

banknotes (around 1.51 and 1.17, respectively), and lower for 5000 Lekë and 2000 Lekë banknotes (around 0,164 and 0,728, respectively).

Analysing the structure and themes of currency in circulation

Bank of Albania objectives for banknotes and coins relate to improving the quality of banknotes in circulation, higher engagement with regard to protection against counterfeiting, and reviewing themes, design and security features in legal tender series of Albanian banknotes. In 2018, the work to materialize the definition of design and security features of the banknotes continued.

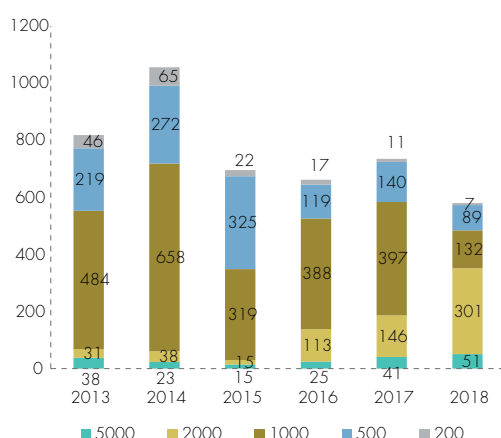
Protecting banknotes and coins against counterfeiting

In view of safeguarding the currency from counterfeiting, during 2018 as well, the Bank of Albania has assessed as necessary to further improve and strengthen the technological and administrative capacities of its structure dedicated to implement its functions in this field. In addition, a variety of preventive actions were continuously developed and organized, focused mainly on the continuous training of cash professional staff, inspections, testing and monitoring the process of authenticating and sorting machines/equipment used by the staff, etc.

The quantity of counterfeited banknotes and coins discovered in circulation during 2018 has decreased considerably, compared with 2017, by 21%. The counterfeited amount remains insignificant compared with the amount of genuine banknotes and coins in circulation. By structure the 2000 Lekë denomination has the main share in the total counterfeit banknotes, followed

by the 1000 Lekë and the 500 Lekë denominations, differently from other years. Amongst counterfeit coins, it is identified the 50 Lekë denomination (113 coins), with a falling trend compared with the previous years.

Chart 31. Trend of counterfeit banknotes, over the years (pieces)

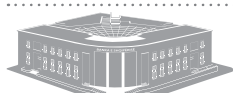


Source: Bank of Albania.

From the technical and/or technological aspect of counterfeiting the Albanian banknotes, colour digital printings dominate, mainly ink-jet, accompanied by the use of additive artisanal methods to imitate security elements and/or features mainly of visual and tactile nature. The index of the similarity assessment with real legal tender banknotes is low, which means that the counterfeit banknotes have a low risk to be accepted as true. Imitations of security features of counterfeiting banknotes readable by authenticating/sorting equipment are encountered only in few cases.

2.7. PAYMENT SYSTEMS

In fulfilment of its responsibility in the field of payment systems, the Bank of Albania has paid particular attention to guaranteeing the security and efficiency



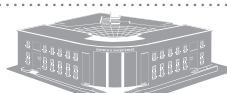
of the basic infrastructure of payments in lek, both through its role as system operator and through its role as supervisor and catalyst. Beyond consolidation of the oversight role of payment systems and services and the expansion of the oversight processes and securities' settlement systems, during 2018, special efforts have been dedicated to the reformatory role. In this framework, the Bank of Albania through the National Payment System Committee has approved the National Retail Payments Strategy in Albania (2018-2023).

2.7.1. PAYMENT SYSTEM OVERSIGHT

The Bank of Albania, in the framework of the oversight role of payment systems and payment instruments as an integral part of these systems, has undertaken a series of measures to further improve the legal and regulatory framework throughout 2018. In more detail, in order to align with the European practices in the market, the Regulation "On electronic payment instruments" has been revised. This revision aims to accommodate the innovation in the field of card payments and mainly the manner of PIN distribution through electronic means of communication. Moreover, the approval of the Regulation "On oversight policy of payment and settlement systems" aims to implement the European practices on system classification, thus creating spaces for private initiatives and avoiding oversight requirement too strict for systems that do not have a systemic importance for the Albanian market.

Also, in the framework of the developments in the securities' market throughout 2018, the Bank of Albania has drafted and signed a cooperation agreement with the Albanian Financial Supervision Authority (AFTA) for the purposes of licensing, regulating and oversight the infrastructures of clearing and securities' settlements. This agreement has created the preconditions for a draft-regulation "On regulating, licensing and oversight of securities settlement systems", which is expected to be approved within 2019 H1.

In terms of improving the legal framework, as one of the objectives pillars of the Bank of Albania strategy and the National Retail Payments Strategy (2018-2023), the Bank of Albania has worked on the transposition of the revised EU Directive 2015/2366 in the draft-law "On payment systems" (PSD2). The adoption and implementation of this draft-law is expected to have a direct impact in promoting competition and innovation in the field of retail payments, thus promoting their efficiency and reducing the costs of their use. This draft-law aims to balance the spaces for payment services providing between banks and non-bank financial institutions, by allowing the latter to open payment accounts and issue electronic payment instruments. The draft-law is expected to increase the transparency of the services provided by the market and establish a consolidated framework for consumer protection. The Bank of Albania has finalised the drafting of this law and the consultation process with market stakeholders throughout 2018 and now is continuing with the other procedural steps until its approval by the Assembly.



2.7.2. THE REFORMATORY ROLE - THE NATIONAL PAYMENT SYSTEM COMMITTEE

In order to promote the developments in the field of payment systems, the Bank of Albania, during 2018 as well, has played a very active role in the development of activities that promote deepening the knowledge and the actions of the various market stakeholders in this regard. The main activities on this regard are:

1. Project Greenback - the World Bank in cooperation with the Bank of Albania has organised two activities in the framework of the presentation (March 2018) and implementation (December 2018) of the Project Greenback in Berat, financed by the Swiss State Secretariat for Economic Affairs (SECO) as part of the programme for Remittances and Payments.
2. The participation on 4 May 2018 in the Card Forum on "Transforming Cards and Payments toward a Cashless Economy", organised by the Albanian Association of Banks (AAB). The purpose of this Forum was to orient market stakeholders on the foreseeable developments by the Bank of Albania in this market.
3. The organisation of the Fourth Meeting of the National Payment System Committee on 20 June 2018 (more information available in the following section).
4. The organisation of the Conference on "Modernisation of retail payment systems in Albania" on 21 June 2018 in order to promote the vision and measures of the National Retail Payments Strategy (2018-2023). The participants in this Conference were from relevant institutions, mainly other homologue central banks like the European Central Bank (ECB), the Bank of Italy (BI), the World Bank (WB), the Central Bank of the Republic of Kosovo (CBRK), the Central Bank of Serbia (CBS). Also, in this Conference participated the Ministry of Finance and Economy (MFE), the Albanian Association of Banks (AAB), national companies licensed by the Bank of Albania in the field of payments, as well as other international companies.
5. In cooperation with the World Bank, the organisation of the Workshop "BIS Oversight Principles for the financial markets infrastructure" (June 2018), attended by representatives of the Central Bank of Kosovo as well by the Financial Supervision Authority of Albania and Kosovo.
6. Western Balkans regional workshop on "Promoting the harmonisation of the legal and regulatory framework with EU legislation on retail payments".

Fourth Meeting of the National Payment Systems Committee

The National Payment Systems Committee was very active throughout 2018. On 20 June 2018, NPSC held the fourth meeting of the National Payment Systems Committee where were finalized and published a range of projects undertaken by this Committee, amongst which:



- The expansion of the participation in the Committee with non-bank financial institutions in the field of payments and payment systems' operators in accordance with the recommendations of the World Bank.
- The Assessment Report "Review of the Market for remittances in Albania" on the basis of the CPMI – World Bank General Principles for International Remittance Services, in order to identify the needs for intervention addressed in the action plan of the strategy's;
- The analysis "Achieving effective financial inclusion in Albania: a payments perspective", clearly identifying the need to increase the percentage of population that has a bank account as well as the need to promote the use of these accounts;
- The study "The Retail Payment Costs and Savings in Albania". Beyond identifying the high costs of using cash in the economic (around 1% of GDP), were also identified the costs borne by each economic stakeholder with a particular interest on costs for payment services providers (banks and non-banks).
- Approval of the National Retail Payments Strategy in Albania (2018-2023).

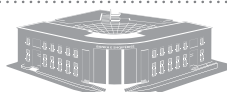
BOX 8 THE NATIONAL RETAIL PAYMENTS STRATEGY IN ALBANIA (2018-2023)

The Strategy approved by the National Payment Systems Committee in its fourth meeting is the result of several years of work by the Bank of Albania and the institutions member of NPSC with the assistance of the World Bank to identify the needs of the market and the intervention measures.

The strategy sets for the a clear medium-term vision for the retail payments market which consists in "To create a modern and inclusive retail payments market in Albania, supported by safe and efficient payment infrastructures, and a wide range of instruments and services that meet the needs of financially capable payment service users throughout the country."

The Strategy aims to improve the retail payments market by providing Albanian citizens with more choices across more places for conducting their day-to-day transactions in a convenient and cost-effective manner, also supporting the objective of broader financial inclusion. More concretely, the strategy aims to double the population that owns an account (from 38% in 2014, to 70% in 2022) and increase the number of electronic payments per capita from 4.3 in 2016, to 10 in 2022.

The strategy also includes a detailed action plan to reach the objectives, where the main measures consist in the: a) improvement of the applicable legal and regulatory framework; b) development and improvement of financial services infrastructure; c) expansion of a bank account ownership and of the use of their services; d) expansion of access points of these services; e) enhance of financial literacy and awareness; f) increase of the volume of transactions processed in the payment systems; and g) inter-institutional commitment of both private and public sectors, which is very important for the implementation of the recommendations.



It is worth pointing out that the implementation of the strategy and the materialisation of its effects requires a commitment by all market stakeholders. For this purpose, the strategy foresees concrete roles and objectives for each involved institution.

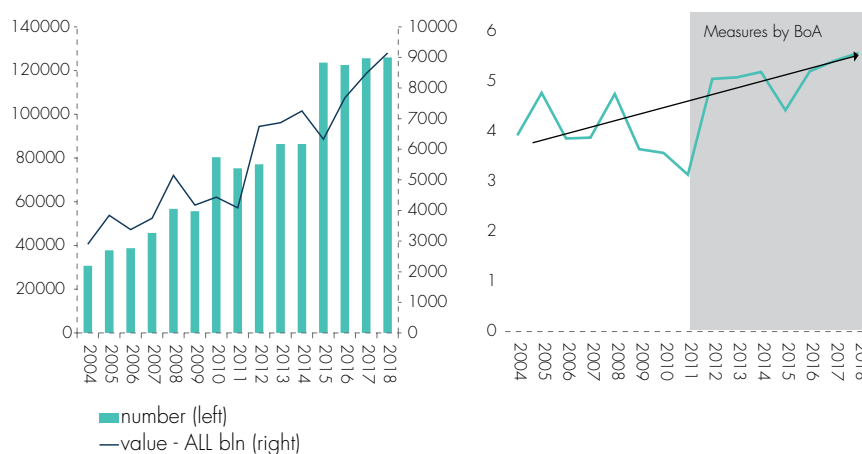
2.7.3. PERFORMANCE OF AIPS AND AECH SYSTEMS

AIPS system, which is considered the core infrastructure for the settlement of payments in the national currency and of financial markets, has functioned securely and efficiently during 2018, reflecting a high availability (over 99.9%)²⁹. In the same line, the AECH system, which accommodates the clearing of interbank transactions by banks' clients (households and enterprises) has also operated in full compliance with the rules of the system, guaranteeing a maximum availability (99.4%) for the market, avoiding incidents and delays. The participation of banks in AIPS and AECH systems resulted in a decrease from 16 banks to 14 banks at end-2018, due to the absorption of two banks by other banks of the system. The implementation of the exit from the AIPS and AECH systems of the two participants was managed successfully, reflecting no problems in the operation of these systems.

Albanian Interbank Payment System for large-value payments (AIPS)

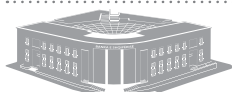
In 2018, the activity of the AIPS system registered a slight increase by 0.3% in annual terms, reaching a volume of 126.038 transactions. The increase is accompanied by a growth of the processed value (8% in annual terms reaching ALL 9.141 billion), reflecting an increase of the ration of processed transaction

Chart 32. AIPS performance by number and value of transactions processed in AIPS



Source: Bank of Albania.

²⁹ The availability of the system indicates how much the system was functional during the working hours announced in the system functioning regulations.

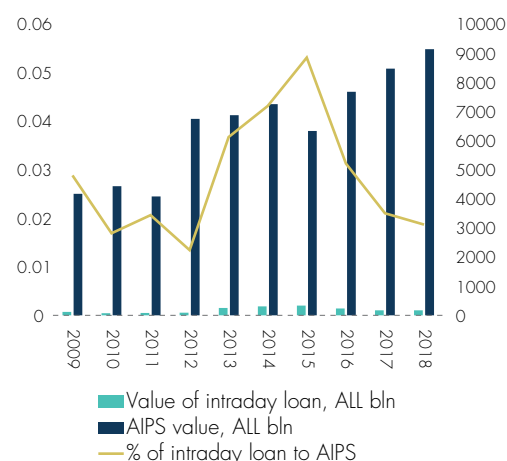


value in AIPS against GDP. This ratio resulted 5.6 times from 5.4 times in 2017 and indicated an ever-increasing use of this system by market stakeholders. The upward trend of use of the AIPS is assessed to multiply with the development and deepening of financial markets in Albania as well as the financial inclusion of the Albanian population, targeting the levels of advanced markets³⁰.

A breakdown of the analysis of the use of this system by different transaction typologies indicates that the item "Payments for Clients (with main share of payments in terms of figures, 55.93%) continues to register increasing rates in both figures and value, by 4.95% and 6.48%, respectively, compared with the previous year. On the other end, the main item in terms of value: "Settlements in the AFISaR system" (41.05%) registered a decrease of almost 3.94% in number of transactions, and an increase in value of 9.74% compared with the previous year.

In 2018, in the AIPS system were disbursed around 17.41% more Intraday Loans Facilities (ILF)³¹. However, the value of IL registered a fall by 3.71% mainly due to the decrease of the average value per transaction. This trend indicates that the exposure of the system to liquidity risk is at very low levels.

Chart 33. Intraday Loan Facility (ILF) ratio to total AIPS in ALL billion



Source: Bank of Albania.

Albanian Electronic Clearing House for retail payments (AECH)

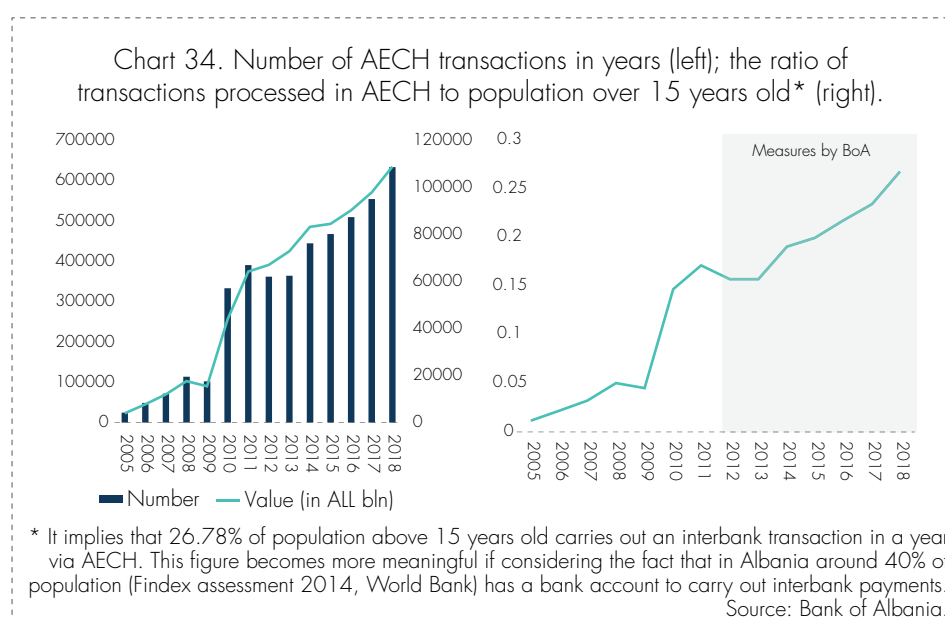
In 2018, AECH has continued to register an increase of figures and values by 14.36% and 11.15%, respectively, in annual terms. In more details, 632.923 payments were processed in AECH, with an average value per transaction around ALL 172.000, in 2018. The increase of the use of AECH indicates the familiarization of the public with payment instruments and their use at the interbank level. Also, this increase confirm the efficiency of the measures taken by the Bank of Albania, since 2011, on commissions applied by banks on the final user in order to expand the use of this system.

In order to expand the use of this system, the Bank of Albania, in medium and long-terms, has foreseen a series of measures from the point of view of infrastructural developments as well as legal and regulatory ones. The implementation of the draft-law "On payment services" is assessed to give a considerable support in this regard, as well as the implementation of the project

³⁰ Target 2 - within a week is settled an equal amount to the GDP of the European Union dictating the importance that this system has for the European markets.

³¹ ILF - the facility granted to a participant of the payments system by the central bank/operator of the system to carry out payments/settlements based on applicable laws and bylaws. The Central Bank provides liquidity within the day (ILF) to banks participating in the system, which is treated in the form of collateralized loan with zero interest. The financial instruments acceptable for granting the intraday loan are defined and monitored by the Monetary Operations Department.





of interbank Direct Debit and the expansion of the participants in the system beyond traditional ones, the commercial banks

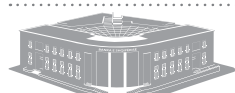
In terms of avoiding risks in the system, the allocation of transactions cleared in AECH by sessions, shows a higher concentration in the first clearing session. This development avoids the overload in the payment flows in the last clearing session by minimising the risks from these overloads and promoting the security and efficiency of this system³².

2.7.4. PAYMENT INSTRUMENTS

The Bank of Albania, in cooperation with market stakeholders, is undertaking reforms that aim toward the modernisation of this market to provide citizens and businesses with services as efficient and at a low cost as possible. The promotion of the use of electronic payment instruments aims toward the financial inclusion of the population from the point of view of payments, which serves as a first step in the financial inclusion of the more sophisticated banking and financial products as well. The targeted objectives, the increase of the percentage of population that own an account from 40% in 2017 to 70% in 2022, as well as doubling the use of these accounts (from 4.3 payments per capita to 10 payments per capita) is assessed to materialize through the improvement of the regulatory and legal framework, infrastructural improvement, and through financial education.

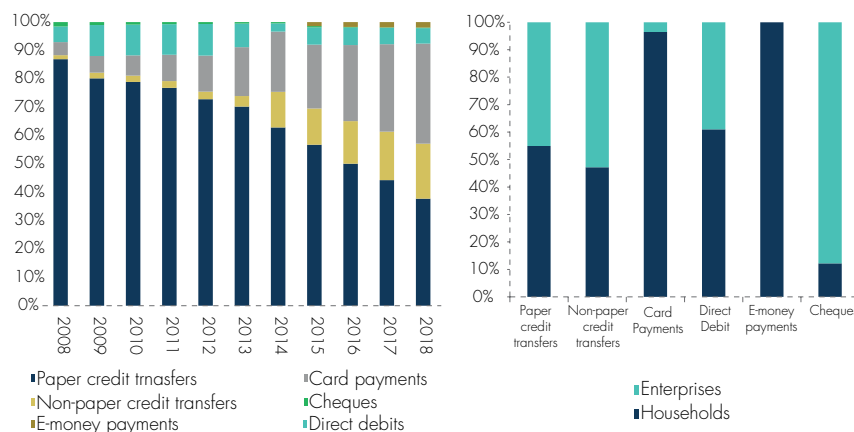
The use of payment instruments in the Albanian economy continued to increase throughout 2018, reflecting an annual growth of the number of payments by 13.23%, reaching around 15 million payments for households and enterprises.

³² This behaviour reflects the measures taken by the Bank of Albania in 2011 to differentiate sessions' tariffs thus favouring the use of the first session.



By instruments used, the payments analysis indicates a continuous expansion of electronic payments, where we may mention bank cards, credit transfers in electronic form (home banking), as well as recently the introduction of electronic money - pre-paid cards. The increase of the share of electronic payments is reflected in a continuous contraction of credit transfers in paper form, which in 2018 accounted for around 38% from around 90% in 2008.

Chart 35. Volume of payment instruments in years (left) and use volume of payment instruments by households and enterprises during 2018 (right)



Source: Bank of Albania.

HOME BANKING

The initiation of credit transfer in electronic form is realized through "home banking"³³ services, which are provided by 12³⁴ of overall 14 banks. These services are both increasingly widespread in the Albanian market, and used to carry out payments, beyond basic information services for the account. More concretely, in 2018 we observe a significant increase of the volume of home banking payments by 28.64% and of the value of these transactions by 61.02%, compared with the previous year. A contribution to the upward trend of home banking is assessed to be the development of infrastructure and the expansion of possibilities to access internet through a smartphone as well. Also, the policies of banks, in the framework of promoting these alternative payment ways, were assessed to have provided a positive role, being reflected in the increase of the remote accessible accounts, from 1% in 2008, to around 12.81% in 2018 against the total accounts. From the point of view of the use of these accounts, despite positive development (around 13 transactions per year per account) the potential for growth remains high.

Credit transfers in electronic form are the more efficient instrument and with the lowest cost in the Albanian economy. In these regard, the reforms aimed by

³³ These products provide remote access to the bank account, via on-line, telephone or software that the bank makes available to its clients.

³⁴ At end-2018 there were overall 14 banks in the banking system (from 16 at end-2017).

