5. MEDIUM-TERM DEVELOPMENT STRATEGY OF THE BANK OF ALBANIA

The main challenges to the institution during 2016-2018, in compliance with its legal mandate are described in the Medium-Term Strategy. Implementation and periodic monitoring of the implementation of the objectives of the medium-term strategy is a process that is monitored regularly by administrators and by the Supervisory Council of the Bank of Albania. Pursuant to this strategy for 2016, progress was made as follows:

a) Maintaining monetary stability.

In view of formulating the monetary policy, the focus is on expanding and improving the forecasting, analysing and reporting framework of monetary policy, noting improvements in these key areas:

- Models used in medium-term macroeconomic projections are enriched with contemporary techniques, by expanding the existing infrastructure with new diagnostic functions, and econometric infrastructure is updated, aiming at developing a more inclusive framework of forecasts.
- Surveys of business and consumer confidence published by the Bank of Albania, are included under the European Commission program, aiming their harmonization with the common methodology used by the Commission on these surveys.
- Periodic reports are enriched with new indicators and in-depth analysis of specific economic events.
- Monetary policy communication is improved through increased transparency and use of forward guidance, in order to increase the effectiveness of monetary policy.

The monetary policy decision-making is supported by scientific activity in the field of economic research, where 22 research projects are undertaken for in-depth study of specific topics.

The implementation of monetary policy is based on intervention operations in the open market. In order to improve the operational framework, the projection process of liquidity of the banking system is reviewed, in accordance with international experiences and the regulatory framework is completed, according to the suggestions of the technical assistance mission of the IMF.

The rules for foreign exchange reserve management have changed, expanding the list of risks that are being monitored. The project for the upgrade of the system Portfolio Analytic Tools (PAT) II and the implementation of improved version of Treasury Management System (Inforex-Loro) is underway.
b) **Ensuring a stable and efficient financial system**

A macro prudential policy strategy is drafted for safeguarding financial system stability, according to the European Systemic Risk Board approach; various indicators of systemic risk assessment are aggregated in joint analyses, and indicators of early warning are estimated.

c) **Ensuring a sound banking activity**

In terms the banking system supervision:

- The Law on Recovery and Resolution in banks is approved, and acts which regulate the saving and loan associations and their unions are reviewed, as well as acts affected by the implementation of the action plan for the reduction of non-performing loans.
- Drafting of a cooperation agreement with ECB for the consolidated supervision, financial stability and crises management is still in process. Also a technical assistance project is underway with the EBRD for the review of regulatory/ supervisory aspects of the corporate Governance.

d) **Increasing the quality of statistical data**

In terms of meeting the quantitative standards of international methodologies and EU legislation:

- The methodology of the interest rates for monetary financial institutions based on the acts of the ECB is drafted, and for the first time financial accounts are compiled by sector, in compliance with the methodological standard ESA 2010 and quarterly published the International Investment Position, Direct investment (flow and stock) by country and economic activity.
- The automated system of regulatory reporting with banks of the system is put into operation.
- The cooperation with INSTAT (the official producer of statistics and coordinator of the national statistical system in Albania) is intensified with the third parties as well. The Memorandum of Understanding between BoA, INSTAT and MF (in consultation with the IMF) was signed in September 2016.

e) **Improving the infrastructure of the payment system**

In terms of promoting payment system:

- Preliminary testing of the small-value payment system (AECH) was successfully completed, for enabling a direct debit interbank instrument.
- The first phase of the project with the World Bank “On measurement of the costs of payment instruments in Albania” ended. Preliminary
results were presented at the meeting of the National Payments System Committee.

f) Improving the currency quality

In order to increase public confidence in the currency and to protect the banknotes and coins from counterfeiting.

- The quantity of banknotes processed with advanced processing systems increased, where 75% of the destroyed banknotes was conducted on line.
- Inspections are carried out in Albanian Banks for the implementing of rules for the integrity of coins in circulation. For the first time, the emission issues are part of the examination of the banks reports.
- The activity of BoA’s branches is re-dimensioned and involved in the activity of the currency issue, as well as in the systems of CashBook Registry, and Infoex and Oracle Financial and payment systems. The level of automation increased and the operation of branches optimized.

g) Strengthening the governance of the institution

This objective is accomplished in several dimensions:

Increased independence in accordance with the ESCB standards:

- The working group has drafted up a part of the text of the new organic law and is consulting with the Bank of Italy and the IMF.

Enhancing accountability

- The financial statements for 2015 in accordance with IFRSs were approved in March 2016.

Strengthening internal audit and management of operational risk.

- Efforts for ensuring compliance with international standards of the internal audit continue, based on: (i) the implementation of the plan of measures by the external evaluator to raise the completeness of the standards; (ii) increase of the independence and quality of Internal Audit, through strengthening the reporting lines to senior management and the Audit Committee; (iii) raising the awareness / education of BoA on the operation and the clear division of Line I, II and III of defence, as well as the assessing the completeness of the systems of internal audit.
- The unit is created and the process of operational risk management at BoA is formalized.

Enhancing transparency

- 102 press releases are carried out, including: (i) 8 press conferences on monetary policy decision; (ii) 9 interviews of the Governor and 5
interviews with Heads of Department; (iii) participations in 4 sessions of the Parliamentary Commission of Economy and Finance. 6 presentations “off the records” of periodic reports to the media.

- With 705 000 visitors (50% increase from 2015) and 2 million visits in BoA’s website; 5000 followers on Facebook, where educational materials, activities and publications are posted.
- 1900 people have visited BoA’s Museum; 1180 textbooks “Personal finance in your hands”, are distributed in eight high schools.

h) Bank of Albania resources

In view of adopting of the best practices of management of human resources of the ESCB and rationalizing organizational structure, the employees were enabled to participate in training activities and regulatory framework for the funding of post-graduate studies and international certifications for employees is consolidated.

The reconstruction of the former Hotel Dajti is in procurement process. Works are expected to start by February 2017.

Financial resources were more efficiently used through a review of the management process of the material values BoA, and the budget regulation.