

**BANK OF  
ALBANIA:**

**OUR  
CENTRAL BANK**

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If you want to receive a hard copy of this brochure, write to us at:

Banka e Shqipërisë, Sheshi "Avni Rustemi", Nr.24, Tirana, Albania

Tel.: + 355 4 2419301/2/3; + 355 4 2419409/10/11

Faks: + 355 4 2419408

or send an e-mail to:

[public@bankofalbania.org](mailto:public@bankofalbania.org)

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Governor of the Bank of Albania, Mr. Ardian Fullani

A few words about

# the Bank of Albania

I am very privileged to say a few words about the Bank of Albania at the introduction of this brochure. I will try to briefly present Bank of Albania's functions and responsibilities.

The Bank of Albania is the central bank of the Republic of Albania and its main objective is to maintain price stability, hence contributing to the country's economic development and welfare. In order to achieve its objective, the Bank of Albania formulates and implements the monetary policy, as well as the exchange rate regime and policy in the Republic of Albania.

Due to the history of the foundation and development of the State of Albania, our central bank is a relatively new institution in the lives of the Albanian people. For that reason, in our daily activity we endeavour to build and consolidate trust, sustainability and professionalism.

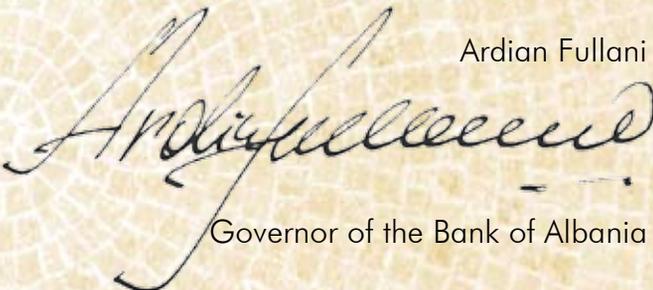
An important function of the Bank of Albania is to ensure the stability of the banking system. During the 18 years of its "life", the banking system succeeded to become the most developed and dominant segment of the financial system in Albania. This is mainly a merit of the Bank of Albania.

In the capacity of the country's monetary authority, the Bank of Albania has the exclusive right to issue and circulate the national currency. In addition, the Bank of Albania keeps and manages

foreign reserves of the Republic of Albania, serves as a banking, advisory and fiscal agent of the Government of Albania and promotes a proper functioning of the payments system.

In its endeavours to win and preserve the public trust, the Bank of Albania communicates with the public, based on the principles of transparency and respect for mutual values.

This brochure comes to the reader as part of the Bank of Albania's communication with the public.



Ardian Fullani  
Governor of the Bank of Albania

*The Central Bank of the state is the Bank of Albania. It has the exclusive right to issue and circulate the Albanian currency, independently implement the monetary policy, as well as maintain and administer the foreign reserves of the Republic of Albania.*

*The Bank of Albania is governed by a council, which is chaired by the Governor. The Governor is elected by the Assembly for a 7-year mandate, upon the proposal of the President of the Republic, with the right of re-election.\**

*\* Constitution of the Republic of Albania, Article 161*



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# The main objective

of the Bank of Albania

The main objective of the Bank of Albania is to achieve and maintain price stability, which is an essential precondition for the country's economic development. This should not be interpreted as if prices should "freeze". On the contrary, in an environment of stable prices, some prices are expected to rise and other prices to fall, maintaining therefore a stable average level.

In order to achieve its objective of price stability, the Bank of Albania drafts, approves and implements the monetary policy of the Republic of Albania. Other activities with respect to this objective include: monetary programming, promotion of the banking system, promotion of crediting, collaboration with other institutions to harmonise policies, communication with the public, and so forth.

In practical terms, achieving price stability means achieving low positive rates of inflation or of changes in consumer prices. Indeed, maintaining price stability means ensuring low positive inflation rates for relatively long time periods.

A medium-term strategic objective of the Bank of Albania's monetary policy is to keep inflation at low positive levels. This guarantees stability in the markets and promotes economic growth.

To this end, the Bank of Albania's objective is to keep a year-end inflation rate of 3%,  $\pm$  1 percentage point deviation.

# The history

of the Bank of Albania<sup>1</sup>

Before exploring the structure and functions of the Bank of Albania, let us have an insight into how and when the Bank of Albania was established, as well as the main historical phases of its development, until its present shape.

The National Bank of Albania (Bank of Albania) was established on 04 October 1913 following an agreement between the Albanian Government headed by Ismail Qemali, representatives of Wiener Bank Verein and representatives of Banca Commerciale Italiana.

As a result of political developments that culminated in the Balkan wars and the First World War, the Bank operated for a very short period. After conducting a few operations with the Government of Ismail Qemali and some private entities, the Bank ceased its activity.

Based on an agreement between the Government of Albania and an Italian financial group, the National Bank of Albania was established on 2 September 1925 with its administrative head office in Durrës and its Administrative Committee in Rome. The Bank issued the first Albanian national currency in February 1926.

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<sup>1</sup> For more information about the history of the Bank of Albania, we invite you to consult "The History of the Central Bank of Albania", published by the Bank of Albania in 2003.



From the end of the Second World War until the end of 1990, the State Bank supported the development of the socialist economy. An extreme centralization of the economy in the hands of the State was the main feature during this period. The State Bank of Albania, as a central bank, remained the issuer of the national currency. It also served as the State's treasury, kept the foreign reserve, and conducted economic and financial activities with other foreign countries and banks. In addition, the state Bank provided loans to [state-owned] enterprises, agricultural cooperatives and individual persons, served as a unique cash desk, a centre to keep current accounts, receive and administer savings deposits and keep them in cash, titles, silver and gold and conducted foreign exchange transactions for its own or third party interests.

Changes in Albania's political system, in early 1990s, led to essential changes in the banking system. The main characteristics of these changes were: separation of the central bank functions from those of second-tier banks (commercial banks), increased number of banks, expansion of their crediting activity to some sections of the economy, as well as introduction of foreign capital in the banking system.

# The organizational structure

## of the Bank of Albania

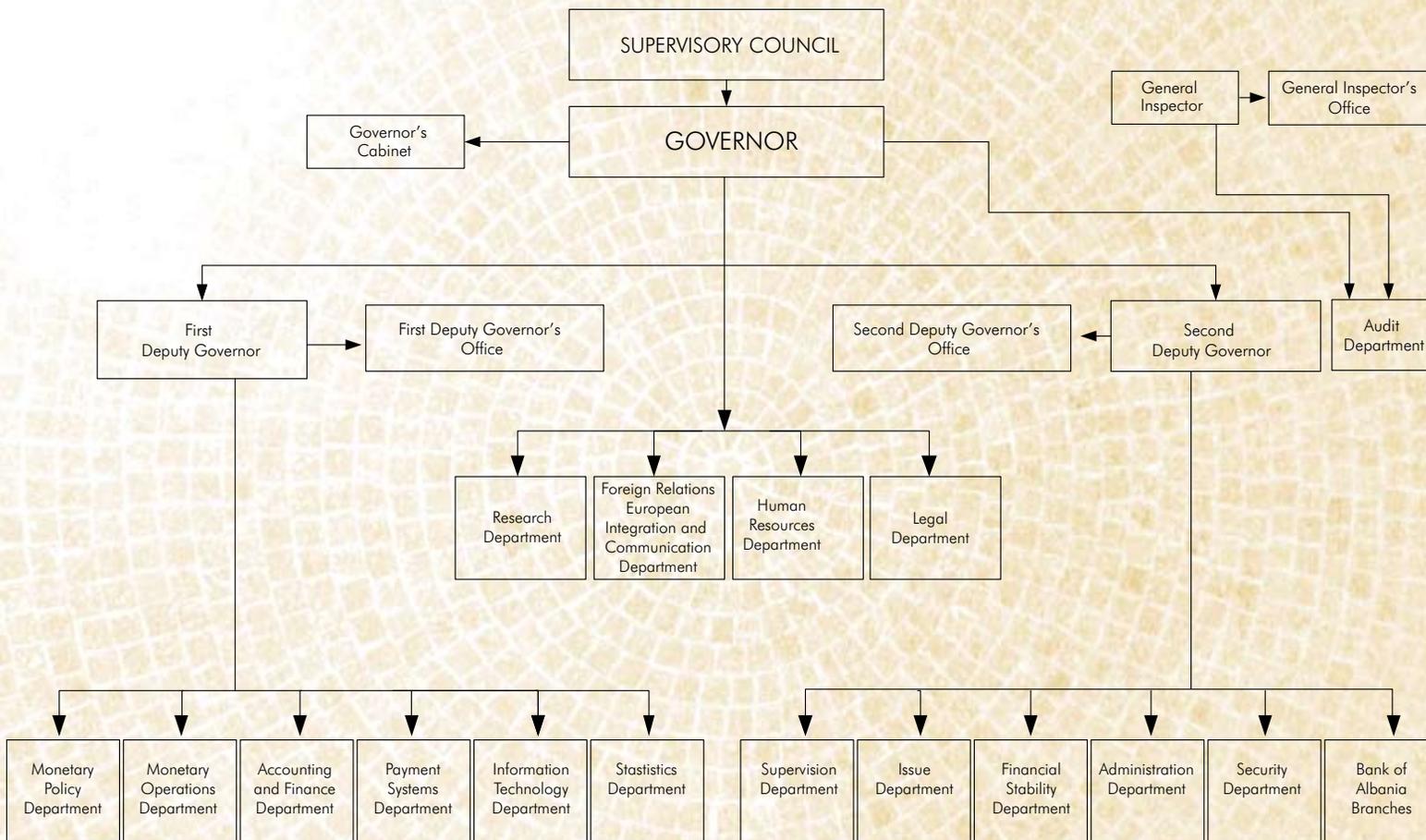
In view of the present situation, let us explore the actual structure, functions and tasks of the Bank of Albania.

As the organizational chart illustrates, the Bank of Albania is composed of the Supervisory Council, the Governor, two Deputy Governors, the General Inspector, 16 departments, and 5 regional branches in 5 cities of Albania<sup>2</sup>.

The development of the banking system in Albania has brought forward the necessity for the Bank of Albania to undertake new functions and responsibilities. In order to best carry them out, a restructuring of the Bank of Albania's organization has been necessary from time to time. As a result of its restructuring, new structures are established and existing ones have been revised hence rendering the activity of each unit more flexible and manageable. The current structure is designed to anticipate the Bank of Albania's commitments in the framework of the country's integration with the European Union. It is, therefore, reckoned that it will contribute to a long-term and stable process of professional and career advancement of the human resources at the Bank of Albania.

<sup>2</sup> *Shkodër, Korçë, Gjirokastër, Lushnjë and Elbasan*

## BANK OF ALBANIA ORGANIZATION CHART



## The Supervisory Council

The Supervisory Council is the highest decision-making and supervisory body of the Bank of Albania. It is the body that approves the monetary policy of the Republic of Albania. In addition, the Supervisory Council decides on administration policies in general and defines the approaches and procedures for operational activities of the Bank of Albania, which ensure a fair administration of the Bank of Albania and responsibility towards the public regarding the Bank of Albania's activities, commitments and outcomes.

The Supervisory Council is composed of the Governor, two Deputy Governors and six other members. All the members of the Supervisory Council are elected and appointed by the Assembly of the Republic of Albania for a 7-year mandate, as per the following proposals:

- a) Five members proposed by the Assembly;
- b) Three members proposed by the Council of Ministers;
- c) One member proposed by the Supervisory Council.

The Supervisory Council is responsible for reviewing the general policies of the Bank of Albania and for approving its objectives, plans and budget.



The Supervisory Council of the Bank of Albania

# The Governor

The Governor of the Bank of Albania is elected by the Assembly, upon the proposal of the President of the Republic of Albania, for a 7-year mandate with the right of re-election. S/he acts as the Chief Executive Officer of the Bank, who is responsible for the daily activity of the Bank of Albania, and as the Chair of the Supervisory Council.

Mr. Ardian FULLANI is the actual Governor of the Bank of Albania, in accordance with the Decree of the Assembly of the Republic of Albania, No. 152, dated 28 October 2004.

## Bank of Albania Governors:

Ilir Hoti, May '92 – September '93

Dylber Vrioni, September '93 – December '94

Kristaq Luniku, December '94 – April '97

Qamil Tusha, April '97 – August '97

Shkëlqim Cani, August '97 – October '04

Ardian Fullani, October '04 – present





# The functions

of the Bank of Albania

In its capacity of the monetary and supervising authority, the Bank of Albania functions as a typical central bank, in order to guarantee the achievement and maintenance of prices stability and financial system stability and efficiency.

To differentiate the Bank of Albania from the commercial banks of the banking system, it is essential to underline that it does not perform the same functions and does not provide the same services as the commercial banks. In other words, it does not serve directly to individuals and companies: it does not provide loans to them, does not provide personal accounts services, and does not issue debit and credit cards. In this respect, it can be viewed as a bank without counters. Its “clients” are the commercial banks and the Government.

# Monetary Policy:

an exclusive right of the Bank of Albania

One of the main tasks of the Bank of Albania is to maintain a “healthy” economy. It does this by administering the national system of currency and credit. In other words, it does this by orienting the monetary policy with an aim to support the development of the Albanian economy.

The monetary policy is the entirety of measures taken by a central bank in order to regulate the supply of currency in an economy. It is a continuous endeavour to maintain the equilibriums in an economy. The Bank of Albania manages the supply of currency in circulation and keeps its value under control.

The monetary policy aims at managing the monetary conditions of an economy - money supply, interest rates, and the exchange rate – in order to achieve and maintain price stability objective in the medium and long term period.

In the short-term, changes in money supply or interest rates in the money market affect the economic activity: production, employment and price levels.

In the long-term - after all potential adjustments by economic agents have taken place - a change in the supply of money in circulation is reflected only in changes in the price level, without affecting real economic indicators.



  
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# The responsibility

of the Bank of Albania for the

# exchange rate

Since July 1992, Albania has a floating exchange rate regime, based on a Decree of the Council of Ministers. The Albanian Lek is a flexible currency, which means that its exchange rate against foreign currencies is determined freely based on market transactions. Nonetheless, this does not mean that Lek's exchange rate is completely free to follow its "desires".

In order to prevent the "mispricing" of its currency, the Bank of Albania intervenes in the domestic foreign exchange market and affects the demand and supply of Lek by buying or selling it against foreign currencies.

The Bank of Albania announces the value of Lek against foreign currencies and every change of its value. In addition, the Bank of Albania endeavours to maintain its foreign reserves<sup>3</sup> in an appropriate level to conduct the monetary and exchange rate policies of the Republic of Albania, as well as perform foreign transaction payments in due time.

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<sup>3</sup> Foreign reserves are the foreign currency and gold assets of a central bank. The Bank of Albania's investments in foreign currency and in gold constitute the foreign reserve it holds and administers.

# The financial system

The financial system in Albania is a relatively new reality. Recent years have seen an increased interest by important banking groups and big insurance companies in our financial system. The Albanian financial system is dominated by the banking system, which accounts for 94.4% of the total financial assets. Privatization of the Savings Bank (the largest bank in the country, with 65% of all the deposits in Lek) rendered the entire banking system completely privately-owned.

The constituent institutions of the financial system in Albania and their number<sup>4</sup> are listed below:

Banks and branches of foreign banks	16
Non-bank financial institutions	17
Foreign exchange offices	283
Saving & credit associations	129
Unions of saving & credit associations	2
Insurance companies	10 <sup>5</sup>
Pension Funds	3

<sup>4</sup> These are data from November 2010.

<sup>5</sup> Six companies cover non-life insurance, three life insurance and one both life and non-life insurance.



The central bank is responsible for ensuring a stable and solid financial system, in general, and the banking system, in particular. The Bank of Albania safeguards the financial stability by assessing the potential risks to and vulnerabilities of the system, improving the regulatory framework and supervising the payments market and banking institutions licensed by the Bank. The supervision aims at identifying and preventing problems that these institutions might face.

The Bank of Albania cooperates with other agencies and actors in the financial market to promote the safety and effectiveness of key elements of the financial system. A Financial Supervisory Authority was recently established to assist the Bank of Albania in safeguarding the stability of the financial system. The Financial Supervisory Authority supervises mainly the securities market, the insurance market and the pension funds.

The Central Bank:

## the bank of other banks

With respect to its role as a bank of other banks, the Bank of Albania licenses, regulates and supervises commercial banks in order to guarantee the stability of the banking system. In addition, it supports these banks by providing different services to them, such as: extending credit, facilitating bank transfers through the two payment systems – AIPS and AECH, and ensuring a smooth process.

The central bank serves as a rescue mechanism by acting as a lender of last resort for the banking system, which satisfies the short-term needs of the commercial banks for liquidity.

The following table lists the commercial banks that operate in Albania with the relevant number of branches, agencies and branches abroad.

No.	Name of Bank	No. of Branches in Albania	No. of Agencies	No. of Branches abroad
1.	Raiffeisen Bank	102		
2.	National Commercial Bank	26	30	2
3.	United Bank of Albania	4	2	
4.	Veneto Bank	8		
5.	Tirana Bank	49	3	
6.	National Bank of Greece, Tirana branch	5	25	
7.	International Commercial Bank	9		
8.	Alpha Bank Albania	48		
9.	Intesa Sanpaolo Bank, Albania	17	14	1
10.	ProCredit Bank	27	19	
11.	First Investment Bank	5	4	
12.	Emporiki Bank	13	10	
13.	Credit Bank of Albania	1	2	
14.	Credins Bank	28	6	
15.	Société Generale Bank, Albania	42		
16.	Union Bank	15	15	
	TOTAL	399	130	3

Source: Bank of Albania, November 2010

## The responsibility of the Bank of Albania for the payments system

Payment and settlement systems are an important component of the economy and the financial system. A quick and reliable execution of payments between different economic entities promotes a stable functioning of the economy. Consequently, the Bank of Albania is responsible for ensuring a smooth operation of payment systems.

In the context of fulfilling this task, the Bank of Albania owns and operates two inter-bank payments systems, which constitute the main infrastructure for domestic transactions and connection with international payment systems. Namely, these two systems are:

- AIPS (Albanian Inter-bank Payment System), which runs real time gross settlement of all large value payments inside the territory of Albania, in an unconditional and irreversible manner.
- AECH (Albanian Electronic Clearing House), which enables netting and clearing of all small value payments, channelled electronically into the system by the banks, at predetermined time schedules. The AECH system is completely integrated with the AIPS system.

Both systems are property of the Bank of Albania, which acts as a clearing and settlement agent in inter-bank payments. The Bank of Albania, likewise commercial banks, is itself a participant in the payment system. The Bank of Albania performs all its financial transactions with the banking system and the Albanian Government, through this payments system.





E DËRRESIT

50 LEKË

BGY

ALBANIA

1988

REPUBLIKA POPULLORE SOCIALISTE

1946 - 1988

SHQIPERIA

1969

1968

Bank of Albania –

## the only issuer of the Albanian currency

This part of the brochure describes one of the most important functions of the Bank of Albania, issuing of coins and banknotes that circulate in Albania. The monetary unit (currency) in the Republic of Albania is the “Lek”. The Bank of Albania has the exclusive right of issuing the national currency, which is legal tender in the territory of the Republic of Albania.

As stated at the beginning of this brochure, the Bank of Albania satisfies the demand of the economy for money by ensuring a regular supply with coins and banknotes. The Bank of Albania determines the format, dimension, weight, design and other characteristics of coins and banknotes that are in legal tender or printed for numismatic purposes.

The Bank of Albania confiscates counterfeited coins and banknotes. In addition, it withdraws from circulation and disposes of all the damaged and invalid coins and banknotes and replaces them with new ones.



Bank of Albania –

## a fiscal agent and advisor to the Government

Another function of the Bank of Albania is to serve as a fiscal agent to the Government, by performing a number of financial services for it. The Albanian Government has an account at the Bank of Albania through which it performs financial transactions inside and outside the country. However, the function as the Treasury of the Government (i.e. daily transactions by the Government) is not carried out by the Bank of Albania itself, but through commercial banks and in compliance with the terms, conditions and procedures stipulated in agreements between the commercial banks and the Ministry of Finance. The Bank of Albania represents the State of Albania in all financial and banking relations with foreign states, institutions and banks. In this respect, the Bank of Albania serves as an intermediary for the disbursement of foreign financing and payment of matured debts, through the accounts of the Government. As part of this service, the Bank of Albania sells and settles treasury bills, on behalf of the Government.

# Analysis and research

The Bank of Albania plays a major role in the collection, compilation, analysis and dissemination of information related to economic and financial developments. Economic analyses of the central bank assess mainly the monetary situation and economic developments in Albania. The aim of such analyses is to study and assess the capacity of the Bank of Albania to fulfil its commitment for maintaining price stability. Furthermore, these analyses support, in scientific terms, the arguments of the Bank of Albania in its dialogue with other economic decision-makers in Albania.

The main objective of research work is to assist decision-makers to correctly understand the economic reality in Albania, while formulating and implementing a monetary policy in line with its main objectives. In order to assist decision-making, the Bank of Albania is endeavouring to establish a macro-econometric model for the Albanian economy. This model will enable the analysis of different scenarios of potential risks from shocks and structural reforms, by trying to assess the nature and magnitude of their effects on the Albanian economy. At the same time, the research work of the Bank of Albania is a service to academic researchers of universities, scientific institutions, international partners and the media, to enhance their understanding of the Albanian economy and the transparency of monetary policy decisions by the Bank of Albania, the monetary authority of the country.

# Statistics —

a source of information

Official statistics play a key role in the Albanian economy as they contribute to improved quality and accuracy of economic analyses and to a more realistic decision-making. The principal reason for a central bank to collect statistical data is the need for quantitative information in order to formulate, implement and supervise economic, monetary and financial policies and conduct macro-economic analysis and economic research.

The Bank of Albania collects data and information on many sectors of the economy, such as the banking sector, the fiscal sector, the external sector and the real economy. After a careful compilation, it distributes and publishes the respective statistical data. Therefore, the Bank of Albania is an important source of statistical information, not only for various institutions, but also for the general public.



## The Bank of Albania in the process of European integration

The Stability and Association Agreement (SAA), signed between Albania and the European Union on 12 June 2006 and ratified by all EU Member States, entered into force on 01 April 2009, marking a step forward in Albania's process of integration with the EU.

A country that aspires to become an EU member will have to fulfil the so called "Copenhagen Criteria", which include the following:

- i) Political criterion – guaranteeing democracy, the rule of law, human rights and protection of minorities;
- ii) Economic criterion – establishment of a functioning market economy, able to cope with the pressure of competition in the EU;
- iii) Legal criterion - ability to assume obligations of membership, which include the adoption and implementation of the Acquis Communautaire through appropriate administrative and judicial structures.

In the framework of efforts to fulfil these criteria, the Bank of Albania is committed to implement the SAA in the following areas:

### *Macroeconomic stability*

The Bank of Albania, through formulating and implementing monetary policies in compliance

with its main objective, aims at keeping stabilized prices, subsequently contributing to achieving and maintaining the country's macroeconomic stability.

*Right of establishment and provision of financial services*

The Bank of Albania, in the capacity of the licensing and supervisory institution of commercial banks in the country, is committed to facilitate the set up and development of financial activities in Albania's territory by EU natural and legal persons, guaranteeing them no less favourable treatment than domestic entities.

*Liberalisation of capital movement*

The Bank of Albania is responsible for the liberalisation of transfers and transactions between residents and non-residents, which are recorded in the balance of payments of the Republic of Albania. During the first three years from the entry into force of the SAA, the Parties shall take measures to establish the necessary conditions for a further gradual implementation of EU regulations on free movement of capital.

In this regard, the Bank of Albania will continue to play an active role in fulfilling all obligations stemming from the process of European integration, especially with respect to negotiations for membership in the EU and the European System of Central Banks.

# External communication and public education

The Bank of Albania pays special attention to its relations with the public, given that an open and transparent communication with the public promotes the credibility of the Bank of Albania and the effectiveness of the monetary policy.

Information exchange with various actors in the economy and the general public is vital to ensure an environment where the complexity of its decisions is analysed and assessed, which in turn, affect the welfare of each and every one of us.

A central bank should not simply do what it says it does, but it should explain it as well. In other words, it should raise the awareness and understanding of the public with respect to its policies.

The endeavours of the Bank of Albania to foster an environment that understands the activities of the central bank and the objectives and role of the monetary policy relate directly to the education and the awareness of the public on these issues. This is the reason why the Bank of Albania has recently undertaken a number of public initiatives, which essentially are nothing more than specific programmes for educating individual segments of the public.



These programs aim not only at raising the level of understanding of economic and financial issues, but also at improving the perception of the Bank's role by the general public and beyond.

