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Notes
FOREWORD

During 2003-2004, the Bank of Albania conducted its activity in accordance with “The institutional development plan for 2003-2005”. It should be noted that the implementation of the major priorities has been affected by momentary circumstances, internal political developments, and economic and social developments, including the relations of our country with the international community and the international monitoring institutions. As it will be noted later, some of the intended priorities for 2003-2005 have been postponed, while other previously unidentified objectives have emerged in the Bank of Albania.

During this period, seven new members of the Supervisory Council of the Bank of Albania were elected, as the mandates of the prior members terminated. Mr. Ardian Fullani is the Governor of the Bank of Albania since October 2004.

At end-October 2005, the Supervisory Council of the Bank of Albania approved the new organizational structure. The inception of two new departments, Statistics and Legal departments catches the eye. Meanwhile, other departments incurred useful modifications in order to increase their efficiency level.

The signing of the medium-term agreement with the IMF in January 2006 followed the completion of the medium-term program “Poverty Reduction and Growth Facility”, in autumn 2005, in which the Bank of Albania participated. The agreement depicts the major directions of the economic-financial developments of the country, the continuation of the planned structural reforms, while emphasizing the assurance of a stable economic growth of the country.
The period we left behind can be defined as the period of institutional consolidation of the Bank of Albania. Now, the Bank of Albania, being completely conscious about its past and future role, takes the opportunity to display publicly this strategic paper, which shows the projected route to be followed over 2006-2008.
1. BANK OF ALBANIA DEVELOPMENT OVER 2003-2005

1.1. INSTITUTIONAL DEVELOPMENTS

During the period of 2003-2006, the Bank of Albania conducted its activity in compliance with the principles of the preservation of independence, the growth of transparency and the strengthening of accountability, with the belief that such principles increase the policies’ efficiency. The procedures for the implementation of these principles are compliant with the international standards and recommendations, respected by most of the central banks.

In the period 2002-2005, the legal basis on which the Bank of Albania conducted its activity remained unchanged. Even in the preceding document, the Bank of Albania has declared that the current legal framework gives the institution a satisfying independence level and that the true challenge lies with the enhancement of the so-called real independence or the de facto one.

The independence of the Bank of Albania, as seen from all of its aspects-institutional, functional and financial-seems to have increased not only de jure, but also de facto, in the last three years. Such evaluation is done while considering the political and cultural context as well as the country’s economic growth level.

However, it has never occurred that the government’s resolutions interfere with the rights and duties that are guaranteed by the Constitution and the Law “On the Bank of Albania”. The relations with the executive are based on reciprocal collaboration, while aiming towards the harmonization among monetary and fiscal policies. This
is reflected in the maintaining of inflation under control and in further consolidation of the fiscal indicators. In order to strengthen the independence of the Bank of Albania even further, it is necessary for the Bank of Albania to gradually omit budget deficit financing.

While respecting the legal rights and duties, the Bank of Albania has strengthened the collaboration with economic and financial agents, other supervisory institutions, and institutions and units that serve as data and information sources.

Apart from the consolidation of independence, the Bank of Albania has increased its institutional responsibility level. This can be noted in the clarification of the decision making process of the Supervisory Council, as well as in the financial activity of the institution. The experience of the last three years is additional evidence regarding the enhancement of public confidence in the institution of the central bank.

Special attention has been paid to the execution of the Code of Good Practices on Transparency in Monetary and Financial Policies

The practices followed by the Bank of Albania are compliant with the recommendations of this code. The reviews of the IMF and EU mission, completed in the beginning of year 2005 under the FSAP framework, evidence such compliance. The final report states that the Bank of Albania has achieved a satisfactory transparency level regarding the compilation and publication of monetary policy and operations and the preservation of institutional independence and integrity.

In view of the open, clear and qualitative communication, the former Public Relations Department was restructured and the Department
of Foreign Relations, European Integration and Communication was created. An important part of this department is the Publication Office that assures a comprehensive representation of the activity of the Bank of Albania to the public.

Publication in the Bank of Albania has been considered an important instrument for the assurance of a continuous and qualitative relationship with the public. The public presence of the Bank of Albania has increased through the continuous publication of periodical reports, educational material, research and analysis series, and public presentations of its work in major activities of the Bank of Albania. The presence of senior officials of the Bank of Albania in public, through press conferences, meetings and scientific conferences has enhanced the Bank’s transparency of activities.

However, it would be wrong to conclude that the process is over and that no problems or flaws exist, from the present as well as future perspectives. The process is a continuous struggle for improvement, accompanied by a fast paced evolution of international standard practices.

The decision making process of monetary policy, its explanation to the public, and the relations between the Bank of Albania and the executive have room for further improvement. Thus, they will be some of the future institutional development priorities of the Bank of Albania.

In order to avoid any kind of misinterpretation or information gap, the Bank of Albania should focus on the explanatory strength of its public monetary policy papers as well as the clarification of its position on a case-by-case basis. Limitations exist because the periodical reports of the Bank of Albania use incomplete and/or
belated statistical information. Consequently, the professional growth of the experts remains a priority. This assures the gradual win of the public confidence in the Bank of Albania messages as well as the enhancement of its influence on the country’s economic policy making, through the publication of forecasts and reviews of the macroeconomic conditions, closely related to the financial market activity.

During this period, work has been done to improve research capacity, paying attention to the preparation of financial and monetary analysis that reflects the latest information. Research is focused on bringing about new topics for discussion, presenting new research tools to be used in the Bank of Albania, and improving the quality of monetary policy papers. As a result, the Bank of Albania has created an image of a respectable authority in the economic and financial analysis and information area, promoted through the continuous publications of the institution. Nevertheless, work has to be done for the presentation of the research results to users.

On the other hand, the Bank of Albania has met all legal requirements regarding its accountability towards the appropriate bodies, and not only that.

Currently, a permanent contact between the Bank of Albania and the Parliament of the Republic of Albania has been institutionalized, the reason being the analytical explanation of past events and the acknowledgement of the future vision. Every month, the Bank of Albania prepares and publishes periodical monetary policy reports, which are easily available to any interested party. The frequent public appearances of the administrators of the Bank of Albania have assured a continuous and mutually constructive communication with the public.
The governance of the Bank of Albania has made a progress through the process of institutional consolidation. In 2004, the mandates of seven members of the Supervisory Council terminated, among which those of two deputy governors of the Bank of Albania. Since autumn 2004, Mr. Ardian Fullani has directed the Supervisory Council of the Bank of Albania. Also, he is the Governor of the Bank of Albania.

In year 2005, the Committee for the Implementation of Monetary Policy was created in order to carefully follow up problems related to the management of markets and liquidity and the counsel offered to the Supervisory Council regarding monetary policy decision making.

As a result, the Bank of Albania has improved its reputation, becoming a trustworthy partner in the preparation of financial and economic development policies, among the local authorities as well as the international ones.

1.2. MONETARY POLICY DEVELOPMENTS

1.2.1. Political framework

In 2003-2005, as the responsible institution for the preparation, approval and execution of monetary policy, the Bank of Albania made several decisions in order to fulfil its major objective, the achievement and maintenance of price stability. The maintenance of low positive inflation levels, 2-4 percent, was the medium term objective in the three-year strategy of the Bank of Albania. During the last period, the Bank of Albania continued to control inflation under the monetary targeting regime, having the annual growth of money supply (M3)
as an intermediary objective. In the meantime, operational objectives related to net international reserves and net domestic assets have been followed strictly.

In 2003-2005 the Albanian economy was characterized by stable growth rates, an average level of 5.8 percent under the terms of price stability maintenance. The average annual inflation level for this period was 2.5 percent, in accordance with the objective of the Bank of Albania. Low inflation levels have allowed the Bank of Albania to pursue an easy monetary policy in 2004, and a neutral monetary policy in 2005. The implementation of the monetary policy has undergone continuous improvements of the instruments’ framework, while increasingly approaching the European Central Bank standards.

The Bank of Albania continued to apply a floating exchange rate regime. The exchange rate of the LEK versus the other foreign currencies is determined freely in the forex market. The LEK has maintained stable positions, having a tendency for appreciation during 2003-2005. However, the Bank of Albania has always been present in the forex market through its interventions in order to meet its international net reserve objective.

Meanwhile, the Bank of Albania has intensified its efforts in building a favourable ground for the implementation of the new monetary policy, targeted inflation. During 2005, discussions among local and international experts were held on the conditions and preconditions to be met in order to apply the new regime. Technically, the Bank of Albania has increased the forecasting and analyzing capacity needed for the making of decisions related to inflation as well as other important indicators.
1.2.2. Operational framework

During 2003-2005 the operational framework of the Bank of Albania was improved continuously, as it aimed an increase in usage efficiency and its convergence towards the European Central Bank operational framework.

In compliance with the European Central Bank model, indirect monetary policy instruments have been used since year 2001. Meanwhile, depending on the growth and expansion of the markets, many changes and adaptations of the operational framework have occurred in the following years.

For 2003-2005, the major improvements of the operational framework of the Bank of Albania are summarized below:

• In the beginning of year 2003, the new Regulation “On the minimum required reserve” was approved. This regulation was based on the European Central Bank model, while the necessary adjustments were made for the Albanian case. The regulation described the terms under which the banks should determine and maintain the minimum required reserves in the Bank of Albania.
• At year-end 2003, the regulation “On the collateral of credit operations of the Bank of Albania” was approved. It determined the instruments that guarantee the credit given to second tier banks by the Bank of Albania; the market value evaluation of the guarantees; the risk control procedures in the monetary policy operations;
• In year 2004, the “intraday credit” \(^2\) was applied for the first time. It would allow for lending to second tier banks, for the fulfilment of needs within a day and for the assurance of the normal activity of the international payment system (AIPS). Later on, the Regulation “On overnight credit” was changed and adapted
with the Regulation “On intraday credit”, previously approved. The revision of the above-mentioned regulations continued during 2005. The revision was dictated by the need for a more comprehensive harmonization with the new regulations of the interbank payment system operation – AIPS, as well as with the European Central Bank model;

- In the beginning of 2005, “The contract - model for repurchase and reverse repurchase agreements” was prepared and applied. This contract is signed between the Bank of Albania and second tier banks on a yearly basis. It determines: the nature of the agreement; the transactions required for the injection of liquidities; the transactions for withdrawal of liquidities; the substitution of securities; final conditions etc.;

- During 2005, changes were focused mainly on the improvement of all the regulations related to monetary policy instruments and supporting facilities. These regulations were approximated to the practices of the Central European Bank;

- In May 2005, the Regulation “On the intervention procedures of the Bank of Albania in the domestic forex market” was approved. The avoidance of forex market malfunctioning, the correction of the exchange rate level when it does not comply with the base factors as well as the increase of foreign currency reserves, are the major areas of improvements in this regulation;

- An important step towards a better implementation and functioning of the operational framework was the inception of “The Committee for the implementation of monetary policy”. Following the practices of the European Central Bank, this committee has competencies for making decisions concerning the intervention of the Bank of Albania in the money market and the domestic forex market;

- The Regulation “On outright buy/sell transactions” was improved;

- As part of the regulatory package of the operational framework,
the Regulation “On Lombard loan”, even though lightly used, was improved.

The improvement of the operational framework is a gradual process, which needs to be carried out in compliance with the development stage of the financial market segments in Albania. The convergence towards the models and practices offered by the European Central Bank remains an objective on the way to the irreversible integration process in the European Union.

1.2.3. Market developments

• Money market

Even though the interbank money market lags far behind the well-developed markets, the accomplishments in the last three years should be noted. The growth of this market is reflected in the increased transaction volume and increased number of the instruments employed. The transactions volume has increased with the increase of the number of participating banks, with the enhancement of the intermediary role of banks in this market and with the further growth of the primary Treasury bill market. The latter one remains the major stimulus for the demand for liquidity in the interbank market. During 2005, the weight and frequency of transactions for longer-than-one-day maturity terms intensified, in contrast with the trend of preceding years during which the demand for overnight maturity terms had prevailed. The growth and development of the interbank money market in the above-mentioned directions, positioned the Bank of Albania as the lender of last resort, minimizing the double usage of its supporting instruments, overnight deposits and overnight loans.
With the continuous stimulation of the Bank of Albania, the second tier banks started to release their quotations. Such action is thought to increase competition and incite the growth of the interbank market. Soon, these steps are expected to produce a representative interest rate indicator for the money market.

- **Securities market**

  The securities market has grown more attractive for the investment of funds of second tier banks due to the increase in the maturity term of the internal governmental debt in the last three years, done through the issuance of securities with two-year and three-year maturity terms. The privatization of the biggest bank, the Savings Bank, increased competition in the primary market, as now it better reflects monetary developments. Meanwhile, the secondary market for securities is still underdeveloped, despite the reflected increase in the volume of actions. In year 2005, in line with the attempts for the growth of the secondary market for securities, the Bank of Albania made the necessary legislative and regulatory adjustments in order to increase the action area of the banks and stimulate their participation in these markets.

- **Foreign exchange market**

  During the last years, the foreign exchange market has been characterized by an increased volume of transactions, especially in the interbank market. This is a positive development for the internal foreign exchange market, dictated from the intensified presence of second tier banks through their branch expansion in different cities of Albania. But, for as long as the informal market operates, along with the formal or banking one, then the efficiency of the foreign exchange market remains somewhat threatened. Despite attempts to formalize foreign exchange activity during the period 2003-2005, the presence
of informal trading is still at high levels. During 2005, the Bank of Albania has organized meetings with second tier banks so that the interbank market becomes the price setter, a role that second tier banks are playing in an increasing fashion. Aiming at the increased liquidity in the interbank market, which would assure this market a higher weight in the determination of forex prices, the Bank of Albania has focused its attempts in the quoted prices of the interbank market participants. This attempt resulted in an intensification of the activity in the interbank market, a decrease of the margins in quotation and an increase in efficiency.

1.2.4. Foreign exchange reserve

At end of 2005, the forex reserve had increased by USD 600 million, compared to the end of 2002. The reserve management is done in compliance with the objectives disclosed in the basic document “On the forex reserve management policy”, ordered by the priority: safety, liquidity and the realization of a positive investment return. Revisions of the document, related to the currency portfolio as well as the securities portfolio, are done annually.

The portfolio investment strategy has improved in the direction of new instruments usage, their active management, usage of benchmarks and the measurement of investment returns. After the continuous changes in the last three years, today, the portfolio management approach complies with the modern approach in regard to risk management, while fulfilling the institutional objectives for liquidity.

In September 2005, the Bank of Albania signed an agreement for the participation in the Reserve Advisory Management Program
(RAMP), established by the World Bank. This participation will serve positively the professional qualification of the staff of the Bank of Albania, involved in every step of the management process of the foreign currency reserve.

During the organizational restructuring process in 2005, special attention was given to the organization and consolidation of the unit responsible for the identification, evaluation and supervision of risks related to reserve investments. It is assessed that the restructuring will help the unit to function better and meet the responsibilities and analysis requirements expected from it.

1.3. BANKING SYSTEM DEVELOPMENTS

In the period 2003-2005, the banking system in Albania experienced some remarkable achievements regarding the expansion of assets volume, the addition of banking products and the increase in the number of banks and their network. During this period, the assets of the banking system increased by LEK 157.3 billion, or by an annual average of 13.5 percent. In the years 2003, 2004, and 2005, three other banks were licensed, increasing the total number of banks to 17. The growth of the banks’ activity was evidenced through the obvious increase in their lending activity, the total increase in assets and the expansion of the banks’ network in other regions of the country, where the banking service was previously missing. In addition, customer service has experienced a notable evolution through the installation of electronic terminals, accompanied with the natural growing number of electronic cards in circulation.

At year-end 2005, the number of bank branches summed up to 127, while the number of bank agencies reached 113. The number of
the employees in the banking industry has grown by approximately 22 percent per year. Such developments reveal an improved perception of the investment environment in Albania from the banks.

The banking system reports an increasing positive net result from LEK 4.45 billion in 2003, to LEK 6.60 billion in 2005. The major indicators, profitability, return on average assets (RoAA) and return on average equity (RoAE) have exhibited increasing trends during this period, showing a qualitative improvement of the banking system profitability. Moreover, regardless of the high return on equity, there is no evidence of profit distribution among stockholders. On the contrary, retained earnings supported bank’s activity as injections to capital.

Credit to the economy has experienced a fast growth. During this period, the credit outstanding of the banking system rose by LEK 88.35 billion or by an annual average of 48 percent. The high growth rate reveals the considerable expansion of lending from the banking system, a forecasted event as the previous Savings Bank was privatized from the Raiffeisen International Group.

The “non-performing loans to outstanding loans (net)” indicator, which measures the net exposure to credit risk, shows low risk levels, and even a declining trend. The trend has been affected by the fast growth rate of new credit.

The privatization of the Savings Bank has improved the service standards and increased competition in the banking sector. At the same time, this process marked the end of the privatization process of banks with 100 percent state-owned capital. The Albanian government has sold its share of the Italian-Albanian Bank and is undergoing a similar process for its share of the United Bank of Albania.
1.4. LEGAL AND REGULATORY DEVELOPMENTS

The revision of the legal and regulatory framework aimed at the improvements of the existing legal framework and the anticipation of new elements, in compliance with the general financial system developments and the particular banking system developments.

In fact, during the years 2003-2005, the Bank of Albania has collaborated with other institutions for the preparation of the Law “On Financial Leasing”, the changes in the legal framework “On the prevention of money laundering”, and the drafting of the Law “On factoring”.

On behalf of the adaptation process of the Albanian legislation with the EU one and the realization of the obligations resulting from the SAA, the Bank of Albania has submitted its part of the National Plan, containing the operation areas that the Bank of Albania covers.

The regulatory framework approved by the Bank of Albania experienced intensive improvements during 2002-2005. At the same time, the preparation, presentation and approval of important regulations, considered a novelty in the activity of the Bank of Albania, have occurred. Some of the most important are:

- the regulations and procedures of the Albanian interbank payment system, which bring about the first Albanian payment system of real time gross settlements (AIPS);
- the regulations and procedures of the clearing payments of small amounts-AECH, which determine the regulatory basis for an Albanian Electronic Clearing House (AECH) system for the first time;
- the regulations related with the supervision of electronic banking
transactions, which regulate the banking and financial services offered by second tier banks, while setting the organizational terms and personnel and technical terms necessary for the realization of the electronic banking activity (e-banking), the requirements related to the verification of the e-banking service from the Bank of Albania, as well as the risk management principles of the e-banking service;

- the regulations related with printing, re-printing and issuance of bank-notes and minting of coins, determining the procedures to be followed by the Bank of Albania;

- the special working conditions in the Bank of Albania, as part of the General Conditions of the Bank of Albania, which regulate the operations among the Bank of Albania and its clients. These conditions are mostly related with the maintenance and management of the clients’ accounts and the actions undertaken by the Bank of Albania, based on the competencies granted to it by the Law “On the Bank of Albania”;

- the guideline “On the calculation approach of the “fixed” exchange rate of the LEK in the Bank of Albania”, which regulates data processing and the procedures for the calculation of the “fixed” exchange rate of the LEK against other currencies traded in the domestic forex market;

- “The contract model for repurchase and reverse repurchase agreements”, providing for the first time a solid, legal infrastructure for the buy/sell transactions of securities, under resell or repurchase conditions applicable to the Bank of Albania and second tier banks.

- the regulation “On consolidated supervision”, which anticipates the consolidated supervision as a supervision method that evaluates the risk/risks position of not only the company’s activity, but also the branches’ and participants’ activities, is included for the first time in the Albanian regulatory and supervisory framework;

- the guideline “On the minimum technical and safety conditions
of the working environment of the entities licensed by the Bank of Albania”, which for the first time determines the minimum technical and physical safety standards and conditions to be met by the entity that has applied for a licence.

1.5. OTHER DEVELOPMENTS

1.5.1. European integration

January 31, 2003 marked the beginning of the official negotiations for the signing of the Stability-Association Agreement between Albania and the European Union. The negotiations for the agreement started on February 2003 and were over on July 12, 2006, when the agreement was signed.

The Bank of Albania was an active member of the negotiating team of the Albanian Government, in charge of the coordination of the country’s institutions’ work in the negotiation process. The SAA articles related to the liberalization of the capital and current account and the freedom for the service offering and decision making, were the major topics of discussion with the Bank of Albania.

The Bank of Albania took part in the preparation of the National Plan on the Approximation of Legislation (NPAL) to that of the EU and the implementation of the commitments resulting from the Stability-Association Agreement. In the framework of the National Plan on the Approximation of Legislation, the Bank of Albania has prepared two Progress Reports for the periods June-September 2005 and October-December 2005, and has presented them to the Ministry of European Integration.
Apart from the issues related to the SAA, based on the Trade and Cooperation Agreement of 1992, the Bank of Albania takes part regularly in the meetings between Albania and the EU, like the meetings of the Albanian-EU Mutual Committee, the Working Team for Economic and Financial Issues, and the Working Team for Reforms and Approximation of Legislation.

At the same time, the Bank of Albania has paid special attention to the public awareness regarding the European integration process and its commitment to the process. For this reason, the Bank of Albania has prepared and disclosed educational and informative materials about the union institutions, the European Union member countries, the European Central Bank, the European System of Central Banks and the Euro zone.

1.5.2. Relations with international institutions

The relationship of the Bank of Albania with the International Monetary Fund (IMF) during this period is based on the Memorandum of Economic and Financial Policies, signed by the Bank of Albania, the Albanian Government and the IMF, in the framework of the program for Poverty Reduction and Growth Facility (PRGF), approved on 21.06.2002. The ongoing implementation of the agreement has been quite good. The Albanian authorities in general and the Bank of Albania in particular, are appreciated for the maintenance of macroeconomic stability, economic growth, control of inflationary pressures, exchange rate stability, development of payment systems and the steps undertaken for the further development and consolidation of the banking sector.
In November 2005, the Albanian authorities and the IMF negotiated on the new agreement, which was approved by the Executive Board of the IMF in January 2006. This agreement serves as an intermediary between the program for Poverty Reduction and Growth Facility (PRGF) and the program for Extended Fund Facility (EFF). The selection of this agreement type confirms the progress accomplished by our country during the previous PRGF program.

At the same time, during 2005, the Bank of Albania has benefited from the IMF technical assistance offered as professional training and qualification of its personnel. Meanwhile, different conferences and seminars have been organized for specific issues. The presence of the IMF experts has contributed to the realization of the objectives of these important activities.

The assistance of the World Bank is focused in the technical and financial inception of two very important payment systems: the Albanian Interbank Payment System (January 2004) and the Clearing House Project (July 2005).

Moreover, the World Bank financial assistance has also consisted in the support given through the Financial Sector Assessment Program (FSAP), established in collaboration with the IMF team. The conclusions of the FSAP report were made public in July 2005. Generally, the FSAP report praises the formulation, decision-making, and the implementation of the monetary policy, while appreciating the health and stability of the Albanian banking system. Also, the report offered a bunch of recommendations for the institutions responsible for maintaining the domestic financial stability. Based on the above-mentioned recommendations, the Bank of Albania is collaborating with the respective institutions in order to prepare a definite action plan that would address the priorities cited in the FSAP report.
In September 2005, the agreement “On Reserve Advisory Management Program” was signed with the World Bank. Apart from the management of some part of the forex reserve of the Bank of Albania from the World Bank, the agreement foresees the offering of qualifying assistance and programs for the respective technical personnel of the Bank of Albania.

The Bank of Albania has benefited from the assistance offered by the Bank for International Settlements (BIS), through seminars, discussion meetings and different conferences in which employees and executives of the Bank of Albania took part.

Regarding the relations with out-of-the-region central banks, it can be noted that the central banks of France, Germany, Holland, Austria, USA, England, etc., have offered their technical assistance very actively to the Bank of Albania. At the same time, the Bank of Albania has paid special attention to the strengthening of technical collaboration with the central banks of Central, Eastern and South-eastern Europe, which are positioned in a far more advanced stage towards the integration in the European System of Central Banks. The Bank of Albania has benefited from the technical assistance offered from the central banks of the Czech Republic, Poland, Bulgaria, Turkey, etc.

During 2005, the bilateral relations with the Bank of Italy have intensified through the revival of technical collaboration. In this framework, members of the personnel of the Bank of Albania have participated in seminars and work visits organized at this institution.

During the period 2002-2005, bilateral relations among the Bank of Albania and the regional central banks have experienced a qualitative jump. The signing of the Memorandum of Understanding in the area
of banking supervision with the central banks of Bulgaria (in 2003), Macedonia, Montenegro and the Banking and Payment Authority of Kosovo, constitutes an important development of the relationship among the Bank of Albania and in-the-region banks.

At the same time, during 2005, the collaboration with the European Central Bank grew closer, as the European Central Bank expressed its interest in helping the central banks of the region in their path towards the European System of Central Bank.

The Bank of Albania has benefited technical assistance from the GTZ, on behalf of the program “Approximation of the Bank of Albania to the European System of Central Bank” and the Protocol of Technical and Financial Cooperation between the Republic of Albania and the Federal Republic of Germany. During 2005, the cooperation areas of priorities with GTZ were set and the realization of the technical assistance started in some areas: European integration; communication; payment systems; legal issues, etc.

The Financial Services Volunteering Corps (FSVC) have offered financial assistance to the Bank of Albania, mainly in legal issues related to banking supervision and money laundry prevention.

1.5.3. Human resources

It can be noted that most of the objectives mentioned in the strategy for human resources development for the period 2003-2005 are met. During this period, special attention was paid to the further development of the human resources and related problems in order to assure the proper employee-employer relationships.
In this period, the development of human resources covered the following areas:

- **Job motivation policy**

  The main objective is the motivation of employees in order to increase their commitment to the realization of their duties and work objectives as well as to improve their work quality. The main tools have been career advancement policies, as reflected in the regulatory framework, financial rewarding, as reflected in salaries and bonuses, and the increased diversity of social policies. The new salaries system, aiming at the assurance of a competitive payment level if compared to the private banking system, is implemented so that qualitative elements are motivated to work in the central bank. Rewards are based on work results and employee performance.

  Social policy is another component of the employee motivation policy. The Bank of Albania has offered an increasing number of social benefits to its employees during 2005.

  Employee motivation is supported by the career advancement policy, and the possibility of parallel movements and promotions. Thus, the employees of the Bank of Albania are free to compete for vacancies within the Bank or request a promotion, as they build their careers naturally.

- **Job qualification policy**

  Professional qualification is done mainly through:
  - On the job trainings
  - Short-term seminars in the country and abroad
  - Trainings and long-term courses in the country and abroad
The newly acquired knowledge is reflected in the daily performance of the employees, bringing about their enriched qualification degree.

- **Hiring policy**

During the period 2002-2005, the regulatory basis that describes the recruiting and hiring procedures in the Bank of Albania has been improved. The experience within the institution as well as the experience gained from other central banks, have served for a careful, objective and transparent selection of the new employees in the Bank of Albania.

1.5.4. The Bank of Albania structure

The Bank of Albania undertook some restructuring due to the newly faced obligations and responsibilities that were triggered by the expansion of the banking system in Albania. In October 2005, the Supervisory Council approved the new organizational structure and the new staff number of the Bank of Albania. Out of 424 employees of the Bank of Albania, 342 employees work for the central administration, 22 employees work for the Printing House and 60 employees work for the branches of the Bank of Albania.

The restructuring increased the number of departments and employees, while improving the flexibility and monitoring of every unit activity. The new structure foregoes the Bank’s commitments related to the country’s integration in the European Union. As such, the restructuring is meant to serve the long-term and consistent work with the human resources for the professional and career development in the Bank of Albania.
1.5.5. Statistics

During the period 2003-2005, the statistics activity in the Bank of Albania was characterized by the development of methodologies for the financial and foreign sector statistics. This improved the decision-making and analyzing process in the Bank of Albania. The development of such methodologies was done in collaboration with the International Monetary Fund and in accordance with the best international practices.

The participation of Albania in the GDDS Project of IMF was followed by attempts for inclusion in yet another IMF project, SDDS that requires an advanced level of statistics capacity. Currently, the Bank of Albania is following concrete action plans related to this project.

1.5.6. Accounting

In the preceding period, accounting in the Bank of Albania experienced an important change, as it was transformed from mere accounting to controlling and reporting of the bank activity. The Accounting and Treasury Management System brought about the automatization of the accounting process of the operational activity, as each operating unit can initialize any transaction in the system. In this way, the accounting staff understands better the business side of the Bank activity. A lot of work has been done to adapt regulations, accounting procedures and job descriptions with the functions and specifics of the new system. Special attention has been paid to the implementation of the International Accounting Standards and the training of the accounting staff on the general understanding of the
International Accounting Standards, with a focus on the standards applicable to banks.

1.5.7. Payment system

During the last three years (2002-2005) remarkable developments were achieved in the payment system:

• Albanian International Payment System (AIPS), started operation in January 2004, making possible the payment of real time gross settlements, in compliance with the existing procedures and regulations regarding the payment system. This system assures the good management of liquidity, the continuous monitoring of the account balance, the decrease of risk in payments of high amounts, the considerable decrease in the payment time, curtailing cash usage as a primary payment instrument.

• Automated Electronic Clearing House (AECH) operates since July 2005. This system offers a number of benefits, like high speed and safety in payments of small amounts, reduced cost in processing low-value payments, improved efficiency and collection time from utility companies, and better liquidity monitoring and management by the Bank of Albania and other member banks.

1.5.8. Information technology

In accordance with the information technology objectives, qualitative achievements were made during the period 2002-2005. Currently, there is a consolidated network, and two computer rooms that back up each other. In collaboration with other bank
units, the ATM (Accounting and Treasury Management), the AIPS (Albanian Interbank Payment System) and the AECH (Automated Electronic Clearing House) systems have been implemented. The implementation of such important projects marked a remarkable achievement in the automatization of the Bank’s activity. In this way, the further expansion of the financial system and the channelling of payments through the banking system are possible.

Safety concerns have always been a major issue in the activity of the Bank of Albania, including the information technology area. The development of information technology towards increasing the number of operational systems and their co-integration goes hand in hand with technology risk. As a result, special attention is paid to the increase of safety measures related to information technology risk management.
2. BANK OF ALBANIA DEVELOPMENT PRIORITIES

The 13-year period that passed by, along with its achievements and non-achievements, served the consolidation of the institution and the creation of a safe ground for taking new steps towards further modernization of the central bank.

A range of priorities are identified concerning the three-year period of 2006 – 2008, among which we highlight:

A. Further strengthening the macroeconomic stability, mainly through Bank of Albania’s contribution to keeping low inflation rates.

To successfully discharge this legal duty, the Bank of Albania will focus on:

• Further improving the monetary policy decision-making. Attention will be paid to further betterment of the periodic reports on which the policy decision-making is based, and the advisory and implementing role of the Monetary Policy Committee;
• Fostering the degree of cooperation and the advisory function of the Bank of Albania with the Government, so that a complete harmonization between monetary and fiscal policies is ensured in continuation;
• Further developing short-term and medium-term inflation forecasting models, and building a small macroeconomic model;
• Collecting a qualitative statistical information, particularly about the real sector of the economy;
• Analysing in detail the behaviour of all the components of the consumer price index;
• Further improving the communication with the public, aiming at adjusting a comprehensible language for various groups of interest.

B. Strengthening the country’s financial stability, mainly by ensuring a financially sound banking system, capable of enhancing the financial intermediation degree. Attention will be focused on:
• Enhancing the regulatory and supervisory capacities, further intensifying the financial sector reforms, which relate directly to Bank of Albania contribution;
• Meeting the FSAP recommendations;
• Strict control on loan portfolio.

C. Completing some of the earliest Bank of Albania’s commitments to further improve the banking structure, such as:
• Establishing a loans register;
• Preparing a new law on banks in the Republic of Albania;
• Further improving the payment infrastructure, particularly in terms of making the electronic payment alternatives more active.

D. Further strengthening the Bank of Albania’s institutional status, above all through more and more accountability, in response to further enhancement of its independence.

This will be carried out mainly through increasing transparency and proposals for progressive steps in terms of specific Bank of Albania governance aspects.

E. Prudential study of all factors, prerequisites, problems, specific elements, which the Bank of Albania should treat for adopting inflation targeting in a second period, after the one treated in this document.
Market development and increased complexity of the economy add requirements for an overall betterment of the current monetary policy framework. An efficient intermediate objective should include all the information needed for inflation forecasting. The monetary aggregates in Albania have indicated that they do not fully satisfy such a condition in the medium run, and this may compromise the Bank of Albania’s reputation. Therefore, the Bank of Albania is considering switching from the monetary control regime to inflation targeting. Among the most important priorities of the new regime we highlight: the larger data base it is based on, relatively higher flexibility in relation to supply shocks, and the fact that it is transparent and easily comprehensible to the public.

The successful adoption of the new regime requires the meeting of some important prerequisites that relate to precise inflation forecasting and clarification of transmission channels, improvement of the data base, and review of the communication process. The work plan for meeting these prerequisites generally consists in:

- Improving the forecasting process, by setting up more complex econometric models for inflation forecasting, aiming at achieving precise inflation forecasting;
- Clarifying the monetary policy transmission channels;
- Intensifying the statistical work, particularly with regard to information on the real economy, in the level of individual firms;
- Establishing a specialised unit that focuses on all the segments that have to do with consumer price index;
- Drafting a clear and professional strategy of communication that we should rigorously adhere to;
- Improving the monetary policy decision-making, according to specific conditions that characterise the inflation targeting;
- Further developing the financial markets.
3. IMPROVING BANK OF ALBANIA CORE FUNCTIONS OVER 2006-2008

3.1. BANK OF ALBANIA INSTITUTIONAL DEVELOPMENT

- The Governing of the Bank of Albania

The improvement of the governing of the Bank of Albania is a necessary condition for an ever efficient administration of the institution, especially in order to successfully fulfil the mission of the Bank of Albania, as the decision making authority in monetary policy area and as the licensing and supervisory authority of the banking sector in the Republic of Albania.

The improvement of the governing implies the accurate establishment of the jurisdiction of the leading bodies of the Bank of Albania and of its other organizing structures, in concordance with the space and jurisdiction recognized from the Law Nr. 8269, dated 23.12.1997 “On the Bank of Albania” … (organic law).

The Supervisory Council, as the highest decision making body, has the jurisdiction to approve the Statute and internal regulations of the Bank of Albania as well as to establish the administration policies. The Statute of the Bank of Albania, besides analysing the provisions of the organic law, also contains provisions, which regulate the status of the Bank of Albania’s departments and attributes of the heads of these departments.

The organic law and the Statute of the Bank of Albania, which define the jurisdiction of each leading body of the Bank, as well as
its activity, are supplemented by another important judicial act, i.e., the regulation “On procedural regulations of the Bank of Albania”, which regulates the work organization in the Bank of Albania, the administrative responsibilities, and defines the internal procedures and interpretations in regard to administrative activity.

For the betterment of the governing of the Bank of Albania, the provisions of the Statute and the Procedural Regulations should be reviewed, aiming at improving the procedures of the operational and administrative activities.

Concretely, the Statute, inter alia, will aim, within the space provided by the organic law, at a clear definition of the general and unified rules on the organization and functioning of the departments at the Bank of Albania, as well as the detailed definition of the executive jurisdiction of the heads of these organizing units, with administrative and executive powers.

The procedural regulations provide committees, as collegial and decision making bodies, for delegated issues in implementing the monetary policy, the monetary, financial, and administrative operations of the Bank of Albania. The delegation of some of the legal powers from the Supervisory Council and the Governor to the committees creates the possibility of exercising the activity of the Bank of Albania in a more efficient way.

Regarding the above, the improvement of the governing of the Bank of Albania can be realized based on and in concordance to the existing legal framework, with accurate defining of the decision making powers, of the field of action and the way of functioning of the committees, in accordance to the delegated jurisdiction from the Bank of Albania bodies.
• Monetary Policy

The Bank of Albania has long considered the inflation targeting regime as one of the alternatives of the future. For this reason, in two previous strategic documents concrete time frames have been established, with the understanding that a complete regime of inflation targeting would be put in place initially in the middle of 2005 and later on in the middle of 2007.

The experience of the previous years showed that in establishing this goal, either in the first case or in the second one, we have thought through our desires rather than through our real capabilities. For many reasons, most of which are objective, the implementation of a realistic inflation targeting regime has not been possible and as a consequence our policy framework has remained the same to the beginning of the 2000s. The preconditions have been fulfilled only partially.

As such, the inflation has been maintained under control under the conditions of a continuous macroeconomic stability. The exchange rate is flexible; meanwhile the legal statute recognizes a high degree of independence for the Bank of Albania, in the institutional and administrative aspect. The Bank of Albania regulates the money market through market instruments, and for the sixth year running the final objective is publicly announced.

On the other hand, there are a string of preconditions, extremely important, that will require much time before they are fulfilled. A major case in this context is the legal obligation of the Bank of Albania that forces it to directly finance in certain circumstances, the budget deficit. Of course this reflects the level of development of the financial market in Albania, where the Bank of Albania is considered as a security measure needed to help the budget in difficult times.
However, the existence of such legal space creates possibilities for misunderstanding and for incorrect application in practice, thus making the de facto independence of the Bank of Albania be in a state of a possible continuous danger.

Another problem can be found within the decision making process. In the context of a complete regime of inflation targeting, there are extremely specialized decision making bodies in the domain of monetary policy, which are known as the Monetary Policy Committee. Currently, the legal framework does not allow the constitution of such an organ, as long as the Constitution recognizes such privilege and responsibility only for the Supervisory Council of the Bank of Albania. On the other hand, it is worth mentioning that the spectre of problems currently facing the Council is large and diverse, a phenomenon that hints that the analyzing and decision making skills, only in the context of monetary policy, are somewhat limited, compared to a much more specialized decision making organ.

There are other unfulfilled preconditions, which can be briefly summarized in: confusion that is a characteristic of the mechanism of monetary transmission in Albania; the actual state of macroeconomic statistics, especially the ones dealing with the real economy; the poor institutional heritage that the country possesses; the poor performance of the financial market; the limited ability in modelling and forecasting techniques by the staff of the Bank of Albania as well as the financial stability of the country, which despite recent improvements is still fragile.

Nonetheless, considering the experience of many other countries as well as the assertions of many local and foreign experts who have evaluated the current framework of Bank of Albania’s monetary
policy, it can be presumed that the current regime is an implicit inflation targeting regime.

In the last three years, the Bank of Albania has publicly announced its aim to maintain inflation under control, materializing it in numeric values. The progress of the Bank of Albania’s monetary policy has been measured on the face of keeping the annual inflation rate within the 2-4% targeted band, at the end of each year. Even though the forecasts for the progress of inflation have not been made public, in its periodical and non-periodical reports the Bank of Albania, the top spot is reserved to analysis on macroeconomic and monetary reasons, which help explain the level of inflation in the country. In the speeches and public announcements of the officials from the Bank of Albania, there has been added emphasis on indicators and events that influence the inflation rate beyond the objective limits, previously announced by the bank. Also, there have been many efforts to publicly explain the decisions on the Bank of Albania’s monetary policy implementation, in order to achieve this goal.

Taking into consideration these conclusions, it can be stated that the implementation of this monetary policy has been successful, and that the implementation of inflation targeting, in its purest sense, would further enhance the efficiency of the Bank of Albania.

Under these circumstances, for the upcoming three years, while monetary policy will remain unchanged, maximal attention will be reserved to the study and part by part fulfilment of those conditions that will facilitate a possible switch to a complete inflation targeting regime.

All of the issues related to the adoption of the new regime will undergo a public debate during the next three years. The solutions
put forward, will consist of a combination of the experience of other central banks, which are under similar circumstances with the Bank of Albania, and the real possibilities provided by the legal, political, and cultural environment under which the Bank of Albania operates.

The Bank of Albania deems that some of the identified elements can be fulfilled under the present situation and their value is not limited only to inflation targeting. They are:

- The reformulation of monetary policy reports, focusing more on the future and less on the past;
- The publication of inflation forecasting;
- The publication of the forecast on the progress of economic sectors, and the evaluation of the factors that will influence the economic growth;
- The increase of the explanatory variable of monetary policy;
- The publication on advance of the exact dates of the meetings of the Supervisory Council where decisions on monetary policy will be taken;
- The publication of a summary of discussions, opinions, and proposals put forward in the meetings of the Supervisory Council regarding the monetary policy;
- The increase of the number of press conferences, for example, the ones that complement the publications of the monetary policy reports;
- The further explanation of the role of the Bank of Albania in regards to other central institutions such as the Ministry of Finance.
- The expansion of the collaboration with the Ministry of Finance, in regards to the forecasts for liquidity needs by the latter.

The Bank of Albania believes that these initiatives will increase the transparency of monetary policy on the one hand, and in the
strengthening of the communication ability of the institution on the other hand, independent of the regime applied.

During the upcoming three years, there will be work to gradually decrease the financing of the government from the central bank, even though this has not really threatened the independence of the institution. Nonetheless, the removal of the possibility of financing the budget deficit is a primary reason for the adoption of a pure inflation targeting. For this reason it will comprise one of the debate themes of the next three years, when the decision on the ability of the Bank of Albania to undertake the new regime will be finalized.

The Bank of Albania is convinced that increasing the credibility of the institution is one of the main ways to increase the success of monetary policy, as a foundation of economic development in the country. For this reason, in the next three years, the changes that aim at the improvement of the institutional framework will be geared toward this direction.

- Banking Supervision

The priorities of the Bank of Albania in the upcoming period include the fulfilment of its role as a supervisor of the banking system and promoter of financial stability. In this direction, the activity of the Bank of Albania will concentrate not only in improving the legal and regulative framework of the banking system, but also in improving and increasing the efficiency of the financial system, in compliance with international standards and the creation of the necessary conditions which will allow in the future the integration of the country within the European Union. The focus will be on fulfilling all the recommendations given by the FSAP mission, for the February-May 2005 period, and on implementing the Basel II norms.
On a broader scale, these imply the strengthening of the supervision on the banking system, the creation of a central register of loans, the further development of evaluating systems for measuring the banking risk. The Bank of Albania will continue fostering the cooperation with the other supervisors of the financial system and its participants, and will work for institutionalizing these relations.

3.2 MONETARY POLICY

3.2.1 The objective

The main objective of Bank of Albania’s monetary policy is the achieving and maintaining of price stability in the economy. While the Law on the Bank of Albania defines additional objectives for the Bank of Albania, their fulfilment constitutes a full framework of contribution of the Bank of Albania to creating proper conditions for ensuring the overall financial and macroeconomic stability.

In the framework of composing and implementing a monetary policy, fulfilling the objective of price stability in the medium period is expressed through the control on the yearly increase of consumer price index (CPI), measured by INSTAT. The yearly increase of the CPI makes up the inflation level that the Bank of Albania follows for reasons of composing and implementing the monetary policy. In numerical terms, the objective of price stability consists in keeping the inflation rate around 3%, with a tolerance level of + / - 1 percentage point.

The objective of an inflation rate of 3 percent is in concordance with the level of Albania’s macroeconomic development compared to the development of the most advanced economies of the European
Union. This numerical objective of the inflation rate, compared to the 2 percent of the European Central Bank, facilitates the convergence of the macroeconomic indicators with those of the EU. The highest rates of development for economies in transition compared to already developed countries should be balanced by a differentiated inflation level.

The tolerance level of +/- 1 percent has been designed to minimize the effects of unforeseen supply shocks in macroeconomic equilibrium. Price stability implies keeping inflation within a predetermined band, and this is what the tolerance level of +/- 1 percent is used for.

Keeping the general price stability in the economy as expressed in this form will be the main objective of the Bank of Albania and its monetary policy over 2006-2008.

In this way, specifying the inflation level as the primary objective directs the focus of the monetary policy instruments exclusively on fulfilling the objective of inflation and on the priority of this objective compared to other ones.

Generally speaking, a 3 percent inflation rate facilitates the macroeconomic development of the country in concordance to its economic potential and in the long run allows for achieving the macroeconomic level of the developed countries of the EU.

3.2.2 The monetary policy regime

The price level in a market economy is affected by many factors, mainly indirect ones, from supply and demand. In order to measure the inflation level, the determining of a price index based on the
basket of goods helps in identifying the objective. Anyhow, this index is an indicator that works under the pressure of market forces and its control in a market economy is achieved by affecting the demand factors that operate on it.

Also, inflation is known and largely accepted as a monetary phenomenon. In this way, monetary policy aims at keeping inflation close to the objective, through influencing the monetary dimension carried over by demand factors in the economy. The implementation of the monetary policy is achieved through the effective communication of the monetary policy and the usage of its instruments. This process is formalized under the creation of a middle run monetary policy regime, which serves as an axis of communicating the monetary policy to the market in general, as well as the forces that act interactively on inflation performance.

The Bank of Albania will operate under the current monetary policy regime over 2006-2008, which is formally labelled as monetary targeting. This regime implies that the control of inflation can be achieved through defining and fulfilling the intermediate monetary objectives, which convey the effects of monetary developments on the inflation level.

Under this regime, the monetary supply acts as an intermediate objective for the control of inflation. The influencing mechanism is achieved while balancing the monetary supply with the sum of the real economic growth and the targeted inflation rate, which make up the money demand. Under these conditions, the optimal level of functioning of this regime is achieved when money demand in the economy is stable. Forecasting as well as possible the money demand and controlling money supply in concordance to the needs of the economy, constitute an important element in fulfilling the inflation target.
Also, the current regime of monetary policy is in concordance with the three-year PRGF/EFF arrangement with the IMF, signed in January of 2006. Some of the technical elements of this arrangement are the quantitative objectives of the monetary base, which serves as a determinant of the money supply in the economy. Meanwhile, the current monetary policy regime cohabitates with the flexible exchange rate regime applied by the Bank of Albania.

3.2.3 The operational framework for the future

The current operational framework of the Bank of Albania is mostly adjusted to the operational framework of the European Central Bank. Anyhow, in the future, the efficient application of this operational framework of instruments remains a challenge to be met by the Bank of Albania. The efficient application of a complete framework is directly related to the goals of the Bank of Albania of further developing the financial markets. The market development will help define the further necessary improvements of the operational framework of the Bank of Albania, while bringing it closer to the international standards.

In the view of fulfilling the strategic objectives in the three future years, the Bank of Albania will use a combination of indirect monetary policy instruments. The importance that will be given to each instrument depends on the nature of the challenges it will be facing.

Open market operations will continue to be the main regulatory instrument of the banking system reserves. The repo interest rate will remain the main indirect instrument for the monetary policy
implementation. Upon further development of markets, it is expected that the transmission monetary policy mechanism will become more efficient and the base interest rate will be a referring point for defining the interest rate in the baking as well as other markets. Also, the Bank of Albania will aim at developing an environment, where long term rates are determined by the market itself.

Currently, the interbank market is characterized by considerable levels of liquidity excess in the banking sector and as a consequence, distorts the signals that the central bank tries to convey to the economy. As indicated by the international experience, liquidity shortage in the system will be one of the preliminary conditions for injecting the signals of monetary policy into the banking system and further along, the economy.

The required reserve instrument can be subject to modification, in the framework of further adjusting with the latest changes undertaken by the ECB. For the other indirect instruments, no important changes are expected to take place. Anyhow, concrete market developments will determine any possible changes in the groups of instruments that will be used by the Bank of Albania.

The high paces of lending to the economy during the period from 2005 onward, could force the bank to impose stricter temporary measures. The main goal remains avoiding the further acceleration of the crediting expansion to the economy, a phenomenon that could lead to problems regarding its quality on the one hand and the addition of inflationary pressures on the other.

The banking market development is especially important for the Bank of Albania as the financial system is the first and most important link of the monetary policy transmission channel. Therefore, a
healthy and efficient financial system improves the monetary policy effectiveness. Also, a healthy and efficient financial system will influence on the perception for more credible financial institutions. Lastly, a healthy and efficient financial system can help on absorbing the shock effects in the economy, and meanwhile will lead the country into integration with the international markets.

3.2.4. Market development

Market development in Albania will consist in:

- Implementing banking system structural reforms, which would ensure its further development on stable bases;
- Reviewing the banking law in the Republic of Albania, adjusting it to best international practices;
- Introducing new instruments that would facilitate not only the market development but also the government’s commitment to further consolidation of the public debt.

Even though during the recent years the financial intermediation has been increasing, the main financial markets remain relatively undeveloped. During the three upcoming years, special attention will be paid to further development of the financial markets, particularly of the secondary market on government securities and the interbank market. These reforms would be associated in parallel with the strengthening of monetary policy administration and financial market supervision. All these will improve the banking intermediation quality, its breadth and depth, as well as will support the overall financial system. In view of the banking system development and intensity, the Bank of Albania will require the involvement of other market stakeholders, implying their active role. To this end, the Bank of Albania will cooperate more
closely with the bankers’ association in coordinating the operations, even in the context of the World Bank’s “Convergence” program. Besides focussing on the strengthening of the banking system, the Bank of Albania will also pay attention to the development of other financial intermediaries. A developed financial system will complement the banking system, by providing numerous services of financial intermediation to the economy (the real sector). Therefore, the Bank of Albania intends to strengthen the collaboration with other supervisory institutions of the financial system.

For the same reason, the Bank of Albania will actively back and promote the introduction of long-term government securities. It will further encourage the greater usage of e-payments. The joint program with some other institutions for reducing cash transactions in the economy may be regarded as a safe step towards the development of the financial instruments and the achievement of the financial system development objective, in general.

3.3. BANKING SUPERVISION


3.3.1 Supervision mission

In compliance with its mission and its legal responsibility, the Bank of Albania, being the supervisory authority of the banks and other financial institutions licensed by it, intends to:
• Ensure a sound banking activity in compliance with the Bank of Albania laws and by-laws, in order to protect depositors and prevent financial crises;
• Safeguard the banking system stability and even broader, by monitoring the market developments and recommending adequate measures, so that banks adapt to these developments and are continuously managed according to the best principles;
• Strengthen the banking system credibility and to promote a healthier market discipline, requiring higher transparency in the banking system;
• Provide a fair competition in the banking system and beyond, and to ensure equity in dealing with entities licensed by the Bank of Albania and their clients;
• Initiate continuous and professional communication with the financial market operators and other institutions which influence the Bank of Albania activity, to improve the functioning of the financial market and its operators.

The main strategic objective is the one the Basel Committee has announced on banking supervision: “All the banking units are sufficiently supervised”, as well as the observance of 25 core principles of this Committee for effective supervision.

3.3.2. Licensing

The Bank of Albania is the only authority that grants a licence, as an administrative act for giving the right to conduct banking business, pursuant to the Article 26 of the Law No. 8365, dated 02.07.1998 “On the Banks in the Republic of Albania”. Taking into account the bank licensing practices in Albania until now, and the country’s perspective for sustainable development in the future, the Bank of Albania strategy for this process in the mid-term period, aims at:
• Preparing a complete regulatory framework for licensing banks specialised as development banks, investment banks and foreign bank branches;
• Completing the regulatory framework that has to do with the process of separation, amalgamation, transformation and merger of banks, based also on the alterations that may be made to the Law “On Trade Associations” and the Law “On the Banks in the Republic of Albania”;
• Fulfilling the regulatory framework on consolidated supervision;
• Fulfilling the regulatory framework on corporate governance.

The supervision process requires from the supervisory authority to be ready to act quickly in the event the banks face difficulties or pass into liquidation. In this view, prudential work will be done on due time to compile the procedures, which will ensure a “normal” functioning of this process, for minimizing the effects to the public and for preventing any side effects to the banking and financial system.

The collaboration with supervisory authorities of other countries, banking groups of which have invested in shareholders’ equity of the Albanian Banks, will be important in the mid-term period. This collaboration should be ongoing, for exchanging sufficient information about the performance of groups and banks in the respective countries.

3.3.3. Regulation

The Bank of Albania’s mid-term strategy will include in its general scheme even the priorities in the mid-term period, of the legal and
regulatory framework of supervision, for banks operating in Albania. Changes in this framework will aim at backing the integration process and the direct relation with the implementation of the “National Plan on the Approximation of Legislation”.

The review and approval of the draft-law “On the Banks in the Republic of Albania” will be a substantial part of the approximation of the banking legislation to the European legislation.

This draft-law is aimed at improving the effective law No. 8365, dated 02.07.1998 “On Banks in the Republic of Albania”, reflecting the standards included in the European Directives (2000/12/EC; 94/19 /EC/ 83/349/EC) and the generally accepted principles that derive from the documents of the Basel Committee. Alterations in the existing law will mainly consist in:

• Protecting the supervisors during the responsible exercising of their functions;
• Completing the legal framework with consolidated supervision concepts;
• Specifying the legal definitions in terms of permitted activities to banks, control over bank equity, and collaboration with other supervisory authorities of the financial market and foreign ones;
• Completing and specifying the responsibilities of the managing structures of banks;
• Including in the law some supervision indicators and completing more corrective and penalizing measures;
• Specifying concepts for the supervision of foreign bank branches.

The reviewing of the regulatory framework in the mid-term period, because of the new Law “On Banks in the Republic of Albania”, the interconnected implementation of the revised Basel Committee
principles for effective supervision and new concepts included in the new Basel Accord will be in the centre of the strategy and its priorities. So, some of the alterations in the regulatory framework will be:

- Drafting the regulation on banks’ transparency. Banks’ transparency with the public and the supervisory information will be regarded as the promoter of banking system security and stability. This is an important element included in the third pillar of the new Basel Accord;
- Drafting the regulation on consumer credit, with the purpose to protect consumers and depositors. This will protect the Albanian consumer and will better regulate the activity of the consumer credit and housing credit, specifying the regulatory framework of this activity pursuant to the European Council’s directive and the best practices in this field;
- Consolidated supervision of banks and completion of the supervisory framework. The completion of the regulatory framework will be associated with the completion of the supervisory framework (on-site examinations, reciprocal cooperation analyses and agreements). This process is also dictated by the opening of new branches of banks outside the Albanian territory;
- Including the operational risk to capital adequacy level. The first pillar of the New Capital Accord related to the re-conceiving of credit risk and its assessment effects on bank capital adequacy, includes even the introduction of an additional capital requirement dedicated only to operational risk. The change introduced in the Accord is related to the fact that the capital requirement for covering this risk will not be implied in the ratio of 8 percent of capital adequacy, but will be separate and computed according to one of the methods provided in the regulatory package. An amendment will be made to the existing capital requirement;
• Preparation of the necessary amendments in the procedural and regulatory framework for the intended implementation of the International Financial Reporting Standards.

3.3.4. Off-site examination

The main objective of the off-site examination is the continuous improvement of the quality of analyses for ensuring early warning of the problems that may appear in certain banks or in the banking system. The mid-term objectives will focus on:

• Improving the analytical framework of banks, through comparing the bank’s performance to a benchmark presumed to be the average of the peer group in which the bank operates;
• Improving the forward-looking analyses of banks and the system. The ongoing improvement of the “stress-testing” framework will serve this end;
• Constant improvement of the reporting requirements, adding the reported items and approximating the reporting system to the European standards;
• Establishing a stable analytical structure for a continuous monitoring of non-bank financial institutions.

3.3.5. On-site examination

The main objective of the on-site examination for 2006-2008 is the completion of the process of passing into a risk-oriented supervision and the preparation for the implementation of the standards specified in the new Basel Accord.
Some of the objectives for the mid-term period are focused on:

- Completing the process of passing to banking activity-risk-oriented supervision;
- Reviewing the examination manual for ensuring the above objective and for reflecting the changed characteristics of the banking activity risk;
- Preparing the human capacities for the New Basel Accord requirements, increasing analytic capacities in the field of information technology and statistics;
- Further betterment of the examination process and of its documentation;
- Strengthening the human resources in the process of money laundering prevention;
- Constantly attending the process of bank’s performance analysis, aiming at familiarizing with the bank’s problems and taking corrective measures for the improvement of the situation;
- Reviewing the corrective measures manual.

3.3.6. Research and consistency

The establishment of the Research and Consistency Office, as a new structure at the Supervision Department is a new challenge to this department for 2006-2008.

The main objective of this office is the preparation of research materials and the verification of the examination reports consistency.

Preparation of research materials will be focused on evidencing the problems incurred by the banking system in particular and
the financial system in general, the current and possible risks, new services and products that are daily added to the banking market, etc. The selection of themes to be treated will not be accidental, but the fruit of a close cooperation between the various divisions of the Supervision Department and the commercial banks’ managers.

3.4. FINANCIAL SECTOR REFORMS

During the mid-term period of 2006-2008, the Albanian authorities will continue further development of the financial sector reform.

Successful development of this reform requires commitment of various institutions, among which the Bank of Albania is the most interested in this process. The financial sector reform will aim at creating an effective competitive and financial market for the economic development of the country. The financial sector reform will focus on the following aspects:

• Implementing a prudential licensing policy of a selective character, giving priority to those banks that have strong probability for stability and success in the banking activity; and the preparation of a complete regulatory framework for the licensing of banks specialised as development banks, investment banks, as well as for foreign bank branches.

• Strengthening the supervisory and regulatory capabilities of the Bank of Albania, through further development of the Supervision Department; approximation of the banking legislation to the European legislation; completion of the process of passing to risk-oriented supervision and preparation for implementing the standards
specified in the New Basel Accord; as well as improvement of the analysing and inspecting abilities.

- Reviewing and improving the Law “On Banks in the Republic of Albania” for reinforcing the requirements on bank licensing; strengthening of the supervision regulations; adding or clarifying the requirements regarding administration; a detailed defining of sanctions, by making a connection between infringements and relative administrative measures or sanctions; protecting the depositors’ interests; cooperating with other supervisory bodies, as well as many other improvements.

- Establishing the Credit Information Bureau, which will increase the degree of information to banks about their clients, will reduce the risk in the lending process and will create a broader access of safe clients in banks.

- Encouraging an overall competition in the financial system, as part of the joint efforts with the Ministry of Finance and the Ministry of the Economy.

- Strengthening the supervision of the financial institutions that are not licensed by the Bank of Albania. This will be achieved with the creation of the Financial Supervision Authority, from the merging of the Insurance Supervision Authority, Securities Commission and Private Institutes Inspectorate of Supplementary Pensions. This authority will be a mechanism for the growth of the non-bank financial sector and for a better supervision of this sector.

- Establishing credit collateral schemes, as institutions that will assist in encouraging lending to the economy, the banking system development, a closer relation to the rest of the economy
and improvement of the transmission mechanism of banking intermediation.

- Strengthening the abilities of the Bad Assets Resolution Trust (BART), as part of the efforts to strengthen the financial discipline in the market; increasing the requirements for the reporting and transparency of this agency.

- Reviewing the Law “On Accounting”, for bringing it in full compliance with the International Accounting Standards.

- The privatizing of the state-owned insurance company will assist in increasing this market competition and in extending the active participation of this segment of the financial market in the economic life.

- Strengthening the abilities of the authority of the Money Laundering Prevention and close cooperation with the Bank of Albania. As a supervisory and regulatory authority, the Bank of Albania is interested to have a banking system that operates in compliance with the effective rules and is immune from efforts to involve it in impure activities.

3.5. STRENGTHENING THE LEGAL AND REGULATORY BASIS

Strengthening the legal and regulatory basis in itself constitutes an important objective in view of forecasting and minimizing the legal risk of exercising the Bank of Albania activity, to the attainment of its primary objective, i.e. the maintaining of price stability.
To achieve this objective, the taking of measures that have legal and applicative character is necessary. The legislative measures, in general terms, include the drafting of laws and bylaws or the improvement of the effective acts.

As provided in the National Plan on the Approximation of the Legislation to that of the European Union and the implementation of the Stabilization and Association Agreement, the legal framework and the bylaws will be strengthened upon drafting and approval of the following legal acts:

- The draft-law “On Banks in the Republic of Albania” (2006);
- Bylaws in its implementation (2006 – 2008);

The draft-law “On the foreign exchange regime” will strengthen the legal basis in foreign exchanges area in the Republic of Albania, in the light of full capital account liberalization, as a primary condition for Albania’s membership to the European Union. Presently, this area is regulated by the Regulation “On foreign exchange activity” approved by the Supervisory Council of the Bank of Albania. The draft-law will aim at a more complete regulation of this area and at a full compliance with the right of the European Union.

In view of minimizing the legal risk, the regulation of the provision of the legal service by the Legal Department to the Bank of Albania bodies and its other organisational structures is regarded as an indispensable measure.

This regulation will be focused on defining:
• The procedure for the provision of legal opinions;
• The procedure for supervising the application of the laws and bylaws by the Bank of Albania bodies and staff;
• The standards for dealing with issues and for providing legal opinions related to them, as well as the procedures for supervising their application;
• The keeping of evidence on the legal opinions given, with the purpose to unify them for similar issues.

The regulation of the legal service will also enable the formatting of Bank of Albania legal opinion, as a regulatory entity in the banking sector and in consolidating the tradition of the banking right, which will strengthen in consequence the Bank of Albania’s reputation.

Applicable measures, that may be undertaken, are envisaged to have an organisational and preparatory character for the compilation of the draft-acts, among which we mention:

• Setting up work groups for drafting them;
• Gaining from home and foreign experience in the field which the draft-act intends to regulate;
• Organising training workshops.

3.6. COMMUNICATION

At a time when communication has become extremely important and the methods of realising it are constantly changing, the Bank of Albania has paid special attention to the establishment of safe and effective bridges of communication with the public and within the institution.
The Bank of Albania’s primary target is to achieve and maintain price stability. To correctly convey this to the public, it should determine and define clearly what to disclose to the public at large, to market participants, to experts and the media.

For attaining its target, the Bank of Albania has first identified and defined the public segments, which are: the Parliament, the Government, media, trade unions, financial market, academics, analysts, business sector and individuals.

During 2006 – 2008, the Bank of Albania will try, through an upward communication, to avoid surprising decisions. At present it is generally accepted that decisions of this nature or a type of bankerization of the institution do nothing else but increase the market confusion in perceiving and interpreting the central bank’s decisions accurately.

To this end, the Bank of Albania will continue to further enhance its conventional channels of communication:

• The monetary policy periodic report will continue to be the main document, transmitting the Bank of Albania’s monetary policy to the public. The work initiated in 2005 will further continue during 2006 and 2007, until the presentation of an improved model of the current monetary policy report, similar to the so-called “Inflation Report”. To this end, the Bank of Albania will gradually shift from preparing monthly analytical reports to compiling quarterly reports. Special emphasis will be placed on disclosing short-term inflation forecasts and other forecasts generated by the macro-economic model, which is being established. More space will be left to the part treating possible risks of the near and distant future.
• For a fast and efficient communication, the meetings of the
Supervisory Council will be followed by immediate press statements, making the public aware of the latest stances and arguments in the field of monetary policy in particular and financial stability in general. In order to make the markets be oriented to Bank of Albania’s decision-making process, starting from 2007, a calendar will be published at the beginning of each year, showing the dates specified for monetary policy discussions.

• Regular press conferences of the Governor and other members of the Supervisory Council will follow the Supervisory Council meetings, where decisions on changing the interest rate for weekly repurchase agreements are made. Also, the BoA Governor’s reporting to the Parliament or the organizing of his meetings with representatives of the Parliamentary Commissions constitutes an integral part of this communication process.

• Periodic publications of the Bank of Albania, with the whole complexity of issues they treat in the field of economy, money and finance, are another communication bridge between the Bank of Albania and different groups of interest. Through these publications, which provide various and fast information, everyone interested may satisfy his needs for economic analyses, forecasts, possible risks, the banking system stability and any other issues of this nature. On the other hand, the Bank of Albania, through such publications as the annual report, provides the public at large and particularly the Parliament, with the possibility to assess how responsible it has been in administering the legal powers set forth by the Constitution and the organic law.

Given that communication is a process as much simple in appearance as it is complex in application, the Bank of Albania deems that in order to be simpler, and therefore more comprehensible to the public segments that are less professional (i.e., to the majority of individuals), it must keep contacts with the public in other forms as well, such as:
• Interviews to the media by the Governor, members of the Supervisory Council or other directors of the Bank of Albania.
• Organizing various meetings with media representatives. During these meetings, the Bank may share with the media the difficulties it has been faced with in meeting its target.
• Organizing informal meetings and spontaneous talks with eminent representatives of various groups of interest about sharp problems of the economy, finance and the Bank at a certain moment. Hence, it is aimed at creating an “opinion” on the Bank of Albania in an indirect and non-compelling manner.
• Constantly improving the quality of the Bank’s publications, and reviewing their content, should they reflect the development of issues they present.
• Press releases at daily newspapers about possible dates for the publication of its materials, together with preliminary comments on their usefulness for certain groups of the public.
• Organizing visits at the Bank of Albania premises. These visits may start with showing a film about the history of the bank and continue with visits at the Bank’s internal premises, accompanied by Bank staff.
• Opening a hoarding of Bank of Albania publications at the commercial banks.
• Organizing the “Bank’s Day” where different activities related to the Bank of Albania will take place.
• Designing, publishing and distributing the publications abroad for Albanian emigrants. Our embassies in various countries may cooperate to establish links with the Albanian community outside Albania.

Besides the communication ways mentioned earlier, the electronic communication, which is rapidly spreading all over the world is worth mentioning. The Bank of Albania communicates with its home
and foreign public through its internet and intranet sites. However, even in this regard, there is room for further improving the public information process, and for obtaining opinions and questions from the public.

3.7. PUBLIC EDUCATION

Public education is regarded by the Bank of Albania as another possibility of ensuring a proper environment for the development of its activity; as an indispensability for establishing the basis of the development of an interactive communication; as a prerequisite that should be met “for living in harmony” with the society, whose prosperity it serves; as an irreplaceable instrument for building up its reputation and credibility to the public; as an efficient way of increasing the transparency and accountability it intends to transmit to the public.

The directions, in which the Bank will continue to develop its activity in the field of public education, are those that have already become a tradition:

- Conducting frequent meetings with students and teaching staff at various faculties of economics in the country;
- Disclosing publications of general educational character for a large stratum of population;
- Simplicity and accuracy of the language used in publications of analysis, assessments and statistical character that the Bank produces for a more specialised audience and for technical issues of the field;
- Preparing and publishing materials that influence the public
opinion and facilitate the understanding of current problems of our economic reality;
• Organizing conferences, workshops or roundtables with the presence of various social groups (representatives of politics, business, media, academic world, bankers, etc) on sharp current arguments or other issues in which the public is interested at a certain moment;
• Expanding the library service to other interested persons, who are not working at the Bank;
• Designing and developing the packages of the training programs for media representatives or for various groups of interest (for example, high school teachers);
• Creating conditions for students of this area to perform the practice course at the Bank of Albania;
• Enrichment and continuous provision of the operation of the Public Room.

Understanding the public education as a creative process under constant development, new ways and practices will be adjusted and applied, in accordance with their demand for information. Among them, we highlight:

• Carrying out open lectures at the Bank’s hall, with topics from the field of economy, finance, bank and further, with free participation;
• Organising regional meetings in different districts of the country, about problems of the economy in general and of the respective regions in particular, intending an ever larger territorial extension of Bank of Albania’s presence to the public;
• Compiling and handing out questionnaires, according to a periodicity specified in advance, on arguments of the economy, finance, banking, and further. Working them out gives us
possibilities for obtaining information on the public’s knowledge about the above problems and about their expectations for the banking system;

- Re-designing the Bank’s web site, so that it becomes simple and useful for all the interested;
- Publishing articles on problems related to “hot current issues”, written by the Bank’s specialists in daily newspapers;
- Preparing the Bank’s publications even electronically, so as to make them more attractive to the new business and to those interested in the issues they cover;
- Designing and carrying out series of TV programs, where Bank’s specialists will speak about issues on banking, finance, the economy in the country, in the region and beyond;
- Organizing a national competition on a banking topic, with students from various faculties of the country. Specifying a price for the winner.
- Establishing a “Bank Hall” at the best libraries of the city (free publications).

3.8. BANK OF ALBANIA RESEARCH

Improving the research at the Bank of Albania is on the one hand, its duty in view of sustaining the country’s economic development, and a need for undertaking safe actions in monetary policy and banking supervision on the other.

The medium-term work program is built by taking into account all the legal obligations of the bank, the maintaining of price stability and the ensuring of banking system stability. In general, the research strategy for the medium-term period is summarised as follows:
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<th>Research</th>
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<tr>
<td>(I) Monetary Policy</td>
<td>(a) Monetary policy transmission</td>
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<td>(b) Exchange rate determinants</td>
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<td>(II) Modelling</td>
<td>(a) Forecasting models</td>
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<td>(b) Macroeconomic models</td>
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<td>(III) Financial sector</td>
<td>(a) Financial sector efficiency and structure</td>
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<td>(b) Financial sector stability and real sector financial behaviour</td>
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<td>(IV) Other</td>
<td>(a) Fiscal policy stability</td>
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<td>(b) Current account sustainability/external debt</td>
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<td>(c) Goods and Labour market flexibility</td>
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So far, the main efforts of Bank of Albanian research are focused mainly on monetary policy issues. To a certain extent, this is dictated even by the Bank of Albania’s current strategic objective: adopting inflation targeting. The adoption of this regime requires the treatment of a range of issues, from clarifying the transmission channels to setting up structural models of inflation or of the economy. Not biasing the possibility of implementing inflation targeting in Albania, the deep analysis on these issues constitutes an important function of each central bank, irrespective of the selected regime.

The work has started also in terms of creating a model of the Albanian economy. It will serve either for a better structuring of monetary policy decision-making or for improving the Bank of Albania stance in discussions about shocks and reforms the Albanian economy is faced with. This process consists particularly in creating the series of data needed for building various scenarios and for calibrating the model, so that accurate forecasts are obtained. Besides the above model, the research consists even in other elements needed for improving the decision-making process of the Bank of Albania, both in terms of price stability and financial stability. Upon betterment of the database,
various monetary policy transmission channels are under constant theoretical and practical analysis. Modelling the inflation forecasting has currently occupied an important place at work. In the future, the research will be further intensified, even in other important fields of the Bank, such as in financial stability problems or current account sustainability.

3.9. EUROPEAN INTEGRATION AND COOPERATION WITH OTHER INTERNATIONAL INSTITUTIONS

Even during 2006-2008, the Bank of Albania will continue to pay special attention to further consolidation and development of the relations with other central banks, with international financial institutions and other bodies within the country and abroad, and it will also be actively engaged in the country’s European Integration process.

3.9.1. European integration

The signing of the Stabilization and Association Agreement on June 12, 2006, becoming effective after the completion of the ratification procedures, arise a range of commitments for Albanian and European community credit institutions. In Albania’s case, as in every association agreement, the obligation to adjust the Albanian legislation to that of the European Union and its rigorous implementation constitutes one of the key elements of the SAA. In this framework, the Bank of Albania is responsible for approximating the national legislation to that of the European Union in the field of financial services, capital movement and current payments.
Following the Annual report 2005 of the European Commission on Albania and the reviewed Document of the European Partnership, adopted by the European Commission in December 2005, Albania is expected to respond to this new document, updating the National Plan on the Approximation of Legislation and the SAA implementation. In this framework, the Bank of Albania is committed to review, within the first six months of 2006, the parts of the current Plan for which it bears responsibility (the macroeconomic stability, free capital movement and financial services), reflecting the progress achieved in the regulatory and institutional framework during 2005, and addressing the priorities derived from the new European Partnership with Albania and from the last Annual Report of the European Commission. The whole activity for the legal, institutional and operational approximation of the Bank of Albania to the European System of Central Banks during 2006-2008 will take place pursuant to the National Plan on the Approximation of Legislation and the implementation of obligations deriving from the SAA.

At the same time, the Bank of Albania aims to benefit from the Money-Adhering Instrument (IPA), which will replace the CARDS program. This will take place through a twinning program with a member bank of the European System of Central Banks, intending approximation to the European standards in banking supervision, statistics and communication. The Bank of Albania will actively participate in all the meetings of the Albanian authorities with the bodies of the European Union, by reporting on the developments of the areas for which it is responsible.

3.9.2. Relations with other central banks and the technical assistance

During the period of 2006-2008, the Bank of Albania intends to intensify the mutual relations and technical cooperation with member
banks of the European System of Central Banks. The Bank of Albania considers the benefit of the technical assistance from homologous institutions as very useful, since it increases the institutional and human capacities of the Bank of Albania and facilitates the attainment of its targets. The technical assistance will be given in the form of workshops, practices and visits to other central banks, in accordance with the strategic objectives of the institution. In the process of legal, institutional and operational approximation to the European Central Bank and the European System of Central Banks (ESCB), absorbing the experience of Central and Eastern European central banks that are members of the ESCB since 2004 and of other central banks applying for membership in the EU will assume primary importance.

At the same time, the Bank of Albania will be active in promoting further development of cooperation between central banks and Southeast Europe, aiming at creating a Regional Governors’ Club. In this framework, the Bank of Albania pays special attention to the relations with the Payment Authority of Kosovo (PAK), remaining committed to providing all the necessary assistance and support, so that the PAK reaches appropriate standards for being transformed into a real central bank.

3.9.3. Cooperation with international financial institutions

During the period of 2006 – 2008, further strengthening and development of the relations with international financial institutions, such as the International Monetary Fund, World Bank group, Bank for International Settlements, European Bank for Reconstruction and Development, etc., will continue to be another objective of the Bank of Albania, trying to place these relations on a more harmonic basis.
Throughout this period, the successful implementation of the three-year arrangement adopted by the Executive Board of the IMF in January 2006, reflected even in the Memorandum of the Economic and Financial Policies will be of priority in the relations with the International Monetary Fund. Another extremely important aspect is the technical assistance provided by the IMF, for the continuous training of the Bank of Albania staff in banking supervision, in the application of international accounting and payment standards, statistical monetary and financial standards and balance of payments standards, etc.

The World Bank will be one of the main partners of the Bank of Albania in the financial and technical assistance. During this period, the assistance and training programs of this institution in the foreign reserve management process of the Bank of Albania will continue. The Financial System Assessment Program (FSAP) prepared by the IMF and the World Bank will remain a very important element. The Bank of Albania is committed to fulfilling all the obligations springing from the Action Plan for FSAP recommendations, compiled in cooperation with other responsible institutions of the country.

Also, during 2006-2008, the Bank of Albania, based on good current relations with the Bank for International Settlements, aims to take part actively and contribute to this institution, by participating under the observer status in BIS forums and committees.

3.10. STATISTICS

Over the medium-term period, the Bank of Albania intends to achieve some very important objectives in terms of statistics.
• Fostering the collaboration with other institutions

The Bank of Albania will continue to collaborate with state-owned institutions, not only in exchanging statistical information but also in statistics development. In particular, collaboration with the INSTAT will be important for ensuring broader and more qualitative information on the indicators of the external sector statistics and of the real sector, by carrying out statistical surveys.

Viewing retrospectively the so-far experience on statistics, still work has to be done in terms of cooperation, mainly with the business community. This will create possibilities for this community to play a more active role in improving the quality of statistics, increasing the responsibility and credibility to provide accurate information.

Collaboration with international institutions (IMF, OECD, WB, etc), will be continuous, by reporting the data and keeping contacts on changes and improved methodologies for compiling and reporting these statistics according to the international standard. Special importance will be given to the cooperation with European institutions and the projects that lead to approximating the standards to those institutions.

• Meeting the recommendations given by the ROSC and SDDS Mission of the International Monetary Fund

In February 2006, Albania was visited by the ROSC Mission of the International Monetary Fund. This mission gave recommendations on the development of statistics in national level, for the three statistical institutions of the country: the Bank of Albania, the Ministry of Finance and the INSTAT.
Meeting the recommendations of this mission, in the framework of a number of missions sent by the IMF, is intended for developing the national statistical standards to reach the international standards. Meanwhile, we emphasize that this mission is estimated as very important internationally for the statistical standards, and unique in its kind for the representation level.

Recommendations on developing the statistical standards have also been given by the International Monetary Fund’s SDDS Mission. The mission’s evaluation aims at including Albania in the SDDS for a time period of about two years. Here are included countries with developed statistical standards. As a statistical project including four statistical sectors of an economy, it presents its recommendations to three statistical institutions in Albania: the Bank of Albania, Ministry of Finance, and INSTAT. In particular, the Bank of Albania is required to be in the role of the coordinator. This role includes the coordination of relations with the IMF on this project and the follow-up of the performance of duties for all the statistical agencies.

The fulfilment of obligations derived from it, is regarded as most important under the current stage of the statistics development in Albania. Given that the standards of the SDDS project represent best international practices in the field of statistics, they simultaneously respond to the needs for qualitative statistical data of internal users, institutions and other users.

- Technology development available to statistical units and to users of these statistics

Developing complete solutions related to information technology is regarded as a very important step in the development of statistical standards, for meeting the needs of statistical data management by
the Statistics Department of the Bank of Albania, and by other users inside and outside the institution.

In this framework, important projects are planned to be carried out, which will enable the approximation of the technology standards available to central bank statistics to contemporary standards. We highlight here the reviewing of the solution of management of the data reported by financial institutions, complete solutions regarding the statistical information management of the balance of payments.

- Compiling the International Position of Investment and Foreign Debt

Compiling the International Position of Investment and Foreign Debt is a very important step for completing the data of the external sector of the economy. Currently, preliminary efforts are made and it is being worked for releasing the first experimental figures, in cooperation with the International Monetary Fund.

- Expanding the statistics sector to the focus of adopting inflation targeting

The orientation of the Bank of Albania towards inflation targeting places the development of statistical system as a precondition for setting up macro models and for improving the forecasts and analyses. In this framework, the Statistics Department is faced with increasing requirements of the internal users regarding the management of the existing statistical data and the expansion of the statistics spectre.

To this end, developing the database of the existing information and analysing the needs of the Bank of Albania for additional statistical data, mainly from the real sector, is planned.
So, first of all the relations with the institutions from which the Bank of Albania obtains information will be formalized, through the signing of the memorandum of collaboration and the creation of joint roundtables. Secondly, the experience of other central banks, which have adopted inflation targeting, will be made use of.

### 3.11. ACCOUNTING

In the framework of further strengthening the independence, the Bank of Albania will continue to pay special importance to the enhancement of financial transparency of the institution. The mid-term plan will aim at compiling the financial statements of the Bank of Albania in compliance with the International Financial Reporting Standards (IFRS). The Law No. 9228, dated 29.04.2004 “On Accounting and Financial Statements” stipulates that all the financial and banking institutions in the Republic of Albania are obliged to apply the International Accounting Standards (IAS), starting from January 1, 2008. The Bank of Albania will aim at complying with the International Financial Reporting Standards (IFRS), applying them in the financial statements of 2007. Hence, it will provide an example, to lead the banking system to the application of the Standards.

The improvement of the reporting system for the Bank’s internal users will be of priority throughout this period. The Bank of Albania, being in the role of the central bank, aims to supply each user with the most appropriate information. While the external users (the public and the institutions) want to know the achieved results, the Bank’s directors are more interested in the information on how to achieve the targeted results. To this end, we aim at adjusting the reporting system
to best financial reporting practices of central banks. This will require the focus on assessing the performance of the functions carried out by the bank, and measuring the efficiency in meeting the objectives and providing the banking and financial system products.

The mid-term plans of the department include the implementation of recommendations given by the IMF Mission on the Financial Safeguards Assessment. In this framework, priority will be given to improving the external audit structures and strengthening the internal audit systems, aiming at:

• Improving the regulative basis, including the accounting policies and procedures, the manuals on job positions, the manuals of divisions, and any other set of rules and procedures in line with the adjustment to the International Accounting Manual;
• Improving the accounting system for ensuring due reporting. The book-keeping of Bank of Albania’s operational activity is almost fully automated, while in the short-term plans the automation of the Bank of Albania branches and the prevention of any manual operation in the system by the accounting staff are also aimed at.

The cooperation with the World Bank in terms of the RAMP project will be another objective of the Bank of Albania over the three upcoming years. Currently, necessary accounting procedures are being prepared to support this activity and the relations with the World Bank, in the role of the holder of forex securities portfolio of the Bank of Albania. In view of this project, an important weight is held by the technical assistance offered by the World Bank, in improving the procedure for controlling and reporting the foreign reserve management.
3.12. PAYMENT SYSTEM

The surveillance of the payment system is one of the future priorities in the payment system area. To carry out this function, relevant changes have also been made in the Accounting and Payment Department’s structure.

As the supervisor of the payment system in the three upcoming years, the Bank of Albania will be oriented towards a detailed and prudential analysis of the payment system. The objectives of the payment system supervision will be focused on the assessment to and compliance with the “Core Principles for Systemically Important Payment Systems”, which are contained in the document released by BIS in 2001.

In compliance with these principles, the Bank of Albania aims at:

- Improving and fulfilling the regulatory basis for the payment instruments and systems. With the purpose to strengthen the legal basis of the payment system activity and the approximation of the legislation to the international standards, mainly to the European Union legislation, the Bank of Albania has in its plans the drafting of a law on the payment system and instruments, as well as the application of information security standards;
- Increasing the use of the system by the public, and optimizing the payments flow in the system;
- Increasing the safety level, by setting up back-up units in the distance;
- Identifying possible risks in the system operation;
- Carrying out the securities book entry system, as a condition for fulfilling one of the core principles of the payment system, that of the settlement instruments;
• Coordinating and maintaining the role of catalyst in the payment system, in relation to integrating new services and improving the existing structures;
• Periodic collection and processing of data for the indicators of payment instruments, aiming at passing to the publication of a Book on the Payment System, according to “Red Book” standards, which will raise the transparency to the public.

3.13. INFORMATION TECHNOLOGY

The information technology is not actually regarded only as an assisting instrument to process automation, but also as a provider of new services and instruments, irreplaceable manually. In this focus, some of the developments in the Bank’s technology over a small-to-medium term will aim at:

• Broad application of international information security standards;
• Expansion of information infrastructure;
• Automatization of operations, which are partly or totally manual.
• Information security

The main issues deemed to be sorted out over the mid-term period are:

1. Application of international information security standards, which will be materialised by:
• Adopting the international information security ISO/ANSI 17799 standard;
• Applying this standard in all the aspects, including human resources, technology and assets;
• Completing the whole regulatory framework in compliance with this standard.

2. Defining the metrics for risk measurement and analysis.

3. Creating the second computer room outside the central building, preventing the risk of simultaneous damage of the central equipment because of the same reason.

4. Inception of a unit for managing risk and emergency situations.

• Communication infrastructure
  i. One of the priorities of the department is the project for extending the communication infrastructure to the Bank’s branches in the districts. This project will aim at maximum automatization of the processes and the presence of information of the branches in the system, significantly facilitating the analyses and decision-making for the issues they cover. The said project encompasses:
  • Establishment of information networks in each branch;
  • On-line connection with the headquarter;
  • Use of central applications, becoming their integral part;
  • Establishment of such an infrastructure as to open the way of using the branches even as statistical information collection centres for the regions they cover.

  ii. Bank’s expansion with another building will need the information network extension and the connection of these premises to both computer rooms.

  iii. Connection of Bank of Albania’s information network to the Ministry of Finance’s network, consisting in:
  • Physical connection;
• Setting up necessary interfaces in the payment systems, the trading system, and the treasury bills register, to carry out mutual electronic communication between the Bank of Albania’s systems and the Treasury System of the Ministry of Finance.

• Information projects
  1. Establishing the Credit Information Bureau. Its activity will be focused on collecting and exchanging information about the banking system borrowers. This project includes:
     • Creating the units that will operate with this system;
     • Completing the necessary legal and regulatory grounds;
     • Preparing the terms of reference;
     • Preparing the procurement document;
     • Selecting the product;
     • Establishing the relevant infrastructure and the implementation.
  2. Establishing a system for foreign reserve risk management, which will include an integrated module for the middle-office activity, at the Monetary Operations Department.
  3. Building an electronic system in the field of regulatory acts administration, consisting in establishing a data structure for managing all the electronic regulatory acts, and for making their searching or consulting more appropriate.
  4. Automatic posting of data through the payment system (staff payments, bill payment).
  5. Improving the reporting system (improving the way of keeping and processing the current reporting system).
  6. Carrying out a solution for the balance of payments, with the purpose to prevent the manual work at maximum, and achieve a faster and more complete data processing quality.

Given the above, we think that the core principles that will guide us along this process will be:
• Using at maximum the level of development and the relevant experience;
• Maximum integration with the information systems;
• Technology risk assessment;
• Reliability on providers that have an unquestionable reputation and long life in business;
• Defining the priorities, pursuant to the plans for the Bank’s development;
• Limiting at maximum the building of solutions that may be carried out by us.

Though a large use of human resources is planned for carrying out the above projects, the expansion and specialization of internal human resources remains essential for their attainment.

3.14. HUMAN RESOURCES DEVELOPMENT

The human resources area is of a special importance, since the achievement of Bank of Albania’s objectives depends on the quality and motivation of each employee. The main purpose in this direction is the development of staff professionalism and their motivation for the attainment of the institution’s objectives.

Over the mid-term period, the Human Resources Department’s attention will continue to be focused on further improvement of the regulations that will discipline:

• Staff motivation;
• Further and ever more complete staff training; and
• Best recruitments offered by the labour market, if possible.
• Staff motivation
Completing full restructuring of the staff’s material motivation is forecasted to take place soon enough, by finalizing the salaries structure and implementing a bonuses system. Both these systems will intend to motivate the work and respective individuals.

The future restructuring of the salaries system will increase particularly the possibility of non-managing levels (specialists of higher education) to make a fair, mini-vertical, horizontal and extended career during the whole employment period. The special attention to this segment is justified by the fact that these employees carry the main weight of work in the units in which they work. As a consequence, the creation of new possibilities for their continuous and permanent motivation directly influences and enables better attainment of the institutional objectives and tasks.

This restructuring stage will deal mainly with the creative work, ideas and their implementation, and with those employees that carry a special weight or impact significantly on the realization of the main Bank of Albania’s tasks and objectives. The restructuring of the salaries system and the introduction of bonuses system will be based, for the first time, on a new and detailed assessment of all the work positions at the bank. This evaluation will enable their fairer rating and hierarchy, compared to the current one. It will be felt in all the levels of the work positions.

Everything will be based on a performance evaluation, which will be constantly improved and in accordance with the development of the institution itself.

Both the above systems will continue to be supported by a third one, i.e., the economic rewards and aids, envisaged to be further improved in comparison to the one currently in force.
Also, special emphasis will be paid to social policies in the favour of employees. So, for the first time the institution will finance the medical and dental service to employees. In general, the creation of a friendly and productive environment and a stable and positive equilibrium in overall job-family relations will be aimed at.

- Staff training

Concerning staff training, generally the present line will be maintained, aiming at training the staff in the profile they work. Each work position will continue to be covered by two employees, so that unexpected or possible changes can be surpassed.

Focus of attention on short-term training, within the country or abroad will continue, using all the possibilities that will be provided in this regard. The finding of new sources that will enable the acquiring of best professional experiences, irrespective of their cost, will be aimed at.

The institutionalised tradition for short-term and instantaneous trainings of all the new recruits within the bank will be enhanced. The goal is their concrete acquaintance with the work carried out by the Bank of Albania. It will also enable their better integration with the environment in which they are employed, and the establishment of professional relations for a better performance of their tasks.

The Bank of Albania intends to promote and finance, as necessary, the long-term training of its staff, particularly in those directions that allow successful accomplishment of their tasks and attainment of the central bank’s primary target.

Trainings will be given to an ever larger number of specialists, preventing their turning into an exclusiveness of a narrow circle of
employees. To this end, workshops, or at least discussions about the trainings (particularly for those carried out abroad) will take place.

- Staff recruiting

Recruitment of skilful human resources will continue to be a priority in the framework of human resources policies, since their quality conditions unquestionably the quality of work at the Bank. In this framework, the best existing recruitment practices will be further consolidated and enriched.

Competition will continue to be the key method of recruiting qualitative human resources at the Bank of Albania. Currently, there exist certain formal procedures that allow a satisfactory selection. These procedures will be further enhanced in the future, being enriched with most advanced experiences in this area. Specifically, there will be required the application of the methods that permit the selection of potential elements, whose psychological-professional profile complies with the nature of work at a central bank.

Special attention will be paid to those that have graduated or are qualified with high results outside Albania. Such behaviour would enable the enrichment of the professional environment with new experiences, which undoubtedly constitute a real source of development for the work at the bank. Geographically variable recruited experiences will be aimed at.

Other forms of employment, much less bureaucratic than the competition, will also be used to attract well-known professional experts.

Correct intertwining of generations and natural harmonization of experiences will guide the recruitment policies.
3.15. CURRENCY ISSUING

Satisfying the economy demand for money and improving the structure of the currency in circulation to an appropriate and acceptable form by the public, will be the main target for the three upcoming years. The main development in structure will be the rise in the weight of the Lek 5 000 note and slight decrease in the weight of Lek 1000, 500 and 200 denominations, and the significant decrease in Lek 100 note.

There will be a rise in all coin denominations. In particular, there will be recorded a considerable rise in the weight of 100 Lek coin, which will gradually replace the 100 Lek note.

The structure of the currency in circulation, in value for 2008, is expected to be:

<table>
<thead>
<tr>
<th>Face value (in ALL)</th>
<th>Weight (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banknotes</td>
<td></td>
</tr>
<tr>
<td>5000</td>
<td>38.55</td>
</tr>
<tr>
<td>1000</td>
<td>39.03</td>
</tr>
<tr>
<td>500</td>
<td>18.57</td>
</tr>
<tr>
<td>200</td>
<td>2.10</td>
</tr>
<tr>
<td>100</td>
<td>0.00</td>
</tr>
<tr>
<td>Coins</td>
<td>1.75</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Regarding new notes printing and re-printing and the replacement of the damaged ones, it is anticipated that:

- The Bank of Albania will have cash reserves for the needs of two to three years, aiming at keeping an acceptable ratio between the
currency in circulation and the reserve stock. In consequence, banknote re-printing is envisaged. Besides the re-printing of the current banknotes, the possibility of issuing a new denomination, with a face value of 2 000 Lek will be taken into consideration for an appropriate structure of banknotes in circulation.

- In printing banknotes, the Bank of Albania has the goal to create the conditions for collecting and withdrawing from circulation all the banknotes issued prior to 1996 issue, versus the payment of the initial issue value, and to improve the quality of banknotes in circulation.

“Albanian banknote and coin marketing will continue to be in the focus of attention over the mid-term period, by:

- Developing issues for numismatic purposes;
- Enriching the catalogue of metallic coins and banknotes in circulation and of the historical ones;
- Opening numismatic museums.

On the whole, the currency issuing activity will be supported by establishing a new up-dated centre of cash, with logistics services, by renovating the current technology and by adding machineries and equipment, with the goal to further enhance the level of processing and checking of banknotes and coins and to upgrade the technology of shredding the damaged banknotes.

Also, extension of the basis of currency indicators, their processing electronically and improvement of regulations on currency administration will be aimed at.

In the framework of further approaching the Bank of Albania activity to the public, besides the broader activity for educating the
public in the field of currency, the “Currency” section at the Bank of Albania’s website will continue to be enriched, being changed into the most visited website. This is so because it provides full information on issued banknotes and coins of legal tender, and on those having numismatic purposes.

Finally, attention will continue to be paid to the implementation of standards for evidencing precious metals and stones, and the standardization of precious metals, to make them more feasible to investment.

3.16. INTERNAL AUDIT

Internal audit has to do with identification of risks the central bank’s activity is exposed to. Internal audit does not serve as a supplement or substitute of the directors’ control on the bank’s daily activity. The daily control on the activity remains a responsibility of the directors, according to relevant levels. But, the internal audit assists in advising the directors about the systems of the internal audit, auditing them, assessing their adequacy and adjustment and giving relevant recommendations. Strengthening the responsibility of the central bank is the definitive result of the internal audit.

The core principles governing the internal audit function at the central bank are:

- Objectivity in assessing the situations, events and particularly risks;
- Independence in auditing or assessing a property, activity or system;
• Highlighting and reporting issues fairly, clearly and synthetically, enlisting all substantial facts;
• Exercising the internal audit function free from the conflict of interest.

The main targets of the internal audit are:

• Implementing national and international standards of internal audit;
• Enhancing the efficiency in using internal audit resources;
• Underlying the preventive role of the internal audit to after-effect role.

In the medium-term period, the internal audit function will be guided by risk identification and assessment in central bank’s activity. This will increase the efficiency in using the audit resources and will strengthen its preventive role.

Based on this, the main tasks to be fulfilled over the medium run are as follows:

• Identifying and detailing the central bank’s functions;
• Identifying and assessing the risks that go with the central bank’s functions;
• Identifying and assessing the internal audit systems on the central bank’s functions;
• Educating the central bank units in the internal audit’s role and function, to increase the cooperation between the inspectors and the inspected;
• Increasing professional abilities, particularly in the area of recognising the accounting and auditing standards;
• Restructuring the internal audit unit to adjust it better to the
preventive role of the audit;
• Standardizing the procedures for exercising the internal audit and the reporting of audit’s findings and recommendations;
• Fostering the collaboration with the Supervisory Council of the Bank of Albania and the Parliament of Albania.

3.17. WORK CONDITIONS AT THE BANK OF ALBANIA

Since time ago, there is a great need of the Bank of Albania for new work premises, because the current buildings do not ensure normal conditions for a qualitative work of its staff.

In the previous plans, the Bank of Albania agreed on making an immediate restructuring of the current building, along with adding new environments. Though the current building is built 70 years ago, it has not yet undergone any restructuring at all. Anyhow, it should be stressed that the aspirations for new premises and contemporary working conditions have remained on paper.

A number of concrete steps are programmed in the 2006 – 2008 work plan, highlighting:

• The project for constructing a new building and reconstructing the current Bank of Albania’s building in Tirana. This project has envisaged the reconstruction of the old building of the Bank of Albania and the construction of a new 4-5 floor building that will be connected to the existing one. This investment will be carried out through foreign firms as concerns to both the designing and the realization of the workings. So far, its technical basis has been prepared and the tender platform is being prepared. The tender for
the project will start within the year.

• The project for a new building of the Issuing and the reconstruction of the printing house premises. The work for compiling the project has already started and in autumn 2006, the tender procedure for carrying out the workings will start. The Central Bank of Italy will assist us in both projects.

• The project for constructing a new building for the Gjirokastra Branch. The work for this building will start within August 2006.

• The project for the restoration of the Bank of Albania’s building in Berat. The design is being completed and in September the tender procedure for carrying it out will start.

<table>
<thead>
<tr>
<th>Task</th>
<th>BoA Unit</th>
<th>Schedule</th>
<th>Status</th>
<th>Monitoring person</th>
<th>Reporting to</th>
<th>Reporting frequency</th>
<th>Various comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legislation</td>
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<tr>
<td>1 Reviewing the Law “On the Banking System in the Republic of Albania”</td>
<td>LD</td>
<td>July ’06</td>
<td>Complete</td>
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<tr>
<td>3 Modifying the Statute of the Bank of Albania</td>
<td>LD</td>
<td>2007 - 2008</td>
<td>Not started yet</td>
<td>Director of LD</td>
<td>Supervisory Council</td>
<td>Each 6-month period</td>
<td></td>
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<tr>
<td>4 Modifying the regulations and procedures</td>
<td>LD</td>
<td>2007 - 2008</td>
<td>Not started yet</td>
<td>Director of LD</td>
<td>Supervisory Council</td>
<td>Each 6-month period</td>
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<tr>
<td>Monetary Policy</td>
<td></td>
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<tr>
<td>5 Identifying possible improvements of periodical monetary policy reports</td>
<td>MPD</td>
<td>Dec. ’06</td>
<td>Under process</td>
<td>ITTF</td>
<td>Governor</td>
<td>Nearing completion</td>
<td>The work group will introduce possible changes at the December meeting.</td>
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<tr>
<td>6 Publishing inflation forecasting</td>
<td>MPD</td>
<td>July ’07</td>
<td>Under process</td>
<td>ITTF</td>
<td>Supervisory Council</td>
<td>Quarterly</td>
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<td>7 Publishing the calendar of the Supervisory Council’s meetings on monetary policy</td>
<td>Governor’s office</td>
<td>Dec. ’06</td>
<td>First Deputy Governor</td>
<td>Supervisory Council</td>
<td>Nearing completion</td>
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<td>No.</td>
<td>Policy Area</td>
<td>Implementing Body</td>
<td>Start Date</td>
<td>Process Stage</td>
<td>Supervisory Body</td>
<td>Frequency</td>
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<tr>
<td>8</td>
<td>Preparing the communication strategy</td>
<td>FREICD &amp; Work Group</td>
<td>Dec. ‘06</td>
<td>Under process</td>
<td>ITTF</td>
<td>Supervisory Council</td>
<td>Nearing completion</td>
</tr>
<tr>
<td>9</td>
<td>Preparing and disclosing statements with information on the Supervisory Council’s meetings</td>
<td>Governor's Office &amp; MPD</td>
<td>2007 - 2008</td>
<td>Under process</td>
<td>First Deputy Governor</td>
<td>Supervisory Council</td>
<td>Each 6-month period</td>
</tr>
<tr>
<td>10</td>
<td>Setting long-term interest rates by the market</td>
<td>MPD &amp; MOD</td>
<td>2007 - 2208</td>
<td>Under process</td>
<td>MPC</td>
<td>Supervisory Council</td>
<td>Each 6-month period</td>
</tr>
<tr>
<td>11</td>
<td>Introducing new instruments</td>
<td>MOD</td>
<td>2007 - 2208</td>
<td>Under process</td>
<td>MPC</td>
<td>Supervisory Council</td>
<td>Each 6-month period</td>
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<td>12</td>
<td>Monetary policy transmission</td>
<td>RD &amp; MPD</td>
<td>2007 - 2208</td>
<td>Under process</td>
<td>ITTF</td>
<td>Supervisory Council</td>
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<td>13</td>
<td>Setting the exchange rate</td>
<td>RD</td>
<td>2006 - 2008</td>
<td>Under process</td>
<td>Director of the RD</td>
<td>MPAC</td>
<td>Each 6-month period</td>
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<td>14</td>
<td>Macroeconomic models</td>
<td>RD &amp; MPD</td>
<td>2007 - 2008</td>
<td>Under process</td>
<td>ITTF</td>
<td>Supervisory Council</td>
<td>Each 3-month period</td>
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<td>15</td>
<td>Financial sector structure and efficiency</td>
<td>RD</td>
<td>2006 - 2008</td>
<td>Under process</td>
<td>Director of the RD</td>
<td>MPAC</td>
<td>Each 6-month period</td>
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<td>16</td>
<td>Stability of the financial sector and financial behaviour of the real sector</td>
<td>RD</td>
<td>2006 - 2008</td>
<td>Under process</td>
<td>Director of the RD</td>
<td>MPAC</td>
<td>Each 6-month period</td>
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<td>17</td>
<td>Fiscal policy stability</td>
<td>RD</td>
<td>2006 - 2008</td>
<td>Under process</td>
<td>Director of the RD</td>
<td>MPAC</td>
<td>Each 6-month period</td>
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<td>18</td>
<td>Current account sustainability</td>
<td>RD</td>
<td>2006 - 2008</td>
<td>Under process</td>
<td>Director of the RD</td>
<td>MPAC</td>
<td>Each 6-month period</td>
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<td>No.</td>
<td>Task Description</td>
<td>Implementing Agency</td>
<td>Timeframe</td>
<td>Responsible Authority</td>
<td>Supervisory Council</td>
<td>Periodicity</td>
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<td>19</td>
<td>Goods and Labour market flexibility</td>
<td>RD</td>
<td>2006-2008</td>
<td>Director of the RD</td>
<td>MPAC</td>
<td>Each 6-month period</td>
<td></td>
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<tr>
<td>20</td>
<td>Supervision and regulatory framework</td>
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<tr>
<td>21</td>
<td>Reviewing the regulatory framework on licensing the specialized banks and foreign bank branches</td>
<td>BSD</td>
<td>2007-2008</td>
<td>Not started yet</td>
<td>Director of BSD</td>
<td>Supervisory Council</td>
<td>Each 3-month period</td>
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<tr>
<td>22</td>
<td>Fulfilling the regulatory framework on bank separation, absorption, transformation and merger</td>
<td>BSD</td>
<td>2007</td>
<td>Not started yet</td>
<td>Director of BSD</td>
<td>Supervisory Council</td>
<td>Each 3-month period</td>
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<tr>
<td>23</td>
<td>Fulfilling the regulatory framework on consolidated supervision</td>
<td>BSD</td>
<td>2007</td>
<td>Not started yet</td>
<td>Director of BSD</td>
<td>Supervisory Council</td>
<td>Each 3-month period</td>
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<tr>
<td>24</td>
<td>Fulfilling the regulatory framework on corporate governance</td>
<td>BSD</td>
<td>Oct. '06</td>
<td>Under process</td>
<td>Director of BSD</td>
<td>Supervisory Council</td>
<td>Nearing completion</td>
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<tr>
<td>25</td>
<td>Drafting the regulation on banks transparency</td>
<td>BSD</td>
<td>Dec. '06</td>
<td>Under process</td>
<td>Director of BSD</td>
<td>Supervisory Council</td>
<td>Nearing completion</td>
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<td>26</td>
<td>Drafting the regulation on consumer credit</td>
<td>BSD</td>
<td>Q1 '07</td>
<td>Not started yet</td>
<td>Director of BSD</td>
<td>Supervisory Council</td>
<td>Nearing completion</td>
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<td>27</td>
<td>Identifying changes in the regulatory and procedural framework, which derive from the implementation of the International Financial Reporting Standard (IFRS)</td>
<td>BSD</td>
<td>2008-2009</td>
<td>Not started yet</td>
<td>Director of BSD</td>
<td>Supervisory Council</td>
<td>Each 3-month period</td>
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<td>#</td>
<td>Description</td>
<td>Responsible Party</td>
<td>Start Date</td>
<td>Status</td>
<td>Role</td>
<td>Period</td>
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<tr>
<td>28</td>
<td>Comparing bank performance to a benchmark regarded as the average of the group where the bank operates</td>
<td>BSD</td>
<td>July '07</td>
<td>Not started yet</td>
<td>Director of BSD</td>
<td>First Deputy Governor</td>
<td>Each 3-month period</td>
</tr>
<tr>
<td>29</td>
<td>Numeric increase of reported items and the reporting system approximation to the European standards.</td>
<td>BSD</td>
<td>Nov. '07</td>
<td>Not started yet</td>
<td>Director of BSD</td>
<td>First Deputy Governor</td>
<td>Each 3-month period</td>
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<tr>
<td>30</td>
<td>Establishing a structure for constant monitoring of non-bank financial institutions</td>
<td>BSD</td>
<td>June '07</td>
<td>Not started yet</td>
<td>Director of BSD</td>
<td>First Deputy Governor</td>
<td>Each 3-month period</td>
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<tr>
<td>31</td>
<td>Reviewing the examination manual</td>
<td>BSD</td>
<td>2007</td>
<td>Not started yet</td>
<td>Director of BSD</td>
<td>Supervisory Council</td>
<td>Each 3-month period</td>
</tr>
<tr>
<td>32</td>
<td>Reviewing the manual of corrective measures</td>
<td>BSD</td>
<td>Dec. '06</td>
<td>Under process</td>
<td>Director of BSD</td>
<td>Supervisory Council</td>
<td>Each 3-month period</td>
</tr>
<tr>
<td>33</td>
<td>Establishing the credit information bureau</td>
<td>ITD &amp; BSD</td>
<td>2006 - 2007</td>
<td>Under process</td>
<td>Director of BSD</td>
<td>Governor</td>
<td>Each 3-month period</td>
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</table>

**Public education**

<table>
<thead>
<tr>
<th>#</th>
<th>Description</th>
<th>Responsible Party</th>
<th>Start Date</th>
<th>Status</th>
<th>Role</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>34</td>
<td>Extending the library service even to interested persons non-staff of the Bank of Albania.</td>
<td>FREICD</td>
<td>2006 - 2008</td>
<td>Under process</td>
<td>Director of FREICD</td>
<td>Governor's office</td>
</tr>
<tr>
<td>35</td>
<td>Identifying and developing packages of training programs for media representatives or for various groups of interest</td>
<td>FREICD</td>
<td>2006 - 2008</td>
<td>Under process</td>
<td>Director of FREICD</td>
<td>Governor</td>
</tr>
<tr>
<td>36</td>
<td>Organizing open lectures with free participation</td>
<td>FREICD &amp; Departments</td>
<td>2006 - 2008</td>
<td>Not started yet</td>
<td>Director of FREICD</td>
<td>Governor</td>
</tr>
<tr>
<td>37</td>
<td>Organizing open meetings in various districts of the country.</td>
<td>FREICD &amp; Departments</td>
<td>2006 - 2008</td>
<td>Under process</td>
<td>Director of FREICD</td>
<td>Governor</td>
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<tr>
<td>No.</td>
<td>Description</td>
<td>Responsible Institution(s)</td>
<td>Start Date</td>
<td>Status</td>
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<tr>
<td>38</td>
<td>Drafting questionnaires for obtaining the public’s opinion on various relevant issues</td>
<td>FREICD</td>
<td>Dec. ’06</td>
<td>Under process</td>
<td>Director of FREICD</td>
<td>Governor’s office</td>
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<tr>
<td>39</td>
<td>Re-designing the Bank of Albania website</td>
<td>FREICD &amp; ITD</td>
<td>Jan. ’07</td>
<td>Under process</td>
<td>Director of FREICD</td>
<td>Governor</td>
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<tr>
<td>40</td>
<td>Re-designing the Bank of Albania intranet</td>
<td>FREICD &amp; ITD</td>
<td>August ’07</td>
<td>Not started yet</td>
<td>Director of FREICD</td>
<td>Governor</td>
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<td>41</td>
<td>Designing and carrying out a series of TV programs on banks, economy, laws and money</td>
<td>FREICD, MPD, RD, MOD, BSD &amp; SD</td>
<td>2006 - 2008</td>
<td>Under process</td>
<td>First Deputy Governor</td>
<td>Governor</td>
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<tr>
<td>42</td>
<td>Creating a hoarding with Bank of Albania publications at commercial banks</td>
<td>FREICD &amp; AD</td>
<td>Dec. ’06</td>
<td>Just started</td>
<td>Director of FREICD</td>
<td>Governor</td>
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<tr>
<td>43</td>
<td>The “Bank’s day” in Albania</td>
<td>FREICD &amp; Bankers’ Association</td>
<td>2007 - 2008</td>
<td>Not started yet</td>
<td>Director of FREICD</td>
<td>Governor</td>
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<tr>
<td>44</td>
<td>Informative campaign for Albanians living abroad.</td>
<td>FREICD</td>
<td>Dec. ’07</td>
<td>Not started yet</td>
<td>Director of FREICD</td>
<td>Governor</td>
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<tr>
<td>45</td>
<td>Preparation and electronic dissemination of Bank of Albania publications</td>
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<td>Dec. ’07</td>
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<td>Director of FREICD</td>
<td>Governor’s office</td>
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<td>46</td>
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<td>Director of FREICD</td>
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<td>48</td>
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<td>Not started yet</td>
<td>Director of SD</td>
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<td>50</td>
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<td>Reviewing the quality of the database of reporting from commercial banks, ASSR – Automatic System of Statistical Reporting</td>
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<td>Not started yet</td>
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<td>51</td>
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<td>Reporting coverage by other financial institutions and compiling the financial flows in monetary and financial statistics</td>
<td>Dec. '08</td>
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<td>52</td>
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<td>Improving the compilation of safeguards services according to the IMF manual of the Balance of Payments</td>
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<td>SD</td>
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<td>Not started yet</td>
<td>Director of SD</td>
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<td>58</td>
<td>Surveys on Foreign Direct Investments and International Positions of Investments</td>
<td>SD</td>
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<td>59</td>
<td>Re-evaluation of securities held for investment, using the fair value.</td>
<td>SD &amp; BSD</td>
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<td>Not started yet</td>
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<td>60</td>
<td>Re-defining the data publication standards and their review</td>
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<td>Dec. ’07</td>
<td>Not started yet</td>
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<td>61</td>
<td>Improving the statistical data service for the users of the Bank of Albania statistics.</td>
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<td>Director of ITD</td>
<td>First Deputy Governor</td>
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<td>62</td>
<td>Maintaining the database of the real sector statistics collected by the Bank of Albania, its updating and enrichment.</td>
<td>SD, ITD, RD, MPD</td>
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<td>Co-ordination of the SDDS project</td>
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<td>65</td>
<td>Compiling the module of the international reserve data and forex liquidity</td>
<td>SD, MOD&amp; MoF</td>
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<td>Not started yet</td>
<td>Director of SD</td>
<td>First Deputy Governor</td>
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<td>66</td>
<td>Compliance with International Financial Reporting Standards (IFRS)</td>
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<td>APD &amp; LD</td>
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<td>Director of APD</td>
<td>First Deputy Governor</td>
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<td>71</td>
<td>Preparing and publishing the “Red Book” standards</td>
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<td>2007 - 2008</td>
<td>Not started yet</td>
<td>Director of APD</td>
<td>First Deputy Governor</td>
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<td>72</td>
<td>Adoption, application and the regulatory basis of the international information security standard ISO/ANSI 17799</td>
<td>ITD &amp; Other Departments</td>
<td>2006 - 2010</td>
<td>Under process</td>
<td>Director of ITD</td>
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<td>73</td>
<td>Creating the second computer room outside the central building</td>
<td>ITD &amp; AD</td>
<td>2007 - 2008</td>
<td>Under process</td>
<td>Director of ITD</td>
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<td>74</td>
<td>Establishing information networks in Bank of Albania branches</td>
<td>ITD, APD, ID, AD &amp; SPD</td>
<td>2006 - 2007</td>
<td>Under process</td>
<td>Each 3-month period</td>
<td>Establishing networks, on-line links of the head-office with the branches, and implementing to the branches the same systems used at the head-office.</td>
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<td>75</td>
<td>Improving the accounting and the treasury system</td>
<td>ITD, APD &amp; ID</td>
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<td>Not started yet</td>
<td>Each 3-month period</td>
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<td>76</td>
<td>Electronic communication between the information network of the Bank of Albania and the network of the Ministry of Finance</td>
<td>ITD, APD, MoF &amp; Montran Company</td>
<td>2006 - 2007</td>
<td>Under process</td>
<td>Each 3-month period</td>
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<td>Establishing a system for foreign reserve risk management</td>
<td>ITD &amp; MOD</td>
<td>2006 - 2007</td>
<td>Not started yet</td>
<td>Each 3-month period</td>
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<td>78</td>
<td>Establishing an electronic system in the field of regulatory acts administration</td>
<td>ITD &amp; LD</td>
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<td>Not started yet</td>
<td>Each 3-month period</td>
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<td>Automatic data posting through the payment system.</td>
<td>ITD &amp; APD</td>
<td>Dec. '06</td>
<td>Under process</td>
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<td>80</td>
<td>Introducing the bonuses system in the rewards policy of the Bank of Albania staff</td>
<td>HRD</td>
<td>Nov. '06</td>
<td>Under process</td>
<td>Supervisory Council</td>
<td>Nearing completion</td>
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<td>81</td>
<td>Evaluating the work positions at the Bank of Albania</td>
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<td>June '07</td>
<td>Director of HRD</td>
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<td>83</td>
<td>Developing the performance assessment system</td>
<td>HRD</td>
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<td>84</td>
<td>Banknote re-printing</td>
<td>ID</td>
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<td>Director of ID</td>
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<td>85</td>
<td>2,000 Lek banknote printing</td>
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<td>86</td>
<td>Replacing the 100 Lek note with the 100 Lek coin</td>
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<td>87</td>
<td>Reviewing the procedures and regulations of branches</td>
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<td>Director of ID</td>
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<td>88</td>
<td>Issuing for numismatic purposes</td>
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<td>Setting up a cash processing centre</td>
<td>ID &amp; DA</td>
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<td>Re-structuring the Audit Department to be adjusted to new developments in the audit profession and to attain the medium term targets.</td>
<td>AD</td>
<td>Dec. ‘06</td>
<td>Under process</td>
<td>General Inspector</td>
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<td>91</td>
<td>Identifying and detailing Bank of Albania functions and assessing their risk</td>
<td>AD &amp; other departments</td>
<td>2006 – mid 2008</td>
<td>Under process</td>
<td>General Inspector</td>
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<td>92</td>
<td>Two-year work plans</td>
<td>AD</td>
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<td>General Inspector</td>
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<td>Education with the internal audit functions through preparing the educational materials and presentations</td>
<td>AD</td>
<td>2007 - 2008</td>
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<td>General Inspector</td>
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<td>94</td>
<td>Standardizing the documentation, reviewing the regulation and the examination manual</td>
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<td>2007 - mid 2008</td>
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<td>95</td>
<td>Work conditions at the Bank of Albania</td>
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<td>96</td>
<td>Project for a new building and reconstruction of the current building of the Bank of Albania in Tirana</td>
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ABBREVIATIONS

1 LD – Legal Department
2 MPD- Monetary Policy Department
3 MOD- Monetary Operations Department
4 RD- Research Department
5 BSD – Supervision Department
6 SD- Statistics Department
7 FREICD – Foreign Relations European Integration Communication Department
8 HRD – Human Resources Department
9 ID – Issue Department
10 AD – Audit Department
11 AD – Administration Department
12 APD – Accounting and Payments Department
13 ITD- Information Technology Department
14 SPD – Security and Protection Department
15 INSTAT – Institute of Statistic
16 ITTF – Inflation Targeting Task Force
17 MPC – Monetary Policy Committee
18 MI – Ministry of Integration
19 MoF – Ministry of Finance
NOTES


2 This regulation was amended again in November 2005.

3 The growth of credit outstanding was 11.9 billion in 2003, 19.3 billion in 2004 and 57.3 billion in 2005.

4 The existing contractual relationship between Albania and the EU is based on The Trade and Cooperation Agreement (1992). Once the SAA enters into force, it will substitute the Trade and Cooperation Agreement.

5 The Annex presents in a table, all the projects planned to be carried out, the schedules, the departments or institutions that collaborate and other data.

6 These sectors are: financial sector, external sector, fiscal sector and real sector.