

Celebrating the 100th Anniversary of the Albanian State's Independence, the Bank of Albania presented its touring numismatic exhibition '100 years of Independence: Our history reflected in the national currency', which travelled through seven cities of Albania, and Pristina, the capital city of Kosovo. These exhibitions brought about an innovation in activities organised not only by the Bank of Albania, but also by the whole country, since they were the first of this kind for both the way objects were displayed in stand-boards, and the blended presentation of Albania's history with that of the national currency. The exhibitions displayed the main moments of Albania's history, distinguished personalities of the Albanian state reflected in configurations, writings and dates of all banknotes and coins that have circulated in Albania since the Declaration of Independence.

IV.2 PAYMENT SYSTEM

To accomplish its legal responsibilities on payment systems, the Bank of Albania promotes the smooth functioning of payment systems, aiming at supporting monetary policy implementation and maintaining financial stability and public confidence in the national currency. In order to reach this objective, the Bank of Albania acts as an operator, supervisor and catalyser of the payment systems.

In 2012, interbank transactions in the national currency were cleared and settled with efficiency and security conform to the rules and procedures of both systems operated and administered by the Bank of Albania: Albanian Interbank Payment System – AIPS for the settlement of large-value payments and the Albanian Electronic Clearing House – AECH for clearing small-value payments. At end-2012, all banks and branches of foreign banks operating in the Republic of Albania were direct participants in the payment systems.

IV.2.1 AIPS AND AECH SYSTEMS

- *ALBANIAN INTERBANK PAYMENT SYSTEM - AIPS FOR LARGE-VALUE PAYMENTS*

In 2012, about 77,090 transactions totalling about ALL 6,743 billion were processed in the AIPS. This system operated for 252 days, processing about 306 transactions per day with a daily circulation of ALL 26.76 billion. Annual transactions processed in this system increased about 2.42% compared to 2011, while the value of transactions increased considerably by 65.07%. From a longer-term perspective, the AIPS has had the highest annual circulation of liquidity since its start of operation.

Table 1 AIPS activity

AIPS	2008	2009	2010	2011	2012
Number of transactions	56,717	55,701	80,356	75,269	77,090
Value of transactions (in ALL billion)	5,146	4,718	4,437	4,085	6,743
Average value per transaction (in ALL millions)	91	85	55	54	87

Source: Bank of Albania.

Customer payments had the largest share in the number of transactions to the total, whereas Bank of Albania financing instruments are the type of transactions with the main share in terms of value, despite the fact that the latter is the least used instrument in the AIPS.

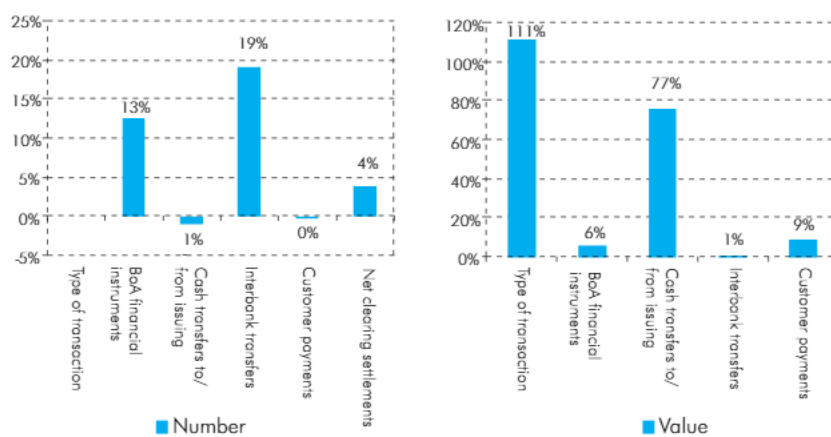
Table 2 Types of transactions in AIPS

Transactions	Number		Value (ALL millions)	
	Absolute value	Relative share	Absolute value	Relative share
Bank of Albania financing instruments	3,674	4.77%	3,778,576.42	56.03%
Cash transfers to/from the issue dept.	8,398	10.89%	224,993.73	3.34%
Inter-bank payments	8,233	10.68%	1,369,221.39	20.3%
Customer payments	49,013	63.58%	745,522.17	11.06%
Net settlement for clearing systems	7,772	10.08%	625,115.47	9.27%
Total	77,090	100%	6,743,429.18	100%

Source: Bank of Albania.

The analysis of the types of transactions processed and settled in 2012 shows that the increase in the volume of processed transactions owes mainly to 'Inter-bank transfers' and 'Bank of Albania's financial instruments', which increased by 1,321 (or 19%) and 409 (or 12.5%) transactions on a year earlier. Regarding the value, all the types of transactions increased relative to the previous year, mentioning 'Bank of Albania's financial instruments' by 111.38% and 'Interbank payments' by 76.66%.

Chart 2 Annual changes (2011-2012) in types of transactions settled through AIPS, by number and value



Source: Bank of Albania.

The concentration indicator shows the share of most active banks in total activity through AIPS. The four most active banks in AIPS account for 51.38% in number and 73.34% in value to total participant banks in the system. Also, in 2012, the total number of transactions initiated by banks was 5,567 transactions higher than in 2011 (or up by 15%).

Table 3 Concentration indicator for AIPS

AIPS	Number of transactions	Value of transactions (in ALL billion)
4 Banks*	21,854	2,885.7
Share in total	51.38	73.34
Total	77,090	6,743.4

* Excluding the Bank of Albania and the Ministry of Finance.
Source: Bank of Albania.

In 2012, the needs of participants in the AIPS for intraday liquidity were slightly higher than a year earlier. Banks were granted 270 intraday loan facilities (ILF)⁶ totalling ALL 90.8 billion, hence reflecting an annual increase by 10.2% in the number and by 7.9% in the value of the ILFs.

Table 4 ILFs in AIPS

AIPS	2008	2009	2010	2011	2012
Number of ILFs	579	207	278	200	270
Value of ILFs (in ALL billion)	221.43	120.55	74.99	84.39	90.8
Average value (in ALL millions)	382.44	582.34	269.76	421.95	336.28

Source: Bank of Albania.

ILFs throughout the years have been downward, implying increasingly significant reduction of funding AIPS transactions with ILFs. The lower ILF/total AIPS transactions shows an increasingly significant weakening of the liquidity risk in this system. In 2011, the financing through ILFs accounted for 2.07% to total circulation in AIPS, while in 2012, this indicator fell significantly to 1.35%.

• ALBANIAN ELECTRONIC CLEARING HOUSE (AECH) FOR CLEARING SMALL-VALUE PAYMENTS

The Albanian Electronic Clearing House (AECH) processes and clears customer payments below ALL 1.5 million. The system operates in three daily sessions. In 2012, about 361,552 payment orders were processed through this system, with an average value of ALL 190 thousand per settled transaction.

Table 5 AECH activity

AECH	January-December 2011	January-December 2012
Number of transactions	388,208	361,552
Value of transactions (in ALL millions)	64,097.88	66,990.11
Average value per transaction (in ALL millions)	0.17	0.19

Source: Bank of Albania.

On average, about 1,435⁷ payments, with an average daily value of ALL 265.83 million were processed daily via the AECH. Over a year earlier, the number of cleared payments dropped by 7% (or by 26,656 transactions). In terms of value, they increased slightly by 5% (or ALL 2,892.23 million). This decline is due to the reduced number of payments processed by the Ministry of Finance, given that the latter has the major share in processing

⁶ The intraday loan facility (ILF) is a financing instrument provided by the Bank of Albania to provide intraday liquidity to banks participating in the payment systems operated by the Bank of Albania.

⁷ AECH and AIPS systems operated for 252 days in total during 2012.

payments through this system. The Ministry of Finance continues to be the main contributor to processing of small-value payments, respectively by 66% in number and 58% in value. The year 2012 pointed to an increasing number of payments processed by banks (by about 32 thousand payments, excluding the Bank of Albania). This increase owes to changes in the limit value of payments, from ALL 1.0 million to ALL 1.5 million and also to the addition of a third clearing session.

The concentration indicator shows the share of the four most active banks in the AECH in total activity of the AECH. The most active banks account for 59.75% in number and 63.35% in value, to total payments made by banks participating in the AECH.

AECH	Number of transactions	Value of transactions (in ALL billion)
4 Banks*	68,061	17.13
Share in total	59.75	66.35
Total	361,552	66.99

Table 6 Concentration indicator for AECH

* Excluding the Bank of Albania and the Ministry of Finance.

Source: Bank of Albania.

IV.2.2 PAYMENT INSTRUMENTS

Banks' statistics show that as at end-2012, customer accounts in lek or foreign currency increased by 3%, from 7.7% in 2011.

Table 7 Customer accounts

Account description	Total customer accounts			Accessible online		
	2010	2011	2012	2010	2011	2012
Customer accounts (1+2)	2,446,495	2,634,971	2,724,668	27,368	37,138	54,926
1- Resident accounts (a+b)	99%	99%	99.3%	97%	98%	98%
a - Individuals (%)	92%	94%	94%	66%	75%	80%
b - Businesses (%)	8%	6%	6%	34%	25%	20%
2- Non-resident accounts (c+d)	1%	1.2%	0.69%	3%	1.95%	2.2%
c - Individuals (%)	94%	87%	95%	80%	78%	87.4%
d - Businesses (%)	6%	12%	5%	20%	21.6%	12.6%

Source: Bank of Albania (banks' reporting according to the 'Methodology for reporting payment instruments').

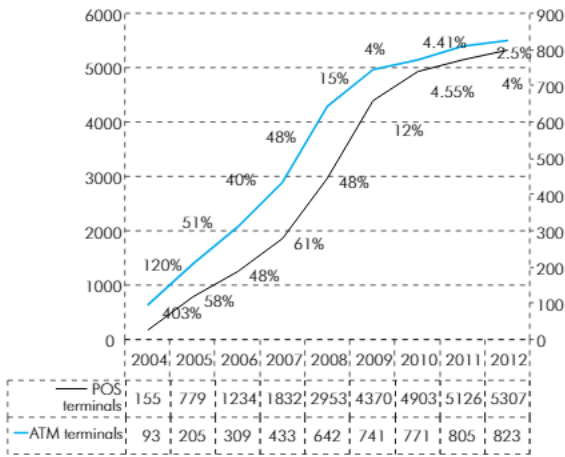
In 2012, about 8.8 million customer payments were made, totalling ALL 3,719 billion, reflecting the 9% annual growth in number and the 5% decline in the value. Customer credit transfers share 75% in volume and 95% in value in total customer transfers. Also, of customer transfers, paper-based ones continue to dominate (about 96.4%), compared to electronic transfers (about 3.6%).

Table 8 Share of customer payments in the banking system by payment instruments

Customer payment services	2010		2011		2012	
	Number	Value (ALL billion)	Number	Value (ALL billion)	Number	Value (ALL billion)
I. Customer credit transfers	81%	94%	79.15%	95.23%	75.5%	95 %
of which:						
1. Paper-based credit transfer	97%	97%	97.05%	97.25%	96.4%	96.69%
2. E-banking credit transfer	3%	3%	2.95%	2.75%	3.5%	3.32%
II. Card payments at POS terminals	7%	0%	9.33%	0.28%	12.7%	0.36%
of which:						
1. Payments through debit cards	61%	42%	61.09%	43.23%	59.2%	35.3%
2. Payments through credit cards	39%	58%	38.91%	56.77%	40.7%	64.6%
III. Direct debit	11%	4%	10.75%	2.29%	11.14%	2.41%
IV. Cheques	1%	2%	0.77%	2.20%	0.72%	2.2%
Total payments (I+II+III+IV)	7,377,033	3,398,102	8,038,656	3,899,439	8,758,818	3,719,562

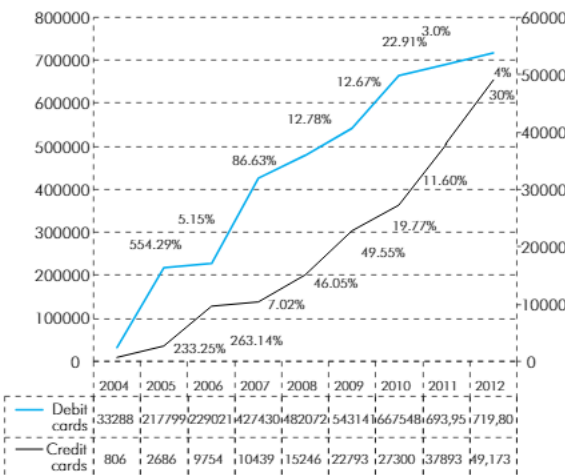
Source: Bank of Albania (banks' reporting according to the 'Methodology for reporting payment instruments').

Chart 3 Number of ATM and POS terminals



Source: Bank of Albania.

Chart 4 Number of cards by function and their annual trends



Source: Bank of Albania.

The number of banks licensed as card issuers in the Republic of Albania as at end-2012 was 14, unchanged from end-2011. Of banks licensed as card issuers, only seven banks are also licensed as card acceptors. As regards infrastructure, the number of ATM and POS terminals at end-2012 was up 2.5% and 4%, respectively, from end-2011.

Cards are a payment instrument with a relatively widespread use in Albania only recently. Their use, however, is considered to be lower than in other countries of the region and Albania's potential, taking into account that the share of customer accounts remotely accessible through a debit or credit card is 28% to total customer accounts.

At end-2012, the number of cards in circulation increased by 5.1% from the corresponding period a year earlier. By function, credit cards increased sharply by 30%, against the 4% of debit cards. According to banks' reporting, debit cards account for 93.6% of total cards in circulation at end-2012, from 95% at end-2011.

The increased number of debit and credit cards appears to have been associated with increased card transactions, mostly for cash withdrawal. In 2012, about 12.4 million card (ATM and POS) transactions, equal to ALL 123.50 billion, were processed in total. Of total transactions, about 91% were cash withdrawals from ATMs and only 9% were customer payments through cards at POS terminals. Card payments at POS terminals point to a predominant debit card transactions. However,

in terms of value, credit card transactions are significantly higher than debit card ones.

Card transactions by category	Volume		Value (ALL millions)	
	2011	2012	2011	2012
1- ATM cash withdrawals	10,778,879	11,300,261	106,660	109,609
2- ATM depositing	11.00	5	0.10	0.03
3- ATM transfer orders	277.00	80	5.72	0.68
4- Cash withdrawal at POS terminals	2,088	3,450	404	475
5- Card payments at POS terminals	750,397	1,107,425	10,914	13,396
of which:				
- payments through debit cards	458,067	656,000	4,719	4,739
- payments through credit cards	292,330	451,425	6,195	8,657
Total card transactions	11,531,652	12,411,221	117,980	123,481

Table 9 Share of card transactions by terminal

Source: Banks' reporting according to the 'Methodology for reporting payment instruments'.

At end-2012, 11 banks provided home-banking services. Expansion of these services is also reflected in the 48% annual growth of online-accessible accounts. The increasing number of these accounts is followed by upward home-banking transactions in both volume and value, up by 26% and 29%, respectively, as at end-2012 on a year earlier.

Year	Number of banks	Number of transactions	Value of transactions (in ALL millions)
2005	1	15,706	15,908
2006	1	19,096	16,834
2007	3	42,447	48,492
2008	6	88,261	63,240
2009	10	136,482	78,156
2010	11	162,385	91,277
2011	11	187,431	90,278
2012	11	236,215	117,234

Table 10 Home-banking transactions

Source: Banks' reporting according to the 'Methodology for reporting payment instruments'.

IV.2.3 BANK OF ALBANIA AS SUPERVISOR AND REFORMER OF THE NATIONAL PAYMENT SYSTEMS

In July 2012, the Bank of Albania completed successfully the twinning project, under IPA 2008⁸ with the Bank of Italy and the Bank of France, which placed great importance to the payment system. The main topics addressed by this project consisted in strengthening the oversight and further development of the Albanian payment system.

More specifically, a number of regulations and manuals were drafted, highlighting:

- a. Review of the document on 'Oversight policies for payment and settlement systems' according to international best practices, whose scope was expanded to apply the recent developments in the payments area.

⁸ IPA 2008 'Strengthening the institutional capacity of the Albanian Central Bank'.

- b. The manual 'On payment system oversight', which was drafted using the up-to-date standards used by the European Union central banks.
- c. Review of the methodology 'On reporting the payment instruments', in consultation with banks on the statistics they submit to the Bank of Albania.
- d. Draft-regulation 'On payment systems and operators' aimed at licensing and supervising operators and private payment and settlement systems.

The above documentation will serve not only to foster payment system oversight, and the security and efficiency in this area, but also to provide further information on the Albanian payment system (including payment instruments), contributing to enhancing transparency to the public.

In view of the objective to improve the financial infrastructure offered by the Bank of Albania, an important step forward was the project on improving the procedure for automatic administration of collateral and settlement of securities according to the Delivery Versus Payment (DVP) method. This project is being drafted conform to EU/ESCB in terms of setting up a Central Securities Depository (CSD).

IV.3 FOREIGN EXCHANGE RESERVE MANAGEMENT

The Constitution of the Republic of Albania provides the Bank of Albania to hold and manage foreign-exchange reserves of the Republic of Albania. The Bank of Albania uses its best opportunities to hold the foreign-exchange reserve at a certain level, in accordance with the monetary policy and conducive to the country's financial stability.

The gross foreign-exchange reserve estimated and reported in euro increased by about EUR 64.99 million in 2012, posting EUR 1,972.48 million at end-December.

The key factors affecting the gross reserve are presented in the following.

- *STATISTICS ON FOREIGN-EXCHANGE RESERVE IN 2012*

A. Transactions with the Ministry of Finance provided a positive impact, estimated at EUR 28.64 million, according to the following items:

- Inflows from buying foreign currency in the market, EUR 69.08 million;
- Net inflows from various loans extended, renovation of short-term securities, etc., EUR 134.79 million;
- Privatisation and other receipts, EUR 3.65 million;
- Transfers (including debt service), EUR 178.88 million.