

## CHAPTER V OTHER ACTIVITIES OF THE BANK OF ALBANIA

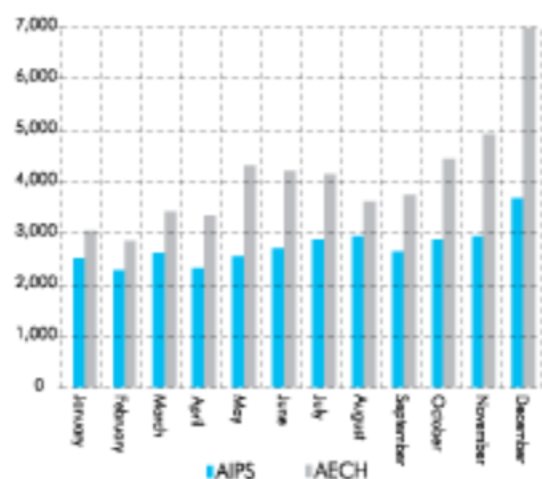
### V.1 PAYMENT SYSTEM DEVELOPMENTS

#### V.1.1 PAYMENT SYSTEM DEVELOPMENTS IN ALBANIA

Payment system in Albania has already created the physiognomy of a modern system from the regulatory and operational viewpoint. Year 2006 recorded the meeting of basic infrastructure for further modernising the payment system in particular and the financial system in general. The number of transactions processed during 2006 increased by 13 percent, compared to 2005, and the value of transactions increased by 21 percent during 2006, amounting to ALL 2,664.43 billion.

The outcomes of the systems for the settlement of large-value payments (Albanian Interbank Payment System) and low-value payments (Automated Electronic Clearing House) indicate not only increased number of payments carried out, but also larger effectiveness of both systems. The Bank of Albania has provided low commissions, intending reduced transaction costs among banks and customers' approaching to banks' windows. During the past year, technological improvements were made for both systems, influencing on enhancement of effectiveness and competition among banks, as well as on a more rapid development of services market.

Chart 1 Number of transaction in payment systems: AIPS and AECH for 2006



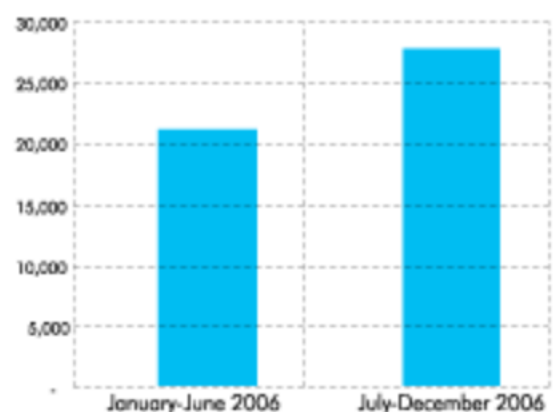
Source: Bank of Albania

#### V.1.2 PAYMENT SYSTEM STATISTICS AECH AND AIPS

Compared to 2005, the average daily number of payments (in both systems) has increased from 312 to 352 or to 40 transactions more per day<sup>1</sup>. In 2006, a new bank was added to the payment system, leading the number of participants to 17 banks.

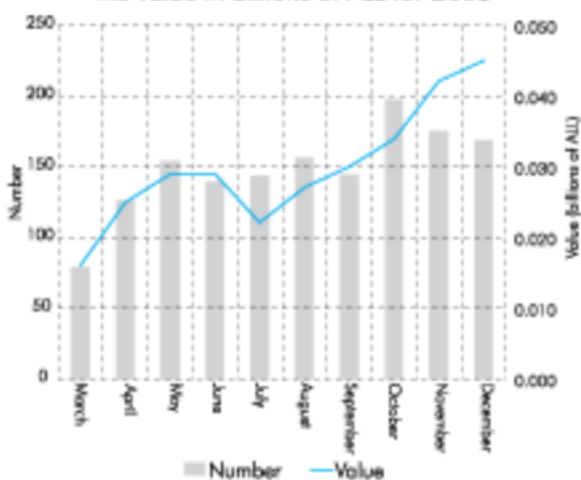
The increased number of transactions channelled into the AECH, by about 49 thousand, and in consequence also their value of about ALL 8 billion should be regarded as a satisfactory growth,

Chart 2 Number of transactions in the AECH system in 2006



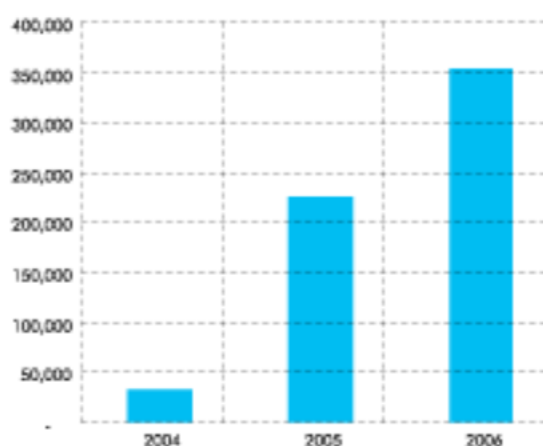
Source: Bank of Albania

Chart 3 Number of settlements by VISA and the value in billions of ALL for 2006



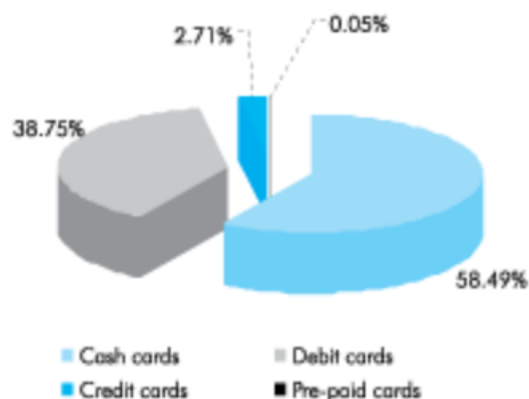
Source: Bank of Albania

Chart 4 Performance of number of cards in circulation by years



Source: Bank of Albania

Chart 5 Cards structure, 2006



Source: Bank of Albania

though it should be taken into account that the system capacity offers possibilities similar with more advanced standards.

On March 2006 the e-payment settlement by VISA cards started through AIPS. Presently, 6 member banks are included in this scheme, carrying out in total a volume of payments of ALL 0.30 billion. The following chart presents settlement performance by Visa cards.

Banking cheque is another payment instrument, which continued to be used manually during 2006. It should be underlined that its use is in modest levels and more concretely, the total value of cheques cleared throughout the year was approximately ALL 4 billion.

Year 2006 was also associated with increase and variety in e-payment instrument use. The number of cards increased nine-fold during 2006, compared to 2004. Compared to 2005, the number increased by 127,552 cards, by almost 56 percent.

Out of total cards issued, the number of cash cards dominates. Nevertheless, during 2006 the debit cards number was increasing, accounting for 38.75 percent of total cards in circulation.

Also, another positive indicator is the increased credit cards number by 5,816, occupying 2.71 percent of total cards. This indicates a curtailing of cash in circulation year on year, and increased lines of consumer credit.

It is obviously noticed that the increased number of issued cards was associated with increased volume of transactions. During 2006 the transactions number went up from 644,987 in January, to 1,697,301 in December. Whereas, the total value of card transactions at year-end amounted to ALL 187.66 billion.

Parallel to increased number of cards, the number of ATMs and POS has also increased. In consequence, this year was associated with extension of ATMs in the territory of Albania.

The following chart shows that, compared to the preceding years, the increase is respectively 130

ATMs and 404 POS, implying that banks have increased the number of terminals at points of sales and ATMs, once the number of card users went up, so as to better satisfy the customer demand.

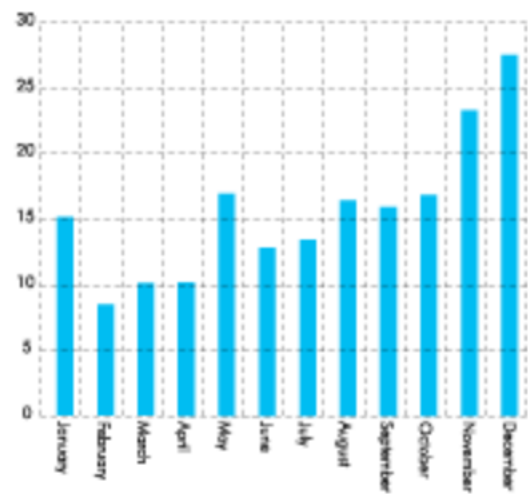
The establishment of an electronic communication between the Bank of Albania and the Ministry of Finance and the respective interfaces between the payment system and the system that the Ministry of Finance is implementing for treasury management is a project initiated during the past year. The completion of this project in 2007 will be associated with a shortening of time for the operation of treasury operations, a better liquidity management and an increased security of the system.

### V.1.3 PAYMENT SYSTEM SUPERVISION

The mission of payment system surveillance at the Bank of Albania is reduction of the system risk and enhancement of its efficiency in compliance with the EU directives and standards applied by central banks of the EU countries. The Payment System Surveillance Office established to this end is working for approximating the regulatory basis and for applying it into practice.

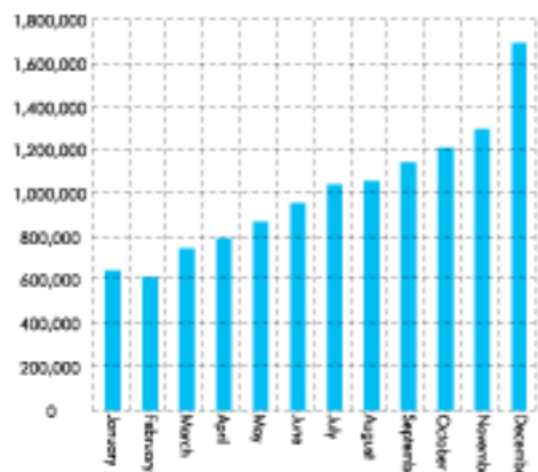
1. New regulations and manuals completed over 2006
  - a. Manual "On Payment Division procedures for the settlement of VISA operations through AIPS",
  - b. Draft-regulation "On carrying out the ALL-denominated cheque clearing at the Bank of Albania", which after consultation also with commercial banks, was adopted by the Supervisory Council of the Bank of Albania on 15.11.2006.
2. New regulations under process
  - a. Regulation "On electronic payments"
  - b. Draft-regulation on "Direct debit".

Chart 6 Value of cards transactions in 2006



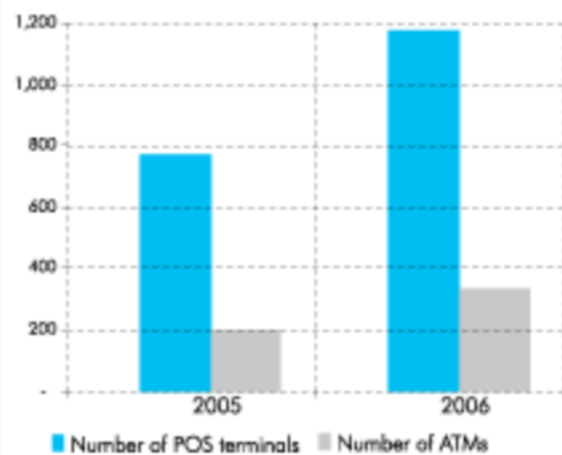
Source: Bank of Albania

Chart 7 Number of cards transactions in 2006



Source: Bank of Albania

Chart 8 Number of ATMs and POS 2005 - 2006



Source: Bank of Albania

### 3. Existing regulations reviewed

The work for reviewing the regulations on AIPS and AECH has already started. It will be finalised in 2007.

#### V.1.4 INCENTIVES FOR PAYMENT SYSTEM ENHANCEMENT DURING 2007

##### a. Albanian payment system law

To further fulfil the regulatory aspect of a modern payment system, the need to draft the Albanian law on the payment system has arisen. Its drafting will be carried out in cooperation with the Bank of Albania, the financial system and the Albanian government. During 2007 the preparation of a platform for such a law is intended.

##### b. IBAN

Further to EU directives for the countries aspiring accession to the EU, the main cause in terms of the payment system is the existence of the IBAN in all transactions of payments effected within the Euro area. In 2007 an informing material will be introduced for commercial banks and a regulatory basis will be designed, having its implementation by banks in the future as final goal.

##### c. Drafting of the policy of payment system supervision

During 2007 work will be carried out for drafting a policy on payment system supervision, implementing the Bank of Albania's function as the supervisor of the payment system in Albania and enhancing transparency with commercial banks as participants of this system.

##### d. Red Book

The perfection of payment instrument ratios by commercial banks will be aimed at, in order to pass to the establishment of a preliminary Red Book model and then to its publication.

#### V.2 EUROPEAN INTEGRATION AND INTERNATIONAL COOPERATION

##### V.2.1 EUROPEAN INTEGRATION

On June 12, 2006, the Republic of Albania signed the Stability and Association Agreement with the European Community and the Member States. After the Ratification by the Albanian Parliament of the Stabilisation and Association Agreement on July 27, 2006, the Stabilisation and Association Agreement is expected to enter into force, after the ratification by the parliaments of the member states of the EU, thus replacing the Trade and Co-operation Agreement of 1992 between the EU and Albania. The Bank of Albania has been actively committed to official and technical negotiations for the signing of the Stabilisation