⁴	50%	53%
5 banks	66%	65%
Total (absolute value)	71,587	11,997

Source: Bank of Albania

Banks have made use of the facility provided by the payment system for intra-day loan. Vis à vis 2006, the number and value of intra-day loan transactions have increased by 52% and 47%, respectively, in 2007.

Table 12 Intra-day loan facility

Intra-day loan facility	2006	2007
Number of transactions	444	675
Value of transactions (in billion leks)	146.32	217.51
Average value of transactions (in million leks)	329.55	322.24

Source: Bank of Albania

During 2007, 11 banks have made use of intra-day loan facility, which is 3 banks more than in 2006. Based on the analysis of transaction-concentration by banks, it is observed that 5 banks have actively used this instrument to manage the daily liquidity. Around 85% of total value of intra-day loan has been concentrated in only two banks.

Considering the payment system as a whole, the Bank of Albania offers both the clearance and disbursement services on a net basis of the value of processed cheques by banks. The use of paper-cheques as payment method has been declining during 2007 as well. Results show 45% less disbursed cheques and 65% less disbursed monetary value relative to 2006. The primary reason for this is the increasingly diminishing use of bank cheques.

Table 13 Cheque disbursement in AIPS

Cheque disbursement in AIPS	2006	2007
Number of disbursed cheques	994	544
Cheque value (in billion leks)	3.76	1.33

Source: Bank of Albania

5.1. ELECTRONIC PAYMENT INSTRUMENTS

Electronic payment instruments and the number of electronic-based transactions are increasing ever more. The number of cards in use, primarily debit/cash cards grew considerably during 2007, by 74% relative to 2006. The number of card-operating stations, mainly POS ones, have increased also, by 47% relative to their number at end-year 2006. With regards to geographical distribution of ATM and POS machines made available by banks, we can state that they are mostly concentrated in Tirana. However, it is worthy of note the increasing propensity for their market-stretch to other cities of Albania.

Banking cards	2006	2007
Number of debit/cash cards	335,856	591,355
Number of credit cards	9,754	12,991

Source: Bank of Albania

Table 14 Use of banking cards

ATM and POS machines	2006	2007
Number of ATMs	309	443
Number of POSs	1,234	1,832

Source: Bank of Albania

Table 15 Number of ATMs and POSs

Despite the considerable increase in the number of cards or machines for their use, the number and value of card-based transactions has increased more moderately by 17% and 26%, respectively. This is due to the fact that even though the number of cards in use has increased, card-holders do not have enough confidence and/or the right opportunity to use the card as a payment method. In other words, in proportion with the total population number¹⁵, on average, only 1 in 5 persons is a card-holder and each holder carries no more than 16 transactions a year. Thus, the banking system is still in its first phase of using electronic payments instruments, vis à vis with reported statistics from regional countries.

Debit cards	2006	2007
Number of transactions (in thousands)	8,053	9,249
Value of transactions (in billion leks)	47.81	59.04
Average value of transactions (lek)	5,940	6,390

Source: Bank of Albania

Table 16 Debit cards

Credit cards	2006	2007
Number of transactions (in thousands)	176	363
Value of transactions (in billion leks)	3.2	5.3
Average value of transactions (lek)	18,207	14,635

Source: Bank of Albania

Table 17 Credit cards

There is a positive trend in the use of 'home banking' as an electronic payment instrument. Currently, there are three banks in Albania that offer this

type of service. The number of home banking transactions increased by 122% in 2007 relative to 2006, while the value of processed transactions increased by 188%. This is owed to the fact that two additional banks offered this type of service in 2007.

Table 18 Use of Home Banking

Home Banking	2006	2007
Number of transactions	19,096	42,447
Value of transactions (in billion leks)	16.83	48.49
Average value of transactions (lek)	881.34	1,142.36

Source: Bank of Albania

5.2. OVERSIGHT OF PAYMENT SYSTEMS

‘Oversight of payment and settlement systems is a central bank function whereby the objectives of safety and efficiency are promoted by monitoring existing and planned systems, assessing them against these objectives and, where necessary, inducing change’¹⁶.

During 2007, the work of the Bank of Albania with regard to this function was focused on:

The improvement of the regulatory framework on the payment systems, which relates to the review of some existing regulations aiming at improving them in line with the new developments in the payments’ market and with the EU directives and the best standards of central banks;

The formulation of the document ‘Payment systems oversight policy’, which was concluded in the first months of 2008. This document seeks to provide for the legal basis, oversight objectives, the assessment of risks encountered in the payment systems and the application of the oversight through monitoring and analyses. This document provides for the consistency of the payment systems with the core principles for systemically important systems and for the cooperation with other departments in implementing the oversight policy.

The upgrade of payment systems infrastructure and safety assessment. During 2007 several new systems’ versions were applied, which helped to improve and modernize them further. In addition, in co-operation with the Ministry of Finance was designed an interface for the electronic communication between the AIPS and AECH systems and the Treasury programme of the Ministry of Finance. This electronic connection between the systems will accelerate the communication and settlement of payments initiated by the Ministry of Finance and will reduce the operational risk stemming from the manual entry of operations in the system. Special attention has been paid to the assessment of safety and efficiency in the systems. For assessment purposes, tests were carried out for the system’s safety (Back-up for AIPS and AECH systems). The construction of a back-up in distance would fully fulfil the basic principle for the safety and efficiency of the system, which remains to be accomplished in the future.