

CHAPTER 5 OTHER ACTIVITIES OF THE BANK OF ALBANIA

5.1 DEVELOPMENTS IN THE PAYMENT SYSTEM

A safe and efficient payment system is indispensable to successfully implement the monetary policy, to pay off transactions in financial markets and to the financial stability at home.

The Bank of Albania owns and administers two payment systems in Lek: 'The real-time gross settlement system – AIPS' and 'The automated electronic clearing house system – AECH' - already in operation for almost four years, which suggests with every passing year steps toward the modernization and efficiency of the systems.

5.1.1 THE PERFORMANCE OF THE AIPS AND AECH SYSTEMS DURING 2007

The number of processed transactions in the AIPS system during 2007 has increased by 17% relative to 2006. While payments processed in the AECH system during 2007 have almost doubled, with a growth of 47% relative to 2006. This suggests of higher public confidence in using the banking system to pay off financial dues. On average, there are around 183 transactions processed every day in the AIPS system, with a total value of 15.1 billion Leks. Meanwhile, there are 290 transactions in the AECH system with a daily total value of 48 million Leks.

The following tables indicate the number and total value of processed payments in the AIPS and AECH systems respectively, during 2007 vis à vis 2006:

	2006	2007
The AIPS system		
The number of transactions	38,793	45,480
The value of transactions (in billion Leks)	3,376	3,745
The average value of transactions (in million Leks)	87.01	82.34
The AECH system		
The number of transactions	48,889	71,857
The value of transactions (in billion Leks)	7.77	11.99
The average value of transactions (in million Leks)	0.16	0.17

Table 1 Transactions by systems

In addition to the growing number of processed transactions in these systems, their value has seen considerable growth as well. The growth of values of processed transactions into the AIPS and AECH systems in 2007 is at 11 and 56% relative to 2006. The total value of paid off balances in the

payment systems during 2007 is almost 4 times as high as the value of the gross domestic product (GDP) for the year.¹

In a more detailed fashion, the types of transactions processed in the AIPS system during 2007 and their relative share are indicated in the table below:

Table 2 Types of payments

Type of payment	Volume		Value (in billion Leks)	
	Absolute value	Relative share	Absolute value	Relative share
BoA transactions	7,467	16.4%	2,166.55	57.9%
Fund transfers, cash	8,455	18.6%	221.43	5.9%
Inter-bank payments	7,831	17.2%	664.49	17.7%
Payments to clients	16,506	36.3%	134.93	3.6%
Disbursements (net basis)	3,224	7.1%	8.99	0.2%
Disbursement of government' securities	1,997	4.4%	548.46	14.6%
Total	45,480	100%	3,744.85	100%

Vis à vis the same indicators of the last year, considerable share in the increase of the number of transactions takes the number of payments to clients. With regards to the transaction value, transactions initiated by the Bank of Albania and interbank transactions display higher rates of value growth. In 2007 there has been a drop in the number and payments value for disbursing government's securities, in contrast with the overall inclination of payments.

During the 1-year period, clearance of payments with an average value has been higher in the first session rather than in the second, while the highest volume of payments has cleared in the second session. From the perspective of monitoring and assessing the payment systems' stability, payments have concentrated at particular nodes of the net. Concentration indicators for both AIPS and AECH systems are shown below:

Table 3 Payment concentration (AIPS)

	Transaction volume	Transaction value (billion Leks)
AIPS System	Share/Total	Share/Total
3 Banks ²	33%	30%
5 Banks	45%	39%
Total (absolute value)	45,480	3,745

Table 4 Payment concentration (AECH)

	Transaction volume	Transaction value (billion Leks)
AECH System	Share/Total	Share/Total
3 Banks ³	50%	53%
5 Banks	66%	65%
Total (absolute value)	71,587	11,997

In 2007, the indicator of intra-day loan facility (ILF) is not of lesser importance. We stress that the intra-day loan has a collateral at 0 interest, that the Bank of Albania offers to commercial banks in order to administer daily liquidity. Intra-day loan allocation procedures are pretty simple and funds flow within 10:00 A.M. following bank's request. Relative to 2006, the number and value of flowing ILFs have increased by 52% and 47% respectively in 2007.

	2006	2007
The number of transactions	444	675
The value of transactions (in billions of Lek)	146.32	217.51
The average value of transactions (in millions of Lek)	329.55	322.24

Table 5 Intra-day loan facility

During 2007, 11 out of 17 banks participating in the AIPS system have made use of intra-day loans (3 banks have used it relatively more than in 2006). Based on the analysis of transaction-concentration per each bank and with regards to the frequency of credit flows, 5 banks have actively used this tool in order to administer daily liquidity. On the other hand, the highest intra-day loan value allocated to banks, around 85% of the total value, has concentrated only in two banks. Considering the payment system as a whole, the Bank of Albania offers both the clearance and disbursement services on a net basis of the value of processed checks by other banks. The use of paper-checks as payment method has been declining during 2007 as well. Results show 45% less disbursed checks and 65% less disbursed monetary value, relative to 2006. The primary reason for this is the increasingly diminishing use of bank checks.

	2006	2007
Number of disbursed checks	994	544
Check value (in billions of lek)	3.76	1.33

Table 6 Check disbursement in AIPS

5.1.2 ELECTRONIC PAYMENTS INSTRUMENTS

The electronic payments instruments and the number of electronic-based transactions are increasing ever more. The performance of the number of bank cards in use and of ATM and POS machines that enable card-holders to carry out electronic transactions is illustrated in the table below. The number of cards in use, primarily debit/cash cards grew considerably during 2007, by approx. 74% relative to 2006. The number of card-operating stations, mainly POS ones (which facilitate payments for goods and services purchased in retail centers) has increased also, by 47% relative to their number at end-year 2006. With regards to geographical distribution of ATM and POS machines made available by banks, we can state that they are highly concentrated in Tirana, respectively with a share of 78% and 59% of the total number of machines. However, it is worthy of note the increasing propensity for their market-stretch in other cities of Albania.

	2006	2007
Number of transactions (thousands)	8,053	9,249
The value of transactions (billions of Lek)	47.81	59.04
The average value of transactions (Lek)	5,940	6,390

Table 7 Debit Cards

	2006	2007
Number of cards (thousand)	176	363
The value of transactions (billions of Lek)	3.2	5.3
The average value of transactions (Lek)	18,207	14,635

Table 8 Credit Cards

Based on statistical data reported by banks, the number and value of card-based transactions has increased by respectively 17% and 26%. However, this growth is not at the same rate as the growth in the number of cards or card-operating machines. This is due to the fact that even though the number of cards in use has increased, card-holders do not exert enough confidence or do not have the right opportunity to use the card as a payment method. In other words, in proportion with the total population number⁴, on average, only 1 in 5 persons is a card-holder and each holder carries no more than 16 transactions a year. Thus, the banking system is still in its first phase of using electronic payments methods, vis à vis with reported statistics from regional countries.

There is a positive trend in the use of 'home banking' as an electronic payment method. Currently, there are three banks in Albania that offer this type of service. The number of Home Banking transactions increased by 122% in 2007 relative to 2006, while the value of these processed transactions increased by 188% in 2007 relative to 2006. This is owed to the fact that two additional banks offered this type of service in 2007. Following the agreement with the VISA company for the disbursement of visa-transactions in Lek, the Bank of Albania facilitated its disbursement through the AIPS system. The number of banks that participated in this disbursement increased during this year to 8 banks, relative to 2006's 5 banks. Vested with the responsibility of a clearing house, the VISA company prepares the net amounts for each bank and sends them to the Bank of Albania, in order to be disbursed through AIPS. The net disbursement activity is shown in the table below:

Table 9 Visa disbursement

	2006	2007
The number of net disbursement transactions	1,487	2,481
The value of transactions (millions of Lek)	299	518

5.2 DEVELOPMENTS IN INTERNAL AUDIT

Bound by article 54 of the law no. 8269 dated 23/12/1997 'On the Bank of Albania' of the Audit Department regulation approved by decision No. 59 of the Supervisory Council dated 04/07/2001, and referring to international and internal audit standards, the audit inspectors have audited the administration and operations of the central bank, the general ledger and other statements, and the budget, accounting and control procedures.

Based on findings, evaluations and recommendations made by audit sessions that took place in 2007, we are of the opinion that the general ledger and other statements truly reflect the financial situation and they are in accordance with the Accounting Manual of the Bank of Albania and the law 'On the Bank of Albania'. The financial statements have been duly prepared and they are free from material misstatement. They provide a true and fair view of the Bank of Albania financial position.

The audit process of the Bank of Albania units shifted in 2007 to the audit of the central bank's functions and their processes. The shift in the audit