

CHAPTER VII OTHER ACTIVITIES OF THE BANK OF ALBANIA

VII.1. DEVELOPMENTS IN THE PAYMENT SYSTEMS

A primary task of the Bank of Albania is promotion and support for a smooth operation of internal payment systems. To fulfil this task, the Bank of Albania applies at least three different approaches: (i) operational role in providing payment systems; (ii) systems oversight; and (iii) national payment systems catalyst/reformer. These approaches complement and interact with each other.

VII.1.1. STATISTICAL INDICATORS OF THE PAYMENT SYSTEMS DURING 2010

In the Republic of Albania, interbank payments clearing and settlement in Lek is done through two payment systems: the "Interbank Gross Settlement system - AIPS" and the "Automated electronic clearing house for small value payments – AECH". Both systems are managed and operated by the Bank of Albania, in the framework of its operational role to provide the market with infrastructure. At the end of 2010, all banks licensed by the Bank of Albania were direct participants for settlement in AIPS, of which, 15 banks were also direct participants in the AECH¹ system.

- *INTERBANK GROSS SETTLEMENT SYSTEM - AIPS*

During 2010, payment systems reflected security and efficiency. These features are necessary for the systems' smooth operation. A total volume of 80,356 payment transactions was settled through the AIPS system during 2010, with a total transactions value of ALL 4,437 billion. Relative to 2009, the payments volume settled during 2010 increased by 44%, while the settled transactions decreased by 6%.

Reduced transactions of the Bank of Albania in government's lek securities had a significant influence on the transactions value settled in 2010.

AIPS System	2007	2008	2009	2010
Number of transactions	45,480	56,717	55,701	80,356
Value of transactions (billion lek)	3,745	5,146	4,718	4,437
Average transaction value (billion lek)	82	91	85	55

Source: Bank of Albania

Table 1 Transactions through AIPS during 2007-2010

¹ In 2010, the Bank of Albania concluded procedures and testing for Veneto Bank membership in AECH. As of February 2011, procedures for Veneto Bank were completed and all banks operating in Albania are now direct participants in the AECH system.

A detailed overview of types of transactions processed and settled through the AIPS during 2010 and their relative share to the total are presented in the following table. Of total transactions processed and settled through the AIPS during 2010, about 68% of the transactions volume regards settlements between participants on behalf of their clients, with an increase of 85% vis-à-vis the same indicator for 2009. This increase is an output of the Ministry of Finance's automated treasury payments project that accounts for 50% in volume and 31% in value to the total customer payments through the AIPS.

Table 2 Types of transactions through AIPS

Type of transactions through AIPS	Volume		Value (ALL billion)	
	Number of transactions	Relative share	Absolute share	Relative share
Bank of Albania financing transactions / instruments	2,758	3.4 %	2,130	48 %
Cash transfers to/from the issue	8,770	10.9 %	219	4.9 %
Inter-bank payments (MT202)	8,084	10.1 %	833	18.8 %
Customer payments (MT103)	54,454	67.8 %	729	16.5 %
Net settlement for clearing systems	6,290	7.8 %	526	11.8 %
Total	80,356	100 %	4,437	100 %

Source: Bank of Albania

As regards the transactions value settled through the AIPS, transactions initiated by the Bank of Albania to meet its legal targets, account for the highest liquidity circulation, about 48% to the total compared to 57% in 2009. The downward liquidity value circulated through the AIPS, during 2010, for transactions initiated by the Bank of Albania, is mainly due to reduced Bank of Albania's transaction in government securities. The section "net settlements for clearing systems" consists in net settlement transactions resulting from the clearing systems such as clearing of small value payments in AECH system, clearing of banking and personal cheques in ALL, net settlements of government securities, and net settlements of ALL payments via VISA and MasterCard cards, for which the Bank of Albania plays the settlement agent's role.

The concentration indicator is the share of four most active banks in the AIPS to the total activity in this system. As shown by the following table, during 2010, the Bank of Albania (including Treasury payments) initiated about 50% in volume and 54% in value of transactions to the total activity in the AIPS.

Table 3 Concentration indicators for AIPS

AIPS	Volume of transactions	Value of transactions (ALL billions)
	Share/Total	Share/Total
4 major banks	23 %	39 %
12 other banks	27 %	15 %
Bank of Albania	50 %	54 %
Total (absolute value)	80,356	4,437

Source: Bank of Albania

Use of intraday loan facility (ILF) is an efficient instrument that participating banks in the AIPS may use to manage their liquidity during their operational

activity within a day. Year-on-year, disbursed loans (use of ILF) increased by 34%, while the intra-day liquidity disbursed during this period dropped by 37%, reflecting lower liquidity needs from banks that meet the criteria for guaranteeing additional liquidity. The decline in disbursed intraday loan is attributed primarily to a change in the Bank of Albania's policy to increase the daily use of the lek-required reserve (from 20% to 40%) by banks for intra-day liquidity, in order to ensure smooth operation of the AIPS system.

Intraday Loan Facility (ILF)	2007	2008	2009	2010
Number of transactions	675	579	207	278
Value of transactions (ALL billion)	218	221	121	75
Average transaction value (ALL million)	322	382	582	270

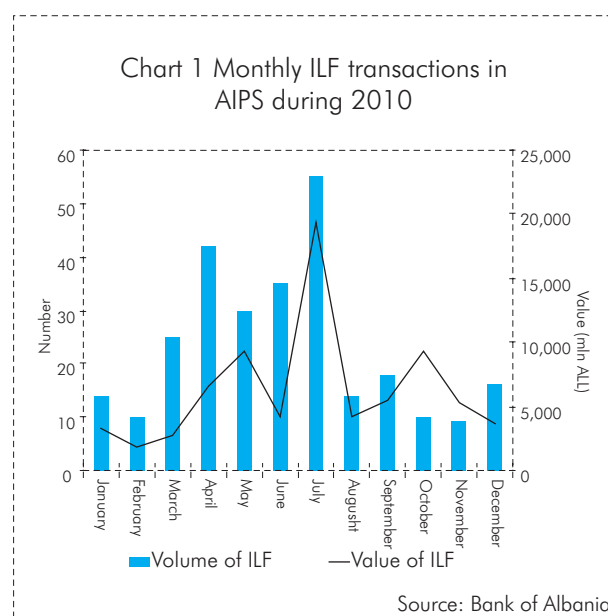
Source: Bank of Albania

Table 4 Intraday Loan Facility for AIPS participating institutions

The following chart shows the distribution of intraday liquidity needs by AIPS participants, during 2010. The highest liquidity demand was in July, when the Bank of Albania disbursed about 26% of the credit value disbursed throughout the entire year.

- *AUTOMATED CLEARING SYSTEM FOR SMALL VALUE PAYMENTS - AECH*

The AECH system processes and clears customer payments of a value smaller than ALL 1 million. In total, 332,777 payment orders were cleared through the AECH in 2010, with an average settled transaction value of ALL 130 thousand. On average, about 1,330 payments were cleared through the AECH system, with an average daily value of ALL 176 million. In comparison with 2009, the volume of cleared payments in 2010 increased about 225%, while the value of cleared transactions was up by 185%.



AECH System	2007	2008	2009	2010
Number of transactions	71,857	113,682	102,304	332,777
Value of transactions (ALL billion)	12.01	17.61	15.46	43.98
Average transaction value (ALL million)	0.17	0.15	0.15	0.13

Source: Bank of Albania

Table 5 Performance of transactions in AECH system in 2007-2010

The table shows a considerable increase in the number of interbank payment orders processed in the AECH system, compared to the activity in previous years. This increase comes as a result of the finalisation of a project (March 2010) for the automatization of payments between the Treasury System AMoFTS at the Albanian Ministry of Finances and AIPS and AECH systems at the Bank of Albania.

During the ten-month life of the systems electronic interface, a large flow of payments was executed, initiated by the Ministry of Finances, in favour of beneficiary clients, to the banks that participate in the system, counting for about 74% of the volume and 71% of the annual payments value in the AECH system.

Concentration indicators reflect the share of four more active banks in the AECH system (including the Bank of Albania as a participant in the system) to the total activity in this system.

Table 6 Concentration indicators for the AECH system

	Volume of transactions	Value of transactions (ALL billion)
AECH system	Share/Total	Share/Total
4 major banks	14 %	15 %
12 other banks	12 %	14 %
Ministry of Finances (Treasury)	74 %	71 %
Total (absolute value)	332,777	43.98

Source: Bank of Albania

Payments cleared through the AECH system are processed in two sessions (Session I - 09:00 to 11:00; Session II – 12:00 to 14:30) in a business day. At the end of each session, payments are settled for their net result through the AIPS system.

Table 7 Distribution of payments in AECH according to clearing sessions in 2010

AECH system	Session		Year
	I	II	2010
Number of transactions	162,167	170,610	332,777
Value of transactions (ALL billion)	22.17	21.81	43.98
Average transaction value (ALL million)	0.136	0.128	0.13

Source: Bank of Albania

VII.1.2. PAYMENT INSTRUMENTS

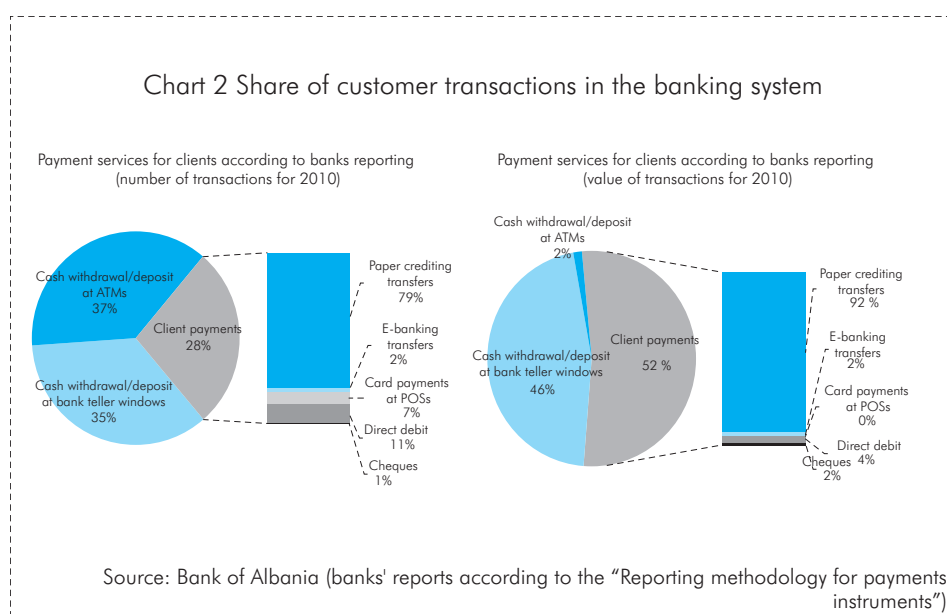
Banks reports reveal that at the end of 2010, the total number of bank customer accounts, valid for payments in lek or a foreign currency, is about 2.5 million, up by 17% compared to the end of 2009. About 91% of the total accounts are individual accounts and over 99% of customer account holders are residents.

Table 8 Number of customer accounts in the banking system as at 31 December 2010

Account description	Total customer accounts			Internet accessible		
	2008	2009	2010	2008	2009	2010
Customer accounts (1+2)	1,573,830	2,086,143	2,446,495	11,108	15,034	27,368
1-resident accounts (a+b) (%)	99%	99%	99%	97%	97%	97%
a – individual (%)	91%	92%	93%	65%	66%	69%
b – company (%)	9%	8%	7%	35%	34%	31%
2-nonresident accounts (c+d) (%)	1%	1%	1%	3%	3%	3%
c – individual (%)	96%	94%	93%	88%	80%	78%
d – company (%)	4%	6%	7%	12%	20%	22%

Source: Bank of Albania (banks' reports according to the "Reporting methodology for payments instruments").

Of the total customer accounts at the end of 2010, about 27 thousand accounts are accessible online to provide payment services or check the balance statement, up 82% compared to end-2009. Regardless of the significant increase of this indicator in 2010, online accessibility of bank customer accounts remains at very low levels. According to banks' reports in 2010, the following chart shows the share of customer transactions in the banking system per category (cash/non-cash).



The table shows that payments in the national currency have a share of 86% in volume and 54% in value to the total customer payments. In addition, paper customer payments continue to dominate (about 80%), compared to a moderate increase of electronic payments (about 9%).

Table 9 Share of customer payments in the banking system according to payment instruments

Payment services	Payments in Lek		Payments in foreign currency		Total payments	
	Number	Value (ALL billion)	Number	Value (ALL billion)	Number	Value (ALL billion)
1 January - 31 December 2010						
I. Client crediting transfers	81.6%	95.1%	78.2%	93.3%	81%	94%
of which:						
1. Paper crediting transfer	97.8%	97.4%	94.3%	96.8%	97%	97%
2. "E-banking" crediting transfer	2.2%	2.6%	5.7%	3.2%	3%	3%
II. Card payments at POS terminals	5.8%	0.2%	15.5%	0.3%	7%	0%
Of which:						
1. Payments via debit cards	63.5%	48.8%	55.6%	37.1%	61%	42%
2. Payments via credit cards	36.5%	51.2%	44.4%	62.9%	39%	58%
III. Direct debit	12.0%	2.3%	4%	5.0%	11%	4%
IV. Cheques	0.7%	2.4%	2.3%	1.5%	1%	2%
Total Payments (I+II+III+IV)	6,327,342	1,825	1,049,697	1,573	7,377,039	3,398

Source: Bank of Albania (banks' reports according to the "Reporting methodology for payments instruments").

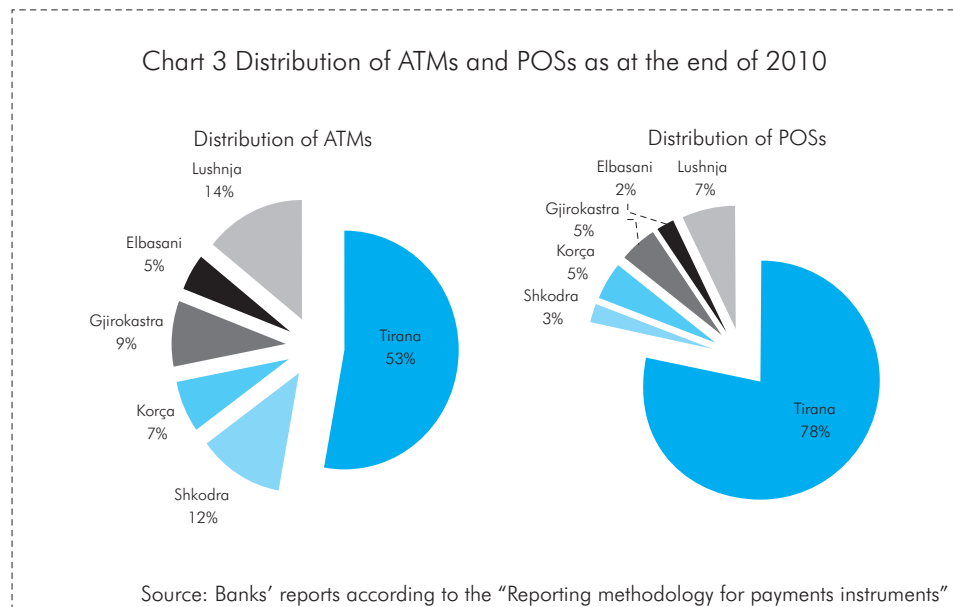
At the end of 2010, 16 banks were operating in the Republic of Albania, offering payment services through 529 branches/agencies across the country. At present, there are 14 banks licensed to issue cards that offer cash withdrawal from ATMs. Of card-issuing banks, only seven of them are also licensed as card acceptors, making card payments at POS installed in shops, restaurants, hotels, or shopping centres.

Table 10 Number of ATMs and POSs as at 31 December 2010, compared to 2009 and 2008

Description	2008	2009	2010
Automated Teller Machines (ATMs)	642	741	771
Of which:			
1 - ATMs for cash withdrawal	642	741	771
2 - ATMs for transfer orders	59	66	62
3 - ATMs for cash depositing	73	74	84
Points of sale terminals	2,953	4,370	4,903
Of which:			
1 - POS terminal for cash withdrawal	907	1,290	111
2- EFTPOS payment terminal	2,915	4,320	4,846
Terminals for using e-money	-	-	-

Source: Banks' reports according to the "Reporting methodology for payments instruments".

During 2010, the number of ATMs increased by 4% and POSs network expanded by 12% compared to 2009. According to banks' reports, ATMs and POSs are established in most developed and industrial areas. The chart shows that about 53% of the ATMs and 78% of the POS terminals are in Tirana (banks' reports refer to the territory division according to the branches of the Bank of Albania).



Cards are payment instruments used in Albania, though still at low levels compared to other countries in the region. During 2010, the number of cards in circulation increased by 23% compared to that of end-2009.

Number of cards by function	2008	2009	2010
Cards for cash and payments	512,232	566,985	694,848
Of which:			
1- Debit cards	482,072	543,141	667,548
2- Credit cards	15,931	23,844	27,300
Cards with e-money function	-	-	-
Total cards in circulation	498,003	566,985	694,848

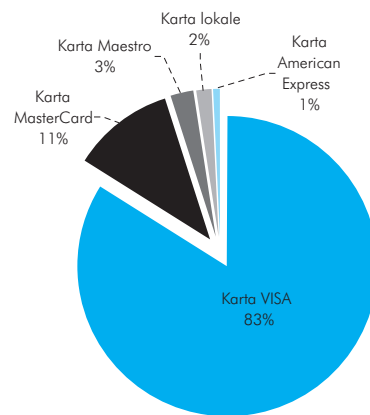
Table 11 Number of cards in circulation as at 31 December 2010, compared to 2009 and 2008

Source: Bank of Albania (banks' reports according to the "Reporting methodology for payments instruments").

According to banks reporting, debit cards share is 96% to total number of cards in circulation. As regards the card brand and card processing operators, VISA cards have the highest share of about 83% to the total, followed by MasterCard. Maestro and American Express cards have a smaller share. Only two banks issue local cards, which account for about 2% of the total cards in circulation.

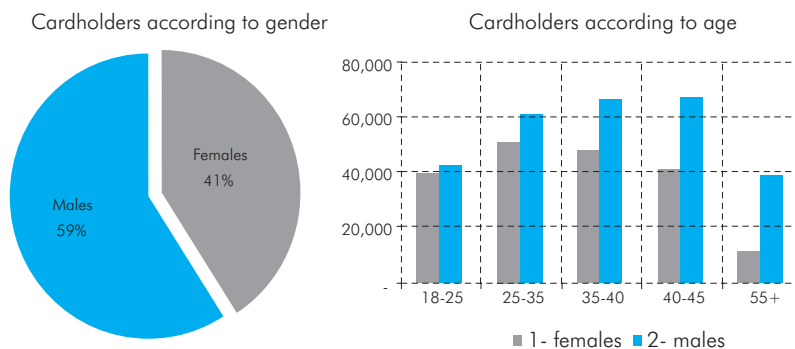
Of the total customer accounts reported by banks, about 29% of the accounts are remotely accessible through a credit or debit card. Payments or cash withdrawal from other accounts requires necessarily the physical presence of the customer at bank counters. Distribution of cards according to the cardholder's gender and age is presented graphically in the following chart.

Chart 4 Share of payment cards according to their type, until end-2010



Source: Bank of Albania (banks' reports according to the "Reporting methodology for payments instruments").

Chart 5 Cardholders according to gender and age, at the end of 2010



Source: Banks' reports according to the "Reporting methodology for payments instruments"

The following table presents types of transactions by bank cards (debit/credit), per volume and value, compared with previous year's data.

Table 12 Transactions through cards during 2010 compared to 2009

Transactions through cards by transaction type	Volume		Value (ALL million)	
	2009	2010	2009	2010
1- ATMs for cash withdrawal	8,717,982	9,877,583	96,117.27	100,057.91
2- ATMs for depositing	91	47	2.97	0.23
3- Transfer orders through ATMs	366	260	10.02	6,31
4- Cash withdrawal at POS terminals	2,647	1,654	453.86	358.22
5- Card payments at POS terminals	403,214	527,411	5,321.72	7,438.30
Of which:				
- payments through debit cards	252,780	322,230	2,565.67	3,151.13
- payments through credit cards	150,434	205,181	2,756.05	4,287.17
Total card transactions	9,124,300	10,406,955	101,905.3	107,860.96

Source: Banks reports according to the "Reporting methodology for payments instruments".

During January - December 2010, about 10.5 million transactions through cards (ATM and POS) were processed, with a total circulation of ALL 108 billion. Of the total transactions, about 95% is cash withdrawal from ATMs and only 5% refers to customer payments through cards in POSs, an indicator of a highly cash-based economy.

Home-banking is increasing, enabling clients to have remote access to their bank accounts, through internet connection, telephone, or software that the banks provide to their clients. For the first time, this service was provided by the American Bank of Albania in 2005, while in 2010 this service was provided by 11 banks in Albania. During 2010, about 163 thousand "home-banking" e-transactions were reported for the entire banking system, totalling ALL 92 billion, about 2% in volume and value to total customer payments.

Table 13 Performance of home-banking transactions over the years

Home banking transactions	Number of banks	Number of transactions	Value of transactions (ALL million)
2005	1	15,706	15,908
2006	1	19,096	16,834
2007	3	42,447	48,492
2008	6	88,261	63,240
2009	10	136,482	78,156
2010	11	162,385	91,274

Source: Banks reports according to the "Reporting methodology for payments instruments".

VII.1.3. BANK OF ALBANIA AS A SUPERVISOR AND REFORMER OF THE NATIONAL PAYMENT SYSTEMS

The Bank of Albania (BoA) is assuming an increasingly important role in reforming and overseeing payment systems. In light of this, BoA is working to set up safe and efficient national payment systems to support recent financial market developments based on best practices of other central banks.

The BoA has started a twinning project with the Bank of Italy, where development of payment system oversight has a significant place. The project scope is, inter alia, to strengthen capacities and approximate the regulatory and operational framework of payment systems in Albania with those of EU countries.

In 2010, the draft law "On payment systems" and an explanatory commentary were finalised as important documents, which explain concepts on the national payment systems as well as a more detailed definition of the role and duties of the Bank of Albania in relation to developing and supervising the payment systems in Albania. This draft law is a very important step forward in the process of continuous approximation of Albania's legislation with the EU legislation in banking and finance area, provided also under Articles 70 and 89 of the Stabilisation and Association Agreement (SAA) between Albania and the European Communities.

In international terms, central banks should have a special jurisdiction on the settlement of financial instruments infrastructure ("post-trading"), as part of their overall mandate to supervise the payment systems. For this reason, this draft law aims to regulate and oversee the overall payment systems, including institutions such as securities clearing houses, their settlement systems and others such as CSD and CCP. The Bank of Albania and the Albanian Financial Supervisory Authority shall cooperate to define roles and duties for the supervision of securities clearing and settlement systems.

In December 2010, the draft law "On payments systems", an explanatory report and a Table on compliance with the *acquis communautaire* were sent to the Ministry of Finance for their review.

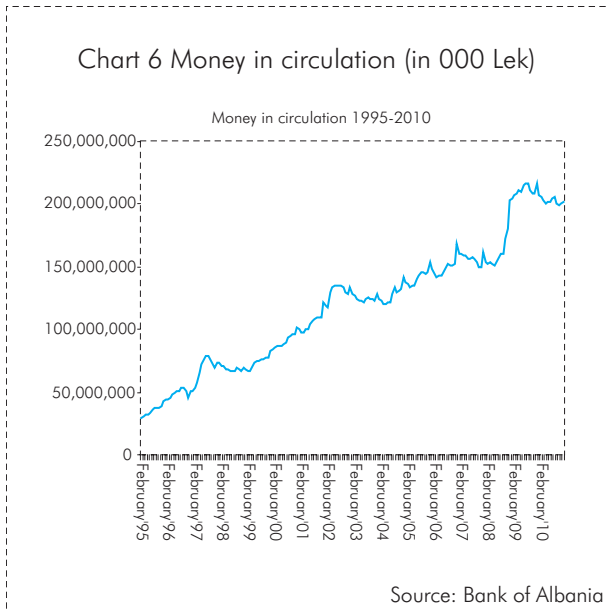
After a long cooperation between the Bank of Albania, the Ministry of Finances and the banking system, on 01 March 2010, live communication was established through an electronic interface between the Treasury System at the Ministry of Finances and the AIPS and AECH payment systems at the Bank of Albania. In the framework of implementing the new scheme of automated Treasury payments, the Ministry of Finances was provided with the possibility to monitor, in real time, the activity in its accounts in the AIPS system at the Bank of Albania, contributing to more efficient administration of funds. The project consists in automated processing of Lek payments, initiated by Treasury branches, to individuals or other beneficiary institutions of public funds. The part of inflows for the Treasury (by the public) is actually done through the banks; at the end of the day, each bank transfers the total cash funds to the main government account at the Bank of Albania.

Furthermore, during this year, the focus was on improving and expanding the required infrastructure for the settlement of electronic payment instruments (bank cards). In July 2010, the project for Lek payments settlement via MasterCard and Maestro cards through the AIPS was finalised, a service offered to the MasterCard company following an experience of some years with the Visa card company.

VII.2. MONEY ISSUE

- MONEY IN CIRCULATION*

Money in circulation amounted to ALL 202.36 billion at the end of 2010, compared to ALL 216.74 billion at the end of 2009. The largest growth was noted in the fourth quarter.



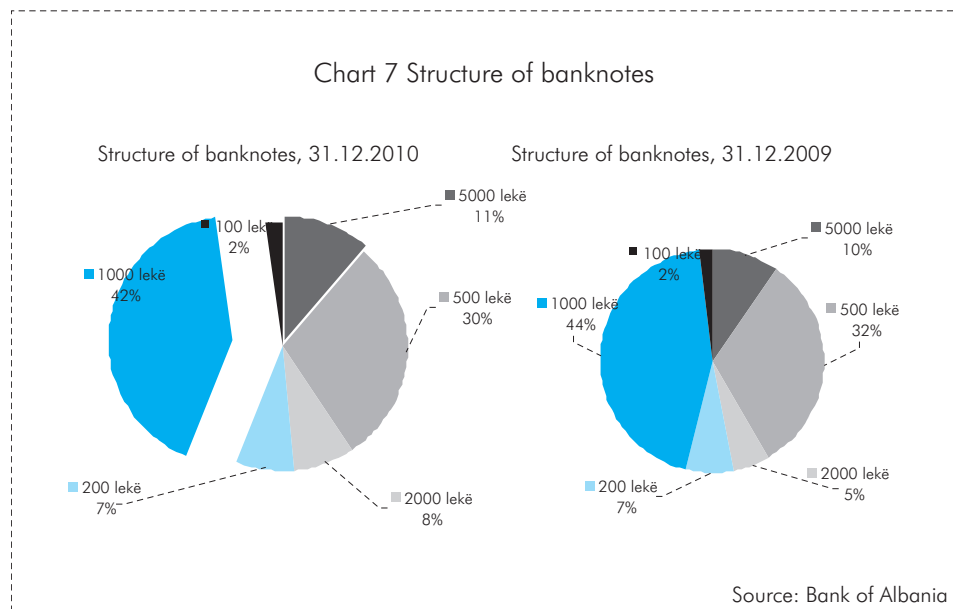
- STRUCTURE OF MONEY IN CIRCULATION*

Banknotes

The structure of banknotes in circulation² was characterised by a balancing of denominations in relation to the reduction of money in circulation. High denominations have a bigger share, dictated by the demand of commercial banks to handle the payment flow and filling of ATMs with these denominations. During 2010, a significant increase in the circulation of the 2000 Lek banknote was observed.

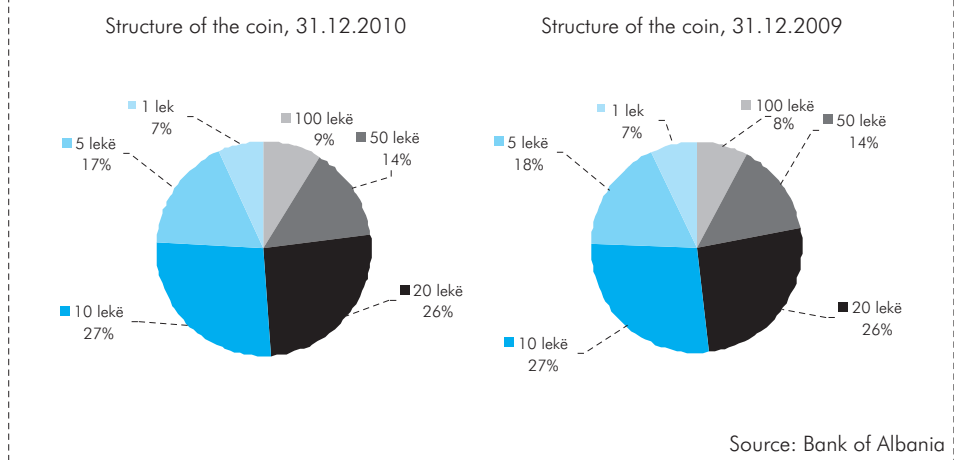
Coins

The structure of the coin continued, even this year, to be oriented towards an increase in the share of 50 and 100 Lek coins. One of the main factors affecting this rise was the use of these coins to substitute the 100 Lek banknote, which was withdrawn from circulation on 31 December 2010.



² This indicator represents banknotes and coins that are legal tender and have left from the Bank of Albania counters, regardless of their location.

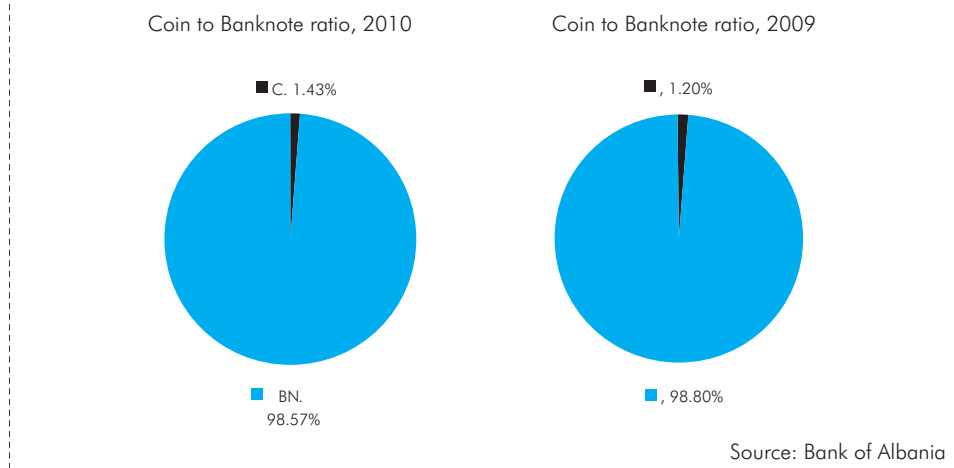
Chart 8 Structure of the coin



Coin versus Banknote

At the end of 2010, the overall value of coin to banknote ratio resulted higher than a year earlier. The gradual replacing of the 100 Lek banknote with coins and the demand for coins from retail traders, mainly from newly opened supermarkets and hypermarkets, were key factors contributing to the upward trend of this ratio, albeit an obvious increase in banknotes.

Chart 9 Coin to Banknote ratio



- INDICATORS OF MONEY IN CIRCULATION

Banknotes and coins in circulation

At the end of 2010, there were in circulation:

- 153,433,328 pcs banknotes
- 116,098,253 pcs coins

Average value of a banknote in circulation

The average value of a banknote in circulation at the end of 2010 reached 1227 Lek, compared with 1063 Lek at the end of 2009.

Money in circulation against M2

At the end of 2010, the ratio of money in circulation to the M2 aggregate was 34.57%, while at the end of 2009 it was 37.5%.

Money Rate of Return³

The money rate of return at the Bank of Albania was 0.596 for 2010, from 0.593 in 2009. This shows that during 2010, commercial banks, as regards money in circulation, delivered more money to the cash desks of the Bank of Albania.

Quality of money in circulation

Pursuant to contemporary standards and rapid increase in the number of ATMs of commercial banks, during 2010, the Bank of Albania withdrew from circulation about 23,534 million unfit banknotes, replacing them with fit ones. A substantial withdrawn quantity consisted in issues of earlier than 1996. At the end of 2010, pre-1996 issues in circulation accounted for only 1% of the average banknote in circulation. New banknotes put into circulation in 2009 accounted for 15.32% of the total average banknotes in circulation.

VII.3. RESEARCH AT THE BANK OF ALBANIA

Research Department discussion papers during 2010 focused mainly on the study of issues on monetary policy, fiscal policy, financial stability and the new economic growth model as well as on the external sector.

The Research Department, utilising the knowledge and research work for many years on the Albanian economy, has contributed to debates on drafting and implementing the monetary policy. During 2010, an assessment of the future performance of some important macroeconomic indicators and an analysis of various risk scenarios were made possible through the MEAM model and other satellite models outside it. Among the analysed risks, we

³ This indicator is calculated for each denomination in pieces, as a ratio of receivables to the average stock of money in circulation for a given period.

may mention the exchange rate, shocks from the supply and demand, fiscal policy effects, etc.

In addition, during 2010 a structural model was designed and evaluated to analyse the monetary policy in Albania. This model is very suitable for the Albanian economy as it takes into consideration all its features and reflects the effect of monetary policy on main macroeconomic indicators, such as production, inflation, exchange rate and unemployment.

As regards financial stability, work has been done on establishing a DSGE model, based mainly on two factors of production: labour and capital. The creation of this model aims to incorporate financial stability into the existing macroeconomic model and finding equilibrium levels for the variables involved. In addition, two works are realised, which measure the indirect credit risk and the effect of macroeconomic indicators on the level of non-performing loans. Another point of focus was the evaluation of a potential non-linear correlation between inflation and financial development in Albania, taking into account the effect of other variables such as government expenditures and international trade.

A study on the calculation of the trade deficit benchmark and current account stability serves as a reference basis for economic policies on the equilibrium of the external balance of the economy. Another material focused on the external sector with a view to evaluate the potentials of trade exchange with main trading partners of Albania, focusing on free trade agreements with countries of the region and the European Union. Finally, through another study on economic agglomeration and the creation of sectorial synergies in South Eastern Europe, we have managed to conclude that economic growth is most affected by income from commerce and foreign investments, in an integrated region, in terms of space and economic practice.

Moreover, various studies have been conducted on economic growth performance. Main determinants of economic growth in Albania have been evaluated, leading to the conclusion that total productivity of production factors is the main contributor to economic growth. Another study on economic growth has analysed the positive effect of the Albanian tourism sector on its economic growth.

Another issue addressed by our research is the assessment of the discretionary fiscal policy effects on prices, interest rates and economic growth; and on a potential difference between expenditure increase policy and tax reduction policy by assessing their respective multipliers. Furthermore, the fiscal policy stability in Albania and the definition of an appropriate fiscal rule have been assessed. Given the importance of remittances, their macroeconomic determiners have been studied to draft economic policies and an approach to attract this important flow of financing.

- *PUBLICATIONS*

Most of research and discussion papers are published on the Bank of Albania official website, under the category “Publications/Research and Discussion”, while articles are also published quarterly in the Economic Bulletin. In 2009, the Research Department began to publish semi annually the “Scientific news at the Bank of Albania”. It provides information on documents presented under the “Friday Workshop series”, and other materials and articles that are either completed or in process.

- *ACTIVITIES*

On 3 May 2010, a round table was organised at the BoA Research Centre in Berat on “Economic growth in Albania – the need for a new model”, organised by the Research Department. Representatives of academics, Bank of Albania and other international institutions such as the World Bank, IMF and USAID participated in this round table. The studies and discussions focused on the actual model of economic growth, capital market in the future economic model and role of agriculture and technology in the new growth model, paying attention to negative environmental externalities of economic growth. The debate on the new economic growth model will continue in other series, with other interest groups, with the hope that discussions and opinions become concrete recommendations.

The Research Department organised, for the fourth consecutive year, on 18-19 November 2010, a regional meeting on “Economic Research in South Eastern Europe”. This event focused primarily on further improvement of economic research in the region and expansion of the region’s central banks knowledge on characteristics and specific economic developments. Main issues addressed the global crisis and financial and macroeconomic sectors of South Eastern Europe, regulation of internal and external disbalances and the need for continuous efforts through structural reforms to promote stable economic growth.

Following the work started a number of years ago, the Research Department continued with the “Friday Workshop Series” in 2010. During this year, 13 studies were presented by representatives from the Bank of Albania, other central banks and academia. This activity is a good opportunity for all researchers to discuss and present their empirical and theoretical studies.

VII.4. STATISTICS ACTIVITIES OF THE BANK OF ALBANIA

The Bank of Albania is one of the key agencies that produces statistics, along with the Statistics Institute, Ministry of Finances, Ministry of Agriculture, Food and Consumer Protection, and the Ministry of Environment, Forestry and Water Management. According to the Official Statistics Programme⁴, the Bank of Albania is required by law to produce and publish monetary and

⁴ Official Statistics Programme 2007-2011 approved by Decision No. 153, dated 31.01.2008 of the Assembly of the Republic of Albania.

balance of payments statistics. The law "On official statistics"⁵ and the law "On the Bank of Albania"⁶ entitle the Bank of Albania to collect information by all statistical units in the territory of the Republic of Albania for statistical processing.

	Number of tables	Number of indicators
Periodical statistics of the Bank of Albania	91	3,021
Archive	17	126
Statistics by the Ministry of Finances	5	86
Statistics by INSTAT	12	241
Total	125	3,474

Table 14 Statistics displayed under the "Statistics" item in the Bank of Albania website

The Bank of Albania aims to not only successfully compile and publish statistics indicators, but also consistently improve public services by expanding the range of indicators, approximating the methodology with international standards and best practices, and providing information accordingly for a diverse range of users. The Bank of Albania website reflects dynamically qualitative and quantitative user requests and actually contains 125 tables with 3,474 indicators. Applications of the 'Statistics/Time Series' space provide users with information on most recently published indicators, time and content of publication. The query allows for selection of time series, indicators within tables and form of information display (for more refer to Annex 1). The Monthly Statistical Report of the Bank of Albania is a comprehensive publication highly appreciated by users. This report contains statistics on the monetary and external sector and important indicators of the real and fiscal sectors, published respectively by INSTAT and Ministry of Finances.

VII.4.1. PRODUCTION OF STATISTICS

In 2010, statistics on monetary and balance of payments by the Bank of Albania were published on time, compliant to the statistics publications calendar. In order to comply with the publication deadline, in cases of delayed reporting by reporting units, the Bank of Albania took its measures to counter delays by reducing the information processing time. Publication of statistics produced by the Bank of Albania is done electronically on its official website, while the Monthly Statistical Report is distributed to 300 institutional users on a CD. Paper copies of statistical publications are included in periodical reports of the Bank of Albania such as the quarterly Monetary Policy Report and the Annual Report of the Bank of Albania.

With regard to statistical production, the main development during 2010 is the publication for the first time of statistics on gross external debt, international investments position, loans and the economy. Statistics on gross external debt and international investments positions complement statistics on the external sector and statistics on balance of payments, exchange rate and

⁵ Law 'On Official Statistics' No. 9180, dated 05.02.2004

⁶ Law 'On the Bank of Albania' No. 8269, dated 23.12.1997

foreign reserve. Publication of these statistics in accordance with the respective standards is a precondition for all countries that aspire to become members of the Special Data Dissemination Standard of the International Monetary Fund, as well as for EU members or applicant countries. Statistical credit tables according to subjects, currency, maturity, economic activity, prefecture, etc. are not a requirement of international statistical standards, but a high number of states publish them to assist users with detailed information of interest to them. In 2011, the database with information published by the Bank of Albania will be enriched with detailed tables on residents' deposits at the banking system.

VII.4.2. STATISTICAL ACTIVITIES IN MID-TERM HORIZON

In the mid-term horizon, the Bank of Albania will continue to produce and publish monetary and financial statistics on the external sector conform to manuals and international practices⁷. In addition, in its capacity of a statistics agency, the Bank of Albania will continue to contribute actively to improving the national statistical system, including strengthening of relations with other statistics agencies and enrichment of the legal and regulatory framework on drafting and follow-up of national programmes on statistics production with special focus on EU requirements for statistics reporting. In the context of preparations for meeting EU requirements on statistics produced by central banks, the Bank of Albania will benefit from a Twinning Project with the central banks of two EU countries⁸. As regards monetary and external sectors statistics, during the lifetime of this project, work will be done in terms of improvement of methodology and forms of reporting as well as of technology, statistics processing and dissemination practices.

VII.4.3. RELATIONS WITH USERS

The Bank of Albania is constantly in contact with regular users of the statistics it produces and publishes. The distribution list of statistical publications for institutional users is reviewed, time after time, to include all interested users and new institutions. At the same time, the space 'Statistics' at the website of the Bank of Albania is updated consistently to bring the format and content of publications close to the requests of a wide user base. In November 2010, the Bank of Albania met with two important user groups. The first meeting was with media representatives and the second meeting was with institutional and academic users. Both meetings were welcomed with high interest. In these meetings, main groups of statistics published in the webpage of the Bank of Albania were introduced and instructions on using this page were given.

⁷ On balance of payments statistics and international investments position - "Balance of Payments Statistics and International Investment Position Manual", IMF, sixth edition, January 2010. On external debt statistics- "External debt statistics: guide for compilers and users", IMF, June 2003. On monetary and financial statistics - "Monetary and Financial Statistics Manual", IMF, October 2000.

⁸ Under the Twinning Project on "Strengthening institutional capacities of the Bank of Albania", assistance will be provided by the central banks of Italy and France.

During the meetings, questions and suggestions were tabled by the users on the methodology, data sources, relations among statistical agencies in the country and other important aspects of official statistics.

VII.5. PUBLIC RELATIONS

During 2010, on public relations the Bank of Albania focused principally on restructuring current tools and establishing new communication methods, which contribute to accomplishing the long-term goal for an environment of well-informed stakeholders capable of understanding central bank decision-making and of making rational decisions on economic and financial matters.

A number of tools have contributed in communication, to mention a few: direct communications of the Governor in press conferences, interviews and speeches on issues that require public attention, periodic and non-periodic publications on the work and decisions of the Bank of Albania, the official website, which provides real time information on the Bank of Albania's activity and policies, and financial literacy for the public aiming to develop the economic and financial literacy of the Albanian society.

- *PUBLICATIONS OF THE BANK OF ALBANIA*

The publications of the Bank of Albania continued, even in 2010, to inform the public on most recent developments in the Albanian and world economy and financial system.

This year has introduced some changes to the set of periodical publications of the Bank of Albania. More specifically, the Monetary Policy Statement, once part of the Economic Bulletin, was published separately as the "Monetary Policy Report", quarterly. As a result of the restructuring of the Economic Bulletin, a new title was added to this set: "The Bulletin of the Bank of Albania". This publication comes to the public semi-annually and its introductory editorial, dedicated to the most important project or activity of the Bank of Albania for that reporting period is a novelty.

Similarly, during 2010, the Financial Stability Report changed its frequency of publication, from once to twice a year, while the Monthly Statistical Report is set to be redesigned to a new more user-friendly and attractive format.

- *RELATIONS WITH THE MEDIA*

In line with the established and positive experience, the communication of the central bank with media outlets continued to be direct and intensive. Thus, new initiatives have been taken to enhance transparency and public awareness on the role of the Bank of Albania and the banking system in the country's economy.

The hallmark of communication continued to be the regular monthly press conference of the Governor at the conclusion of each Supervisory Council meeting, where the economic and financial grounds for the monetary policy decisions have been directly transmitted to the media and the public. Starting from July 2010, this event was joined by simplified presentations of various periodic reports on monetary policy, financial stability, statistics, banking supervision, etc., which serve to orientate the media towards a correct reading of the Bank of Albania decisions and activities and help them convey the right message to the public.

- *FINANCIAL LITERACY*

Given the overall economic climate and the ever-growing complexity of financial markets, the Albanian banking system and its products for Albanian citizens, the importance of financial literacy is increasing year after year.

In this context, in March 2010, the Bank of Albania organised an international discussion panel on responsible finance, in cooperation with the KfW Entwicklungsbank and the European Fund for Southeast Europe (EFSE). In this panel, representatives from the financial sector and the Albanian government, donor agencies, international financial institutions and microfinance practitioners in Albania, appealed for higher efforts to promote responsible finance practices and principles in Albania. As the Governor of the Bank of Albania stated, responsible finance is the best term to bring together under one name the multifaceted efforts of the Bank of Albania over the past three-four years on banking and financial supervision, monetary policy and public education.

Efforts of the Bank of Albania in this regard, have aimed to equal those of the most committed central banks on financial literacy, and to move forward in accordance with the developments and needs of the public.

A good part of our attention was committed to awareness-raising programmes, which have resulted successful during the pilot phase, thus paving the way for further development.

Established in 2007 to promote the creation of economic and financial literacy in the Albanian society, “The central bank in our daily life” programme took place in 2010 in the districts of Durrës, Berat and Fier. Thanks to Regional Departments of Education and the commitment of the Bank of Albania staff members from various departments, training workshops were organised for high-school teachers of economics, as per the following table:

Table 15 Training workshops with high school teachers of economics

Time period	Description of the workshop	Participation
29 March – 2 April 2010	Training workshop on finance, economy and banking for high school teachers of Durrës	High school teachers (30)
26 – 30 April 2010	Training workshop on finance, economy and banking for high school teachers of Berat	High school teachers (30)
24 – 28 May 2010	Training workshop on finance, economy and banking for high school teachers of Fier	High school teachers (33)

Source: Bank of Albania

Similar to workshops in previous years, participating teachers in these districts learned about not only the functions and role of the central bank and the Albanian banking and financial system, but also about other topics such as public finances and state budget.

From the experience of the Bank of Albania and that of other central banks, the teacher training workshops have proven to be a very effective tool to improve teaching quality, with a positive impact on educating the new generation. The direct contact with high-school teachers draws their attention on various educational brochures and materials of the Bank of Albania, which may come to their help during their teaching process.

In 2010, the series of lectures by the Governor of the Bank of Albania in universities continued with "POLIS" University in Tirana and South East Europe University of Tetovo, FYROM. Furthermore, in a slight deviation from the classical line of this type of events, in his lecture at the "POLIS" University in Tirana, Governor Fullani introduced the project for the reconstruction of the central building of the Bank of Albania, which intertwines the current architecture with modern architecture. In addition to preserving architectural, historical and cultural values, it will provide multifunctional solutions in accordance with the needs of the Bank of Albania.

Meetings of the Governor with high-school students in various cities continued to be at the core of activities dedicated to the young generation. The Governor met with high school students of Berat, Gjirokastra and Shkodra.

In one of these meetings, the Governor launched one of the main projects in education, i.e. education through the website of the Bank of Albania. Taking advantage of the latest developments in the field of communications technology and taking into account that young people are main users of this technology, the Bank of Albania has been working to introduce soon a complete informative platform on central banking, which will be fully internet accessible.

A major educational project is the compilation of an elective course module on personal finances for which, during 2010, the Bank of Albania worked closely with the Institute for Educational Development (IED), in the framework of a Memorandum of Cooperation signed with the Albanian Ministry of Education and Science. Representatives from the Bank of Albania, IED and teachers of economics joined forces to draft this text. The module will be included in the teaching curriculum of 2011-2012 school year, equipping high school students with knowledge and skills on topics such as money management, budget drafting, achievement of financial objectives, prudent credit use, investments, savings, insurance and taxes.

VII.6. EUROPEAN INTEGRATION AND COOPERATION

- *EUROPEAN INTEGRATION*

After its ratification by all European Union (EU) Member States, the Stabilisation and Association Agreement (SAA), entered into force on 1 April 2009, paving the way for Albania to submit its application to the EU for the status of a candidate country. Albania eventually submitted its application for EU membership on 28 April 2009 and conform to procedures established in the EU Treaty, the European Commission (EC) handed a Questionnaire to the Albanian authorities to assess the country's capacities to meet the membership requirements.

Based on the answers to the Questionnaire by the Albanian authorities, on 9 November 2010, the EC published its Opinion on Albania's application for EU membership. The EC appraised the achievements of Albania over the past 12 months, but as concerns opening membership negotiations, it underlined the need for reforms and fulfilment of accession criteria, especially the political criterion. In addition, the Opinion clearly emphasised the country's European perspective.

CONTRIBUTION OF THE BANK OF ALBANIA TO ANSWERS TO THE QUESTIONNAIRE

The Questionnaire consisted of 2,284 questions, divided into 33 chapters of the *acquis communautaire* and 2 chapters addressing in particular the Copenhagen criteria (Political criterion and Economic criterion)

In accordance with the established inter-institutional structure, the Bank of Albania was assigned as the coordinating institution for answering questions on:

- Chapter 4 "Free movement of capital", which addresses issues related to the legislative and regulatory framework of: short- and long-term capital movements, existing restrictions and definition of different types of capital movements; payment services, especially cross-border payments, payment services market and electronic money institutions; anti-money laundering and combating the financing of terrorism as well as inter-institutional cooperation in this field.
- Chapter 17 "Economic and monetary policy", which addresses issues related to the legislative and regulatory framework of: independence of central banks, prohibiting direct financing of the public sector by the central banks; prohibiting privileged access of the public sector to financial institutions; drafting and implementation of monetary policy and the exchange rate; compliance with provisions of the EU Treaty taking into consideration the perspective of the Euro adoption.

In addition, the Bank of Albania was a contributing institution for formulating answers to the following Chapters:

- Chapter on “Economic criteria”
- Chapter 9 “Financial services”
- Chapter 3 “Right of establishment and freedom to provide services”
- Chapter 28 “Consumer and public health protection”
- Chapter 32 “Financial control”
- Chapter 20 “Enterprise and industrial policy”

After submitting its answers to the Questionnaire in April 2010, the Bank of Albania engaged in formulating answers to Additional Questions sent by the EC and met with an EC Fact-finding Mission addressing issues on answers of the Questionnaire.

Subsequent to the publication of the EC Opinion on Albania’s bid for EU membership, the Bank of Albania continuously attends the inter-institutional work on EC recommendations, so that Albania may be granted the candidate country status, opening the way for EU membership negotiations.

Conform to the SAA implementation process, the Bank of Albania has contributed to the revision of the SAA National Plan Implementation (SAANPI) for 2010 – 2014. In the narrative section of the SAANPI, the contribution of the Bank of Albania consisted in the description of macroeconomic developments during 2009, inflation and monetary policy, and the performance of banking and external economy sectors. Moreover, priorities and measures taken in the field of macroeconomic stability, free movement of capital, right of establishment, and freedom to provide services.

In this context, the following are realised: stipulation of legal and regulatory initiatives, implementation activities for the realisation of these initiatives, required technical assistance and expected costs in the framework of the process for the approximation of the national legislation with the *acquis*.

The Bank of Albania has been in constant contact with the Ministry of European Integration, to which it forwards monthly progress reports, to describe the progress on the realisation of legal measures and implementation of activities, in compliance with the timeline laid down in the SAANPI. In addition, legal and regulatory acts approved by the Supervisory Council of the Bank of Albania are accompanied by a description on the act’s compliance with the EU legislation.

On 9 November 2010, the EC published its Analytical Report on Albania, with an Opinion of the EC on Albania’s application. These two documents describe the country’s progress and its challenges during 30 October 2009 – 1 November 2010, outlining the EC approach to lead and support our country in the future. The Analytical Report describes the Albania-EU relations, analyses the progress made on political, economic, legal and accession criteria (Copenhagen criteria), and presents a summary of the EC assessment on priorities and problematic issues in 33 areas divided according to the *acquis communautaire*.

On issues related to the activity of the Bank of Albania, the EC in its Analytical Report found that: "Appropriate fiscal and monetary policies have been the main anchors of the policy mix and have underpinned the relative macroeconomic stability in Albania. The monetary policy framework has anchored inflation expectations, despite the limitations arising from significant euroisation. The flexible exchange rate has supported adjustment to external shocks."

During 2010, the Bank of Albania drafted and presented the required information in periodic Albania – EU meetings. Thus, the Stabilisation and Association Committee addressed all the achievements with regard to SAA implementation status, one year after its entry into force.

This meeting aggregated all the issues discussed on technical level at joint sub-committees both on economic criteria and European standards. In compliance with the recommendations of the Sub-Committee on Economic and Financial matters and Statistics, it was reported about measures taken on prudential monitoring of non-performing loans and measures taken to reduce the use of cash in the economy.

In the second meeting of the EU-Albania Sub-Committee on Economic and Financial matters and Statistics, the Bank of Albania reported on issues such as overall economic development and its perspective, inflation and monetary policy, external sector, relations with international financial institutions, and developments and reforms in the banking financial sectors.

At the conclusion of the Sub-Committee on Economic and Financial matters and Statistics meetings, the delegation of the EC appraised the work done in the banking sector stating that economic data of the Albanian economy are optimistic. In addition, the delegation from the EC underlined that, in relation to inflation and monetary policy, good governance of the Bank of Albania is worth noting.

In the second meeting of the Sub-Committee on Internal Market and Competition, the Bank of Albania reported on improvements to the regulatory framework of the banking system and capital movement. At the conclusion of this meeting, the delegation from the EC welcomed the developments in the legal and regulatory framework as well as the increased administrative capacities of the Bank of Albania.

Year 2010 marked the beginning of the implementation of a twinning project of the Bank of Albania with one or two central banks of the ESCB funded by the EU Instrument for Pre-Accession Assistance (IPA) 2008, which aims to strengthen institutional capacities in six areas of the Bank of Albania divided into six modules: banking supervision and financial stability, statistics, payment systems, interbank money market, financial literacy and coordination of the European integration process.

After the twinning banks were selected, namely the Bank of Italy and Bank of France, the contract was signed in October, marking the beginning of

the twinning project implementation. During this period, representatives of the Bank of Albania had a number of preliminary meetings with experts of the Bank of Italy and the Bank of France to draft Development Plans for the implementation of each module. The Resident Twinning Advisor, whose main duty is to coordinate Project activities over the 18 months of the Projects implementation span, participated in all these meetings.

Meetings for drafting Development Plans for each module (implementation of Component I of the Project), including those taking place at the end of 2010, aimed to assess the existing situation in terms of the regulatory framework, infrastructure, human resources and to conduct an analysis on required improvements in order to further adopt European standards for each module.

- *INTERNATIONAL COOPERATION*

The Republic of Albania is a member of the International Monetary Fund (IMF) from October 1991. Its quota during 2010 remained unchanged to the amount of 48.7 million SDR, likewise its votes (737 votes or 0.03% of total votes of all IMF members). Albania is in the same constituency with Italy, Greece, Portugal, Malta, San Marino and Timor-Leste. This constituency has a total of 90.968 votes (or about 4.1% of total votes of all IMF members) and is presided by the Italian representative Mr. Arrigo Sadun, who serves as the Executive Director of this constituency.

During February – March, an IMF mission held consultations with Albanian authorities in the framework of Article IV of the Fund's Articles of Agreement. On the basis of the assessments of the mission, the IMF Executive Board, on 24 May 2010, concluded its consultations in the framework of Article IV of the Fund's Articles of Agreement. According to the assessment, the strong stimulus of economic policies provided buffers that have helped to cushion the impact of the global crisis and have enabled Albania to handle the crisis very well. Both the mission and the Executive Board commended the work of the Bank of Albania on monetary policy, anchoring of inflation expectations, and maintaining financial and macroeconomic stability.

Furthermore, in 2010, respectively in July and November, Albania was visited by two IMF missions to discuss with Albanian authorities recent economic development in the country, their perspective in the near and distant future, and the role of structural and macroeconomic policies to promote and ensure sustainable development.

The Governor of the Bank of Albania represented regularly the Republic of Albania in the decision-making of the Board of Governors, the highest body of the IMF. Important events in our relations with the IMF in this year were the spring and annual meetings of the IMF and the World Bank, organised respectively in April and October, where the delegation of the Bank of Albania, chaired by the Governor, met with senior IMF officials. These meetings focused on recent macroeconomic developments and measures taken by the Bank of Albania to minimise global crisis effects.

During the meetings, very good relations between the IMF and Albanian authorities were noted and the work by the Bank of Albania in the management of the situation created by the crisis effects was commended. High IMF representatives stated their readiness to continue with technical assistance projects for the Bank of Albania.

During 2010, Albania paid to the IMF about 8.1 million SDR for its dues (principal payments, interests, periodic expenses, etc.) arising from earlier agreements PRGF and PRGF/EFF.

The Bank of Albania continued in 2010 to benefit from the IMF technical assistance on staff training with consultancy in areas such as monetary policy and banking supervision.

- *RELATIONS WITH THE WORLD BANK GROUP*

Albania is a member of the World Bank Group since 1991 and has benefited from this institution a total of USD 1.4 billion through 68 projects. On 15 July 2010, the Board of Directors of the World Bank Group approved the new three-year partnership strategy with Albania, which will focus on three strategic objectives, namely: (i) supporting a recovery in Albania's growth rates through improved competitiveness, (ii) broadening and sustaining social gains by improving education and health services, and (iii) reducing vulnerability to climate change.

In an official visit in January, the Vice President of the World Bank for Europe and Central Asia Region, Mr. Philippe Le Houérou met with the Governor of the Bank of Albania and discussed on Albania's macroeconomic situation and future cooperation projects.

Even during 2010, the cooperation between the Bank of Albania and the World Bank Group continued under the agreement "On foreign reserve investment management and consulting", signed in September 2005. This consultation and technical assistance is materialised through visits of the World Bank Treasury experts and participation of the Bank of Albania staff members in workshops organised by the World Bank abroad. The World Bank experts' assistance over the years has been very useful contributing to a higher level of activities realised by the Bank of Albania on foreign reserve management. During 2010, the Bank of Albania was visited by three World Bank missions, which focused on issues such as negotiation of contracts for foreign reserve management, use of covered forwards for short-term instruments portfolio management and the internal audit function.

In addition, during 2010, the World Bank provided technical assistance in the framework of a Contingency Planning and Crisis Simulations project. The World Bank mission met and discussed intensively with representatives from the Bank of Albania and other institutions such as the Ministry of Finances, the Financial Supervisory Authority and the Deposit Insurance Agency.

In meetings the Bank of Albania delegation had with high representatives of the World Bank Group during the Annual and Spring Meetings of the IMF and the World Bank Group, it addressed extensively the country's macroeconomic developments, banking and financial system developments and measures taken by the Bank of Albania to maintain macroeconomic stability. On their side, World Bank representatives stated their support for the steps made by the Bank of Albania and offered their assistance on financial infrastructure improvement. In all the meetings, the interlocutors appraised the very good cooperation between the two institutions and discussed on further intensification of this cooperation in the future.

The World Bank has continuously stated its readiness to assist the Bank of Albania in implementing projects on the eventual consolidation, modernisation and stability of the Albanian banking system.

- *RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS*

The Bank of Albania during 2010 continued to be in regular contacts with the European Bank for Reconstruction and Development (EBRD), mainly with regard to providing information and statistics on the development of the Albanian economy in general, and the financial sector in particular. In its Transition Report 2009, the EBRD commended the developments and appropriate regulation of the financial sector and monetary interventions that contributed to buffering global crisis effects. The report assessed as very positive the monetary policy framework of the Bank of Albania in relation to keeping inflation within the target range and strengthening of banking supervision.

The Bank of Albania continued to keep close relations with the Bank for International Settlement (BIS) during 2010. The Governor of the Bank of Albania participated at the BIS 80th Annual Meeting in June in Basel, Switzerland. In the meetings with BIS and BIS member banks representatives it was highlighted the importance of strengthening the cooperation between the Bank of Albania and other central banks on areas of mutual interest. The BIS has been particularly active in providing technical assistance to the Bank of Albania through workshops and training sessions organised by the Financial Stability Institute, which promotes international financial stability through information exchange and cooperation in the area of financial system supervision.

- *RELATIONS WITH CENTRAL BANKS AND TECHNICAL COOPERATION*

Following the intensification of bilateral relations with other central banks, during 2010, upon the invitation of the Governor of the Bank of Albania, official visits were paid to Albania by the Governor of the National Bank of Serbia, former Governor of the National Bank of Switzerland and the Deputy Governor of the National Bank of Sweden. On the other hand, the Governor of the Bank of Albania paid official visits to the Bank of Greece, Bank of Russia and the Central Bank of the Republic of Kosovo.

Furthermore, the Governor of the Bank of Albania participated in many international conferences, summits, and regional workshops, of particular importance the second summit of Ministers of Finances and Central Bank Governors of South Eastern European countries, Regional Conference on Finances and Investments for South East Europe organised by Euromoney, conference on Responsible Finances organised by KfW Entwicklungsbank, EFSE and the Bank of Albania, a discussion table on "Strengthening Domestic Anchors to Assist with Crisis Exit Strategies" organised by Centre of Excellence in Finance and the International Monetary Fund, round table on "Economic and political challenges of regional cooperation" organised by the University of Oxford and the Bank of Albania, sixth Euro-Mediterranean seminar of Eurosystem and the Mediterranean Central Banks, high-level seminar on "Strengthening of micro- and macroprudential supervision" in the framework of the Europrogramme, etc.

These meetings, visits, and conferences have served not only to exchange experiences, economic developments analysis, or measures taken in the context of global financial crisis, but also to the consolidation and further development of the increasing technical cooperation between the Bank of Albania and its counterparts.

On the regional level, it is worth noting the participation in the meetings of Central Banks Governors' Club of Central Asia, Black Sea Region and Balkan Countries. These meetings aim to strengthen the ties between central banks of the region and promote regional cooperation through exchanging best experiences and addressing current issues in round tables at governor or expert level. Likewise, it is worth highlighting meetings in the framework of the multilateral Memorandum of Understanding, which aims to enhance further cooperation in the area of banking supervision in South Eastern Europe and maintaining of financial stability in the region, meetings in the framework of the Cooperation Process in South Eastern Europe, a forum for diplomatic and political dialogue among states. This year, the panel of Central Bank Governors and Banking Sector Regulators focused on the discussion of macroeconomic indicators and financial sector developments in a setting influenced by the crisis.

In May, the Governor of the Bank of Albania participated in the 17th meeting of central banks governors of francophone countries, which concentrated on political challenges to and reformation of the agenda after the crisis, experiences of certain countries and stimulating measures taken as a result of the crisis, strategies to be used in crisis exit, maintaining of central bank independence in the future, and economic development of member states.

In December, at the presentation of the first stability report of the Central Bank of the Republic of Kosovo (CBRK), the Governor of the Bank of Albania paid an official visit and delivered a speech at the conference organised on that occasion. In the meetings with the management of the CBRK, excellent cooperation between the two institutions was appraised and readiness to take this technical cooperation further was confirmed.

As in previous years, during 2010, in light of coordination of technical assistance, a priority was the provision of technical expertise for the CBRK by the Bank of Albania. Hence, some working visits have taken place by CBRK and the Bank of Albania staff, focusing on areas such as internal control, payments systems, supervision, administration, etc.

During 2010, the Bank of Italy, National Bank of Bulgaria, Central Bank of the Republic of Turkey, Bank of France and Centre of Excellence in Finance (CEF) were the main providers of technical assistance to the Bank of Albania, mainly through study visits and internships.

Moreover, in the context of the cooperation protocol with the National Bank of Serbia, in 2010 were organised reciprocal study visits and internships, which served to exchange the experiences on issues of mutual interests in various fields of central banking.

VII.7. MAIN DEVELOPMENTS IN BANKING LEGISLATION DURING 2010

In 2010, the Bank of Albania continued its work to review and revise the legislative and regulatory framework in compliance with the EU legislation and recent dynamics in country. Following is a summary of most important banking-related legal initiatives during 2010.

I. Legal acts on payment systems

To ensure security and efficiency of its payment systems, at the end of 2010, the Bank of Albania finalised a draft law "On payment systems", which is sent to the Ministry of Finance for review. This draft law provides for a full harmonisation with core principles of EU directives on payment systems, in particular with Directive 98/26/EC "On settlement finality in payment and securities settlement systems", Directive 2002/47/EC "On financial collateral arrangements" as well as with Basel Committee "Core principles for systemically important payment systems".

II. Improvement of supervision regulatory framework of bank and non-bank institutions activity

New regulatory acts on banking supervision approved by the Supervisory Council of the Bank of Albania in 2010 are as follows:

1. Regulation No. 25, dated 24.03.2010 "On risk management in the activity of non-bank financial institutions".

This regulatory act sets out the rules for the management of risk in the activity of non-bank financial institutions for a safe and stable financial activity by these institutions. More specifically, this regulation specifies the criteria for the risk management by non-bank institutions and imposes the obligation for

these institutions to draft methods and procedures to identify and monitor all risks in compliance with internal acts of the institutions and regulatory acts of the Bank of Albania. The regulation specifies the indicators of exposure to risk/s, and permissible maximum exposure rates that these institutions shall abide by.

In addition, the regulation envisages risk management rates as regards open foreign exchange positions, liquidity risk and credit risk. On the latter, the regulation defines the criteria on loan classification, obligation to establish reserve funds to cover potential losses from loans, loans restructuring and loan write-off, laying down special regulation for micro-credit and leasing financial institutions. The regulation stipulates reporting and supervision obligations on non-bank institutions, when they fail to meet the requirements of this regulation.

2. Regulation No. 48, dated 14.07.2010 "On open foreign exchange positions risk management"

This regulation abrogates and supersedes the previous regulation "On open foreign exchange positions", approved by Decision No. 59, dated 05.05.1999 of the Supervisory Council, amended, and methodological instruction "On risks from foreign exchange" dated 26.06.1999. The scope of this regulation is to set out the rules and criteria for the calculation, monitoring, reporting and supervision of the banks' open foreign exchange positions, in order to manage the foreign exchange risk by banks licensed by the Bank of Albania to exercise their banking and financial activity in the Republic of Albania. This sub-legal act regulates the methodology for defining open foreign exchange positions, permissible limits, and the risk management arising from open foreign exchange positions. On the latter, the regulation envisages the obligation of the banks to establish a management system for the exchange rate risk to which it is exposed during its activity, to identify, measure, monitor and control this risk. Furthermore, the regulation imposes an obligation on banks to draft necessary policies and policies to manage the foreign exchange risk.

As regards open foreign exchange positions risk management, the regulation sets out the responsibilities of the Steering Council and the Directorate on drafting the policy on foreign exchange risk management, develop and implement the procedures for the identification, measuring, monitoring and control of foreign exchange risk of the bank in line with foreign exchange risk management policy; envisaging the establishment of a special structure such as the Committee/unit for risks management, which will be responsible to implement the above-mentioned system and policies. Further, the regulation sets out monitoring, reporting and supervisory requirements on banks concerning observance of obligations arising from this regulation.

3. Regulation No. 67, dated 13.10.2010 "On information content and functioning of Credit Registry at the Bank of Albania".

This regulation supersedes the previous regulation “On functioning of the Credit Registry at the Bank of Albania” approved by Decision No. 38, dated 18.07.2007, amended, of the Supervisory Council of the Bank of Albania. The scope of this regulation is to set out the information content, principles and rules on the functioning of Credit Registry at the Bank of Albania, as well as the terms and conditions to get informed and to use the information managed in it. The regulation envisages that the Credit Registry kept and administered by the Bank of Albania, functions as a system that handles and distributes, centrally, information on borrowers, persons related to them and guarantors of the credit agreement, for supervision and optimum credit risk management by banks and non-bank financial institutions. This regulation, in contrast to the previous regulation, expands the circle of data reports, including not only banks and branches of foreign banks, but also non-bank financial institutions licensed by the Bank of Albania, as well as other financial institutions based on agreements concluded between the Bank of Albania with them or their supervisory authorities.

In addition to the above stated, the regulation sanctions core principles, based on which the Credit Registry functions, such as:

- processing and protection of its data/information, in compliance with the legislation in force on personal data and professional and banking secrecy.
- function as a public service that handles and disseminates information on credit risk and does not contain analysis and estimations regarding the credit risk of borrowers.
- Bank of Albania shall not be held responsible for the way the information from the Credit Registry is used and assessed.

The Regulation also defines the Credit Registry information content, envisaging that the data/information with regard to the identity, credit balance and credit exposure of all data reporters’ borrowers, for their related persons as well as the guarantors, are reported, retained and processed at the Credit Registry

This information is set out in accordance with the criteria and categories on credits, other assets and off-balance sheet items, as stipulated in the regulations on credit risk management by the Bank of Albania.

Next, the Regulation envisages the Credit Registry functioning, stipulating that this Register aims to ensure a concentration of information/data with regard to the credit exposure of borrowers, their related persons and of credit guarantors; supporting the realisation of supervisory and regulatory function of the Bank of Albania; and the use and/or publication of information from this register by the Bank of Albania for research, statistical and other purposes related to its supervisory process.

Moreover, the Regulation defines the timeline and periodicity of data reporting to the Credit Registry, responsibility of data reporters regarding

the accuracy of information reported to the Registry, processing terms and methodology for the information retained at the Registry and the core principles on which the right to acknowledge and review Registry data/information is exercised.

Finally, the Regulation stipulates data reporters' obligations stemming from their participation in the Credit Registry system, as well as penalties by the Bank of Albania on data reporters in the event of breach of provisions of this Regulation.

4. Instruction No. 68, dated 13.10.2010 "On the issue procedure of the Borrower's Report and the data review retained at the Credit Registry", which supersedes the instruction "On issue procedure of borrower's report and review of data retained at the Credit Registry" approved by Decision No. 71, dated 18.07.2007, amended of the Supervisory Council of the Bank of Albania. This instruction sets out the procedure for the issue of the borrower's report and the data review retained at the Credit Registry.

More specifically, this Instruction specifies procedural rules on exercising the right to acknowledge and/or review the information retained at the Credit Registry, as envisaged in the Regulation "On information content and functioning of the Credit Registry at the Bank of Albania", approved by Decision No.67, dated 13.10.2010 of the Supervisory Council of the Bank of Albania. This right may be exercised as the case may be by the borrowers, persons related to them or their heirs, another person authorised in writing, and other entities with the right to request a borrower's report to meet a legal obligation or based on a court decision.

In contrast to the previous Instruction, which allowed for the possibility to request and receive a report only from the Head Offices of the Bank of Albania, this Instruction provides for the possibility to request, supporting documentation and receive the borrowers report not only at the Head Offices of the Bank of Albania but also at the nearest branch of the Bank of Albania, where the entity has submitted the request.

The Regulation provides that the Bank of Albania keep a register where it evidences all submitted requests for borrowers' reports and data review, and the respective measures in the event of failure to address a request for data review.

5. Instruction No. 70, dated 13.10.2010 "On the functioning of the Credit Registry at the Bank of Albania" supersedes Instruction "On internal rules for the functioning of the Credit Registry at the Bank of Albania" No. 41, dated 27.05.2009, of the Supervisory Council of the Bank of Albania. The purpose of this instruction is to set out in a harmonised way the functions, duties and internal operational procedures that are carried out and realised by certain organisational units of the Bank of Albania, for the administration, functioning,



"Design used for the 500-Lek banknote, issue of 1992"

