

## CHAPTER V. OTHER ACTIVITIES OF THE BANK OF ALBANIA

### V.1 PAYMENT SYSTEM

- Objectives of the system

One of the main tasks of the Bank of Albania (pursuant to the Law “On the Bank of Albania”) is the encouragement and support of the development of a safe and efficient payment system.

In terms of promoting normal functioning of the payment system, the Bank of Albania is involved not only in drafting and reforming the regulatory and procedural framework for the payment system and instruments, but also in supervising the operations, being simultaneously the only institution that organises and facilitates the settlement of payments and securities in the country.

The intention of the Bank of Albania has been and continues to be the establishment of a payment system in compliance with 10 Core Principles on important payment systems, stipulated by BIS/CPSS.

- Communication and transparency

One of the responsibilities of the Bank of Albania as a central bank, in compliance with the core principles on important payment systems, is to supervise the system in an effective, responsible and transparent way.

To coordinate the work of all the participants in the system, the Bank of Albania has established a permanent inter-bank forum, the National Payments Committee. This Committee is summoned regularly to consult with, and to approve inter-bank agreements that are aimed at good functioning of the payment system in Albania. As part of the consultation mechanism, representatives from commercial banks are invited regularly (committees of coordinators on projects under process are established) to present their suggestions for upgrading the system.

The Bank of Albania discloses continuously information on payment system developments, on respective regulatory framework, and is engaged in the national campaign of channelling cash through the banking system.

#### V.1.1 PAYMENT SYSTEM DEVELOPMENTS

- Albanian interbank payment system – AIPS

Further to a prudential and intensive work done during 2003, January 2004 inaugurated the initiation of operations of the Albanian Interbank Payment

System (AIPS). It was an important project and was regarded as an essential infrastructure connecting almost the whole banking system. The system is implemented in accordance with best international standards and principles, based on modern and up date technology. The project was implemented under the assistance and counselling of the World Bank.

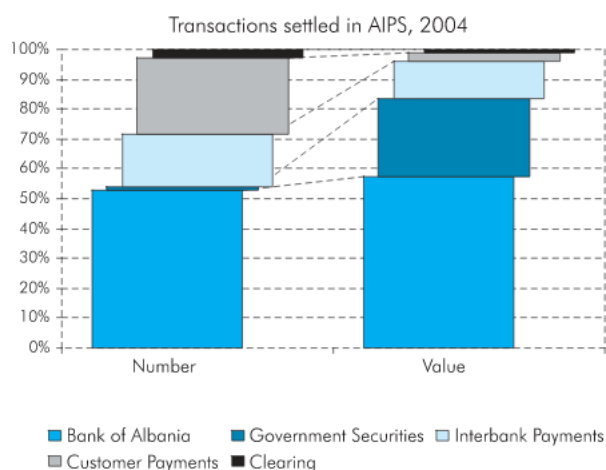
The system aims at:

- i) Improving security and efficiency in the banking system, enabling fast and electronic exchange and settlement of large-value payments between banks;
- ii) Providing the Bank of Albania with an efficient tool for systemic risk management; and
- iii) Establishing a proper technical and operational platform for further development of the payment system and related financial systems.

The Bank of Albania and all commercial banks are system participants (Dardania Bank is an indirect participant). The Bank of Albania is in the role of the owner of the system. It organizes, administrates, operates and oversees the system.

The AIPS executes gross settlement in real time of all large-value payments (otherwise categorized as systemically important payments, currently at a value of above ALL 1 million) within the territory of Albania, in an irrevocable and unconditioned way. (Banks have possibilities of assigning and managing priorities on their payments). The system enables the participants to better monitor and manage their liquidities. (The system ensures information in real time on account statement, free reserves, queued payments for settlement). Also, the AIPS creates the possibility of lending by the Bank of Albania to commercial banks, with the purpose to meet banks' needs for intraday liquidity and to guarantee normal functioning of the system, in accordance with approved decisions and objectives of the monetary policy.

Chart V.1 Dissemination of transactions by AIPS



Legal grounds for the functioning of the system are: the Regulation on "Rules and Procedures of Albanian Interbank Payment System - AIPS" adopted with the decision No. 103, dated 10.12.2003 of the Supervisory Council, the System Participation Contract, and Rules and Procedures for Each Participant in the System. Also, the Regulation "On intraday credit" was adopted during 2004, with the decision No. 20, dated 24.03.2004, where respective agreements between the Bank of Albania and commercial banks were based on.

During 2004, a volume of 2,176 billion ALL was circulated through the AIPS, where approximately 58 percent was composed of BoA initiated transactions, 25 percent by securities

transactions, whereas 17 percent by inter-bank and customer transactions. Transactions initiated by the Bank of Albania were composed mainly of monetary transactions (foreign exchange operations, securities investments, loans and deposits – 72 percent), cash transactions (the Bank of Albania supplies its branches and commercial banks with cash – 14 percent) and state budget transactions (transactions performed with the state budget account – 14 percent).

	Number	Value (€)
Bank of Albania*	15,143	1,254.10
Government securities (auctions)	216	559.21
Inter-bank payments	5,075	276.15
Gross settlements to customers (Payment order above 1 million ALL)	7,407	63.53
Net clearing (Payment orders up to 1 million ALL + Cheques)	739	23.44
Total	28,580	2,176.42

Table V.1 Dissemination of transactions in number and value (ALL billions)

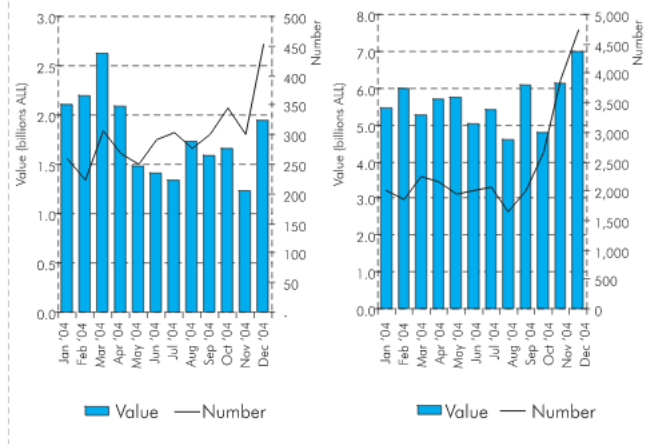
- Clearing service

Clearing service (provided by the Bank of Albania since 1997), supplies the processing and clearing of low value payment instructions and of paper instruments initiated by banks' customers.

The Bank of Albania enables net settlement of all low value payments, channelled into the system by banks at end of clearing session. Since 1999 most of payment orders have passed into the clearing through the SWIFT network, whereas the cheque clearing has been realized through their physical exchange at clearing sessions taking place daily at the Bank of Albania. The execution of these net settlement instruments is carried out through the AIPS.

During 2004, the payments of up to 1 million ALL were channelled through the clearing system (payment orders exceeding this value pass directly to AIPS, where gross settlements are made). The most used instrument during 2004 was the payment order, by 89 percent of the volume of payments and almost 76 percent of the value of payments to customers. The use of cheque as a payment instrument continues to remain in modest levels. The most useful type is the banking cheque.

Chart V.2 Use of cheques (on the left) and payment orders (on the right) over 2004



Value (ALL billions)	1998	1999	2000	2001	2002	2003	2004
Payment orders	22.50	25.60	28.00	32.90	40.90		67.16*
Cheques	15.50	24.40	26.30	28.90	31.80		21.40

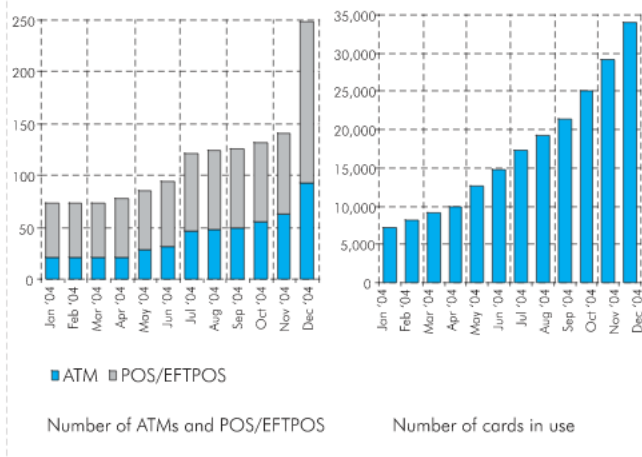
Table V.3 Use of cheque and payment order

- Electronic means

Year 2004 marked another step forward in the banking system efforts to improve and modernize the payment infrastructure, further investing in terms of using electronic payment means.

The number of accepting terminals has been increasing, a trend more obvious during the second half of 2004. At end of 2004 the number of ATMs amounted to 93, whereas that of POS/EFTPOSs was 155, against 22 and 53 respectively for end of 2003. According to banks' reporting to the Bank of Albania, the card accepting equipment (ATMs and POSs) operate mainly in lek.

Chart V.3 Performance of electronic payment systems



Only during 2004, the number of (cash, debit and credit) cards in use was increased by about 3.7 times (34,094 cards were counted on December 2004). Cards are mainly issued in lek, whereas the mostly used type is the cash card. We emphasize that given the recent developments in the provided services and the extension of card accepting equipment network, banks are adjusting their cash cards into debit cards. So, the same card may be easily used either at bank's ATMs or at any other point (POS/EFTPOS), where that card is accepted. Also, the majority of issued cards, function currently as one currency – one card, whereas only a small number of cards allow their user to have access to more than one currency.

### V.1.1 FUTURE PROJECTS ON PAYMENT SYSTEM

- Automated Electronic Clearing House system – AECH

In line with the objective of developing a reliable, safe and integrated payment and clearing system, the second step undertaken during 2004 by the Bank of Albania was the initiation of implementation of the project on Automated Electronic Clearing House (AECH). This system that will be based on and integrated into the AIPS will enable the automation of clearing service currently provided by the Bank of Albania for processing low value payments. This project is being implemented under the assistance and counselling of the World Bank.

The implementation of this system (forecasted for the second half of 2005) will bring about significant improvements in the payment system in terms of automation of processes and simultaneously in terms of increasing the accuracy and speed, and reducing the processing cost.

AECH system enables the net settlement of all low value payments, channelled electronically into the system by banks (participation is similar to that of the AIPS), at certain hours (at end of clearing session (s)). The execution of these net settlement instructions will be conducted irrevocably in the AIPS. Banks have the possibility to monitor and manage the queue of batch payments and their liquidity.

- Card clearing project

Further to its objectives for increasing the circulation of money through the banking system, and in its role as the promoter of introducing new instruments of development and necessary infrastructure for modernizing the payment system, the Bank of Albania has in its projects the establishment of a system for electronic card clearing. The main purpose is to facilitate the use of electronic cards to customers and to clear the operations performed in domestic currency.

## V.2 EUROPEAN INTEGRATION AND INTERNATIONAL COOPERATION

### V.2.1 EUROPEAN INTEGRATION

Official negotiations for signing the Stabilization and Association Agreement between Albania and the European Union continued even during 2004. The Bank of Albania, which cooperates the work of relevant institutions in the process of the agreement with the European Union, has been an active participant in the Albanian government negotiation team.

In the framework of commitments deriving from the Stabilization and Association process, the Bank of Albania has cooperated and continues to cooperate with the Ministry of European Integration on drafting a National Plan for Approximating the Legislation, being focused on issues that have to do with chapter 4 (free capital movement) and chapter 11 (economic and financial union) of the European legislation.

At the same time, the Bank of Albania has prepared a preliminary version of the matrix on capital account liberalization. The drafting of this matrix is made by being based on obligations deriving from the draft Stabilization and Association Agreement and taking advantage of the experience of the region countries that have been engaged in the same process. The first estimates from the Executive Board of Economic and Financial Issues of the European Commission have been positive.

The strategic goal of the Bank of Albania is the institutional, organizational and operational approximation to the European System of Central Banks and more concretely to the European Central Bank. To this end, one of the issues of the Protocol of Albania's Economic Cooperation with the Federal Republic of Germany requires the provision of assistance for approximation to the European Central Bank. During 2004, in cooperation with the GTZ, a clear program was defined for the technical assistance to be offered by European experts along with necessary steps for implementation of this assistance. At the same time, the need for twinning relations of the Bank of Albania with a member bank of the European System of Central Banks is outlined, aiming at absorbing the expertise in a more constant basis during the approximation process.