

- Organization and settlement of payments and securities in the territory of the Republic of Albania through the infrastructure created by itself for this purpose;
- Constant development and improvement of the payment system infrastructure for approaching to the international standards;
- Compilation and reformation of the regulatory and procedural framework for the payment system and instruments;
- Payment system supervision.

A special attention is paid to banking system supervision, as an important responsibility of the central bank. The National Payments Committee, as a permanent inter-bank forum, and the Office of Payment System Policies and Supervision newly established in the Bank of Albania structures, realise the coordination of work for carrying out the payment system supervision.

#### PAYMENT SYSTEM DEVELOPMENTS

- Albanian interbank payment system – AIPS

Year 2005 was the second year of operation for the Albanian interbank payment system (AIPS). During this year the system has executed gross and real time settlements of large-value payments according to effective rules and procedures for the payment system, without having any deviation or essential problem. During 2005, a volume of ALL 2,201 billion was circulated through AIPS, where approximately 55 per cent of which was composed of BoA initiated transactions, 22 percent by securities transactions, whereas 23 percent by inter-bank and customer transactions.

	2004		2005	
	number	value	number	value
Bank of Albania	15,143	1,254.10	13,598	1,215.72
Government securities	216	559.21	451	479.65
Interbank payments	5,075	276.15	5,732	419.03
Settlements to customers	7,407	63.53	9,169	76.04
Net clearing	739	23.44	580	10.58
Total	28,580.00	2,176.43	29,530.00	2,201.02

Source: Bank of Albania

Table 5 Dissemination of transactions in number and value (ALL billions)

Year 2005 underwent a rise of about 13 percent in the number of interbank payments, associated with a considerable increase of about 52 percent of their value. Also payments to customers had a rise of about 24 percent in number and about 20 percent in value. The items that declined by about 3 percent in value, are Bank of Albania initiated payments, which are composed mainly of monetary operations, cash transactions and government budget.

AIPS provides the possibility of liquidity management by each bank and also, creates the possibility to the Bank of Albania as the system operator, for the overall administration of liquidity in the system. With the purpose to

improve the work in this direction, during 2005 the existing Regulation "On intraday credit" was abrogated, and was replaced with the new Regulation "On intraday credit to commercial banks" adopted with decision No. 92, dated 30.11.2005 of the Supervisory Council. This new Regulation makes the use of this instrument more manageable and efficient.

The price policy in the AIPS is based on system's setting up cost recovery. It is being planned that in the future, this policy will be supplemented by another aspect that has to do with optimization of the payments flowing in the system. The lower charge during the first hours of the system will promote early dispatch of payments, thus reducing considerably the liquidity risk.

Currently in the AIPS, the requests for settlement derive from securities transaction, check clearing, and payment orders. During 2005 efforts were made for carrying out an agreement with the VISA International for settling transactions through cards in ALL of commercial banks in Albania, members of the Visa International. In December the signing of the agreement was carried out, expected to be implemented at early 2006.

- Automated Electronic Clearing House – AECH

July of 2005 marked the live operation of the Albanian Electronic Clearing House system – AECH. Implementation of the AECH system carried out the automation of the clearing service of small-value payments and further enriched the payment system infrastructure. This system is based on and integrated into the AIPS and is realised in compliance with the best international standards and principles, as well as is based on modern and up-dated technology. The AECH system was implemented under the assistance and consultancy of the World Bank.

The AECH system aims to:

- i) Increase the automation of the processes and simultaneously raise the accuracy and speed, as well as reduce cost of processing low value payments among banks;
- ii) Provide the Bank of Albania and commercial banks with efficient tools for monitoring and managing liquidity as well as for preventing credit and liquidity risks; and
- iii) Enrich the supporting infrastructure for further developments in the payment system and other financial systems related to it.

The Bank of Albania and commercial banks are participants in the system. The Bank of Albania is in the role of the owner of the system and supervises, organises, manages and operates the system.

The AECH system enables the net settlement of all low value payments, channelled electronically into the system by banks, at certain hours, according to a certain number of clearing sessions. The execution of these net settlements is conducted irrevocably and unconditionally in the AIPS. The banks have the

possibility to monitor and manage the queue of batch payments and their liquidity.

The legal grounds for the system operation are: The Regulation "On Procedures of the Automated Electronic Clearing House System (AECH)" adopted with decision No. 51, of 29.06.2005, by the Supervisory Council; the Contract on participating in the System, as well as Rules and Procedures for each participant in the system.

During 5 months of operation of the AECH system over 2005, the system carried out the clearing and settlement of low value payments with effectiveness. During this time the AECH system processed a total payment volume of 24 780 low value payments, with a value of ALL 3.9 billion.

- Cheques clearing

Even during 2005, cheque remained a payment instrument in modest levels, and the use of banking cheque was limited. The number of cheques cleared at clearing sessions during 2005 was 2 521, with a value of ALL 10.28 billion.

- Electronic instruments

During 2005 we have a constant improvement and additional efforts of the banking system to improve and upgrade the payment infrastructure, by investing further in terms of using electronic payment instruments. The number of accepting terminals has increased significantly as compared to that of the last year. At end of 2005 the number of ATMs was 205, whereas of POS/EFTPOSs was 779, against 93 and 155 respectively for end of 2004. According to banks' reporting to the Bank of Albania, the card accepting equipment (ATM and POS) operate mainly in ALL, but during this year POS/EFTPOS operating in foreign currency, exactly in USD, were also put into operation. During 2005, the number of (cash, debit and credit) cards in use was increased by about 7 times (in December 2005 the number of cards amounted to 225,913).

Cards are issued mainly in ALL. We also notice a change in the trend compared to 2004. While in 2004 the cash card prevailed, during 2005 we notice a rapid rise (from 6 552 cards in December 2004 to 182 113 cards in December 2005) of the number of debit cards. Also during 2005 the rise not only in the number (about 3 times) but also in type of credit cards was noticed.

## NOTES

<sup>1</sup> It speaks for the "Short cycle of circulation" of money (commercial banks – Bank of Albania).