

2.7 PAYMENT SYSTEMS

Operation, oversight and reform of payment systems are some of the main functions of the Bank of Albania. Their implementation guarantees the security, sustainability and efficiency of the basic infrastructure of payments. This is a crucial precondition for transmitting the monetary policy, safeguarding financial stability and overall economic growth. In addition to ensuring the stable operation of payment systems, the Bank of Albania has paid particular attention to the supervisory and catalytic role in the implementation of the National Retail Payments Strategy.

The year 2024 marked a historic moment for the Bank of Albania and Albanian citizens. On November 21, the European Payments Council (EPC) approved the inclusion of Albania in the geographical scope of the Single Euro Payments Area (SEPA) payment schemes.

This achievement also fulfils one of the objectives of the 2024-2027 New Growth Plan approved by the European Commission for Albania and the regional countries of the Balkans. For those countries aspiring to join the EU, being approved into SEPA is an instrument toward European integration and it precedes official EU membership. EU integration brings a number of benefits to our economies as regards market expansion, a higher level of formalisation, and reduction of the costs of cross-border transactions²⁶.

2.7.1 PERFORMANCE OF PAYMENT SYSTEMS

The Bank of Albania plays a key role in promoting the normal functioning of payment systems through the operation and administration of three main infrastructures for processing interbank payments and one infrastructure for the settlement of securities. The AIPS system is considered the sole infrastructure for the settlement in real time of large-value payments in lek. This infrastructure enables the settlement of various segments within the internal financial market as well. The AECH system enables the clearing of interbank transactions with a value of less than ALL 1.5 million for bank clients (households and enterprises). The AIPS EURO system, enables real-time gross settlement of payments in euro within the territory of Albania.

Additionally, the Bank of Albania operates the central system of settlement and registration of transactions with government securities, i.e., AFISaR. All systems have been fully engaged, are operating smoothly and are compliant with the rules and operating schedules laid down in the relevant regulations.

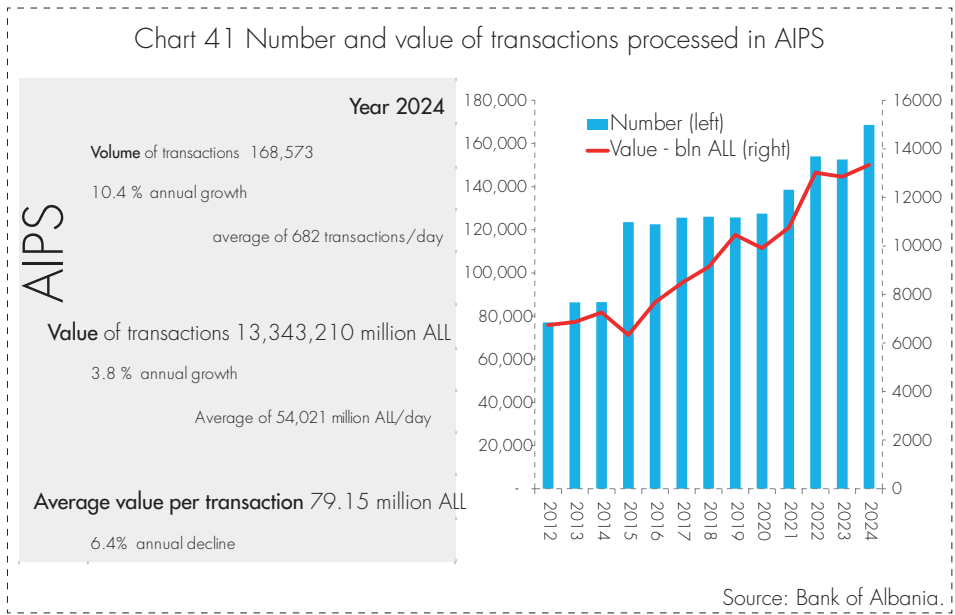
²⁶ For a more comprehensive treatment of the benefits derived from receiving SEPA membership refer to Box "The participation of Albania in SEPA" from the 2023 Annual Report of the Bank of Albania. Whereas, for more information on the accession process to the EU and the role of BoA concerning it, please refer to the following Box 6.



AIPS - ALBANIAN INTERBANK PAYMENT SYSTEM FOR LARGE-VALUE PAYMENTS

The large-value payment system is crucial in maintaining the stability of the financial system as it ensures the normal circulation of liquidity in markets and the economy. Every bank operating in Albania, the Bank of Albania and the Ministry of Finance (as an indirect participant) are participants in the AIPS system. The total volume of liquidity circulated in the system was ALL 13,343 billion over 2024. In relation to GDP, this amount is around 5.3 times higher.²⁷

The system has demonstrated high efficiency, with funds circulating smoothly, enabling real-time transaction settlements. The intraday loan facility (ILF) is an instrument denoting the system’s liquidity. The intraday loan facility (ILF) is an AIPS system instrument offered by the Bank of Albania to participating banks to ensure the normal continuation of interbank payments operation. This instrument value to the total value of payments settled in the AIPS system remains low, indicating that the system’s exposure to liquidity risk of participants is low.



ALBANIAN INTERBANK PAYMENT SYSTEM FOR DOMESTIC CUSTOMER PAYMENT ORDERS IN EURO CURRENCY, WITHIN ALBANIA (AIPS EURO)

The AIPS EURO system was established on 24 January 2022. The main purpose behind AIPS Euro was to enable Albanian citizens to make payments in Euro domestically, at a lower cost and within a shorter time-period. This process was previously carried out through correspondent banks. The activity of this system has increased progressively. Data show that it is being increasingly used for small-value payments, indicating a higher familiarity of households with the system.

²⁷ The GDP for 2024 is calculated by the Bank of Albania.

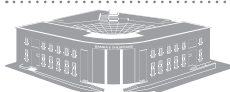
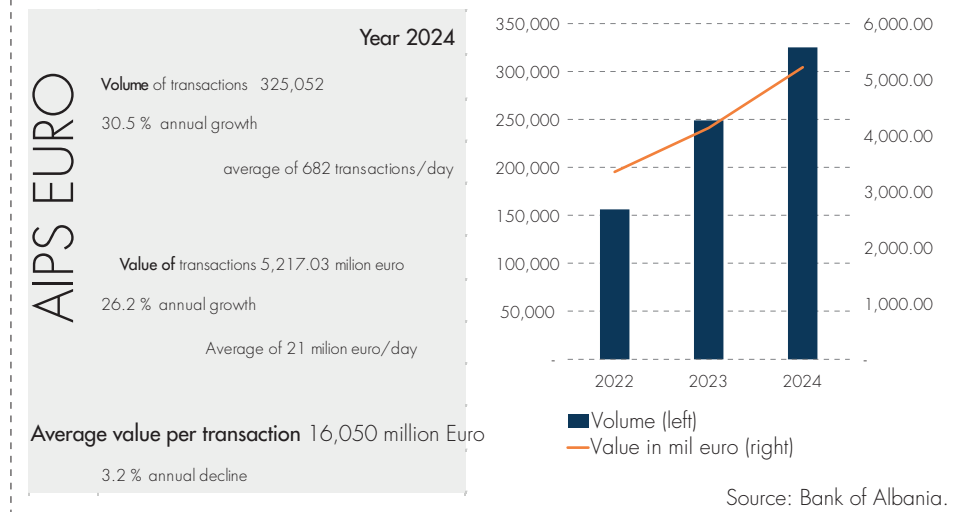


Chart 42 Number and value of transactions processed in AIPS EURO

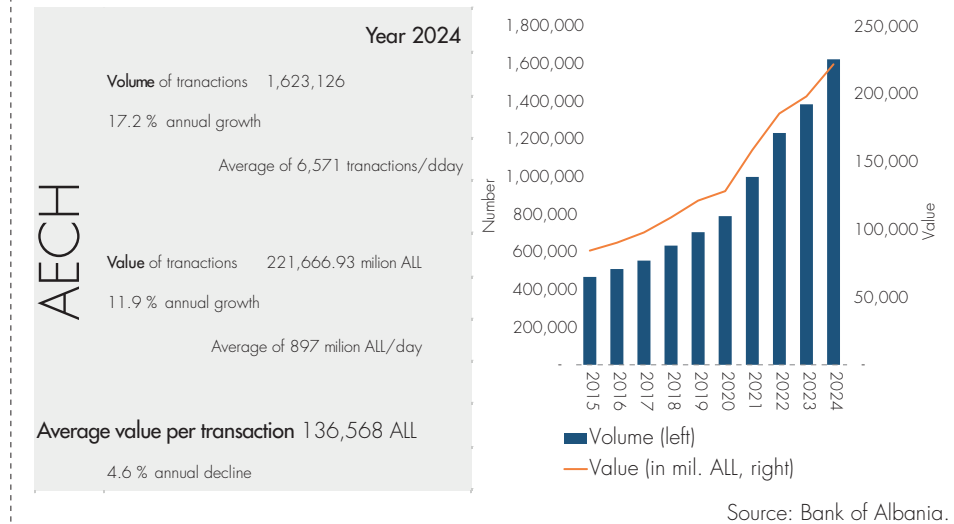


Expanding its use helps bolster financial inclusion and promotes electronic payments in the country. Furthermore, by using this system, payments in euro carried out domestically are completely regulated by the legal and prudential regulatory framework on customer protection, thus avoiding relations with correspondent banks.

ALBANIAN ELECTRONIC CLEARING HOUSE FOR RETAIL PAYMENTS (AECH)

The AECH system enables the clearing of interbank transactions of a small value, while clearing results are settled in AIPS system. The use of this system reflects for the most part the use of bank transfers by households and enterprises, mainly medium-sized and small ones.

Chart 43 Number and value of transactions cleared in AECH



Activity in the system has continuously increased over the years in both nominal terms and in relation to the population. Meanwhile, a decrease in the average value per transaction indicates an increase in the use of electronic payments for low-valued transactions, needed for daily life chores. This performance has been encouraged by the removal of fees on transactions up to ALL 20,000. The share of these transactions account for 37% of total AECH transactions, from 27% in 2020. Additionally, there has been a differentiation of commissions applied by banks, favouring retail payments carried out electronically²⁸.

SECURITIES SETTLEMENT SYSTEM (AFISAR)

The AFISaR system, which has been running since 2015, is the central system for the settlement and registration of government securities transactions. This system is operated by the BoA in the capacity of the fiscal agent. Through the AFISaR system, the Bank of Albania offers the issuer (i.e., the Ministry of Finance and Economy) and the market, the organization of auctions for the issuance of Albanian State securities in the domestic market, in both lek and euro, as well as the settlement and registration of transactions with these securities in the secondary market. In this system, the collateral is the securities of the Albanian State or the reverse repurchase agreements, where these securities are the subject. In addition to the above, the system also provides tax collection services for securities income and interest payment events. It also informs account holders in this system about the balance and movements in these accounts.

At the end of 2024, the AFISaR system registered fourteen financial institutions as direct participants, including one issuer (Ministry of Finance and Economy) and one central bank (BoA), six indirect participating financial institutions with accounts through the Bank of Albania, and connection with one Private Stock Exchange. By the end of 2024, there were 19,840 individual accounts in the AFISaR system opened through the Bank of Albania.

At the end of 2024, the total nominal value of Albanian securities issued in the domestic currency in the AFISaR system, was ALL 788.51 billion, up by 7.68% compared to the end of 2023. By the end of 2024, there were no securities issued in the euro currency in the AFISaR System recorded.

²⁸ The regulatory amendment for the use of the system (2020), provides for the elimination of commissions for retail payments initiated electronically (home-banking) up to the amount of ALL 20,000 as well as the differentiation of fees for the other part of payments initiated electronically up to 50% of those initiated in paper form.

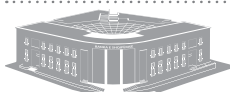
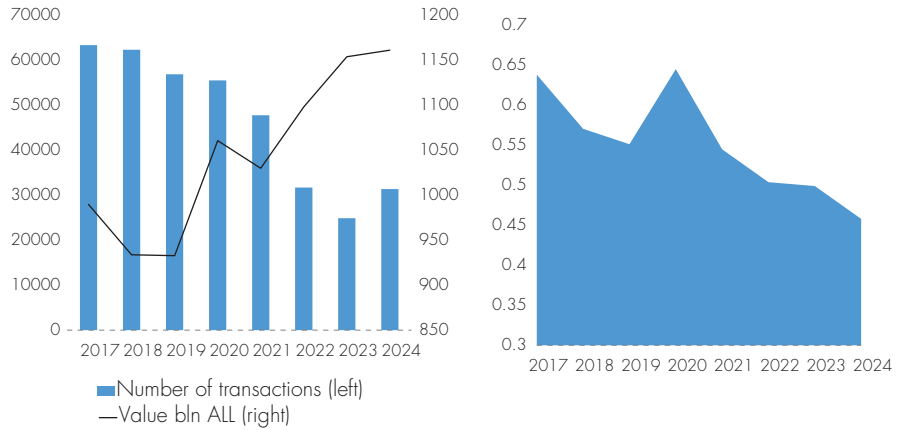


Chart 44 Performance of transactions processed through the AFISaR system (left) and in percentage to GDP (right)



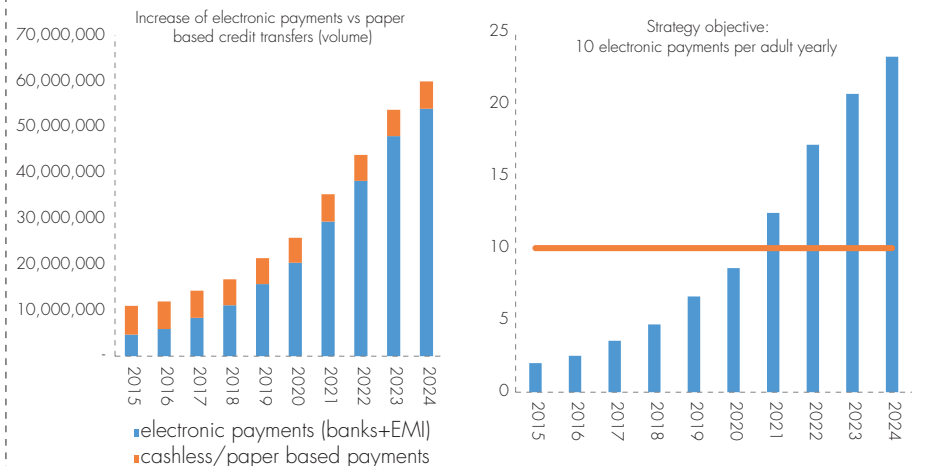
Source: Bank of Albania.

2.7.2 PAYMENT INSTRUMENTS

In 2024, electronic payments have trended upwards. The number of electronic payments carried out through banks amounted to ALL 42.3 million, reaching a total value of ALL 2,802 billion. Their number was up by 24.4% compared to the previous year, whereas their value increased by 17.8%.

The positive developments of electronic payments have elevated the indicator which measures their use, as it reached twenty-three e-payments payments per capita. The “payments per capita” indicator which was set to reach 10 payments per capita in 2023 by the framework of the National Strategy of Retail Payments, was reached since 2021. This indicator reflects the progress made in improving access to electronic payments and the adoption of modern payment instruments. The progress in this area reflects the growing trend of

Chart 45 The number of electronic and cash payment instruments over the years (left); number of payments per capita (+15 years old) over the years (right)



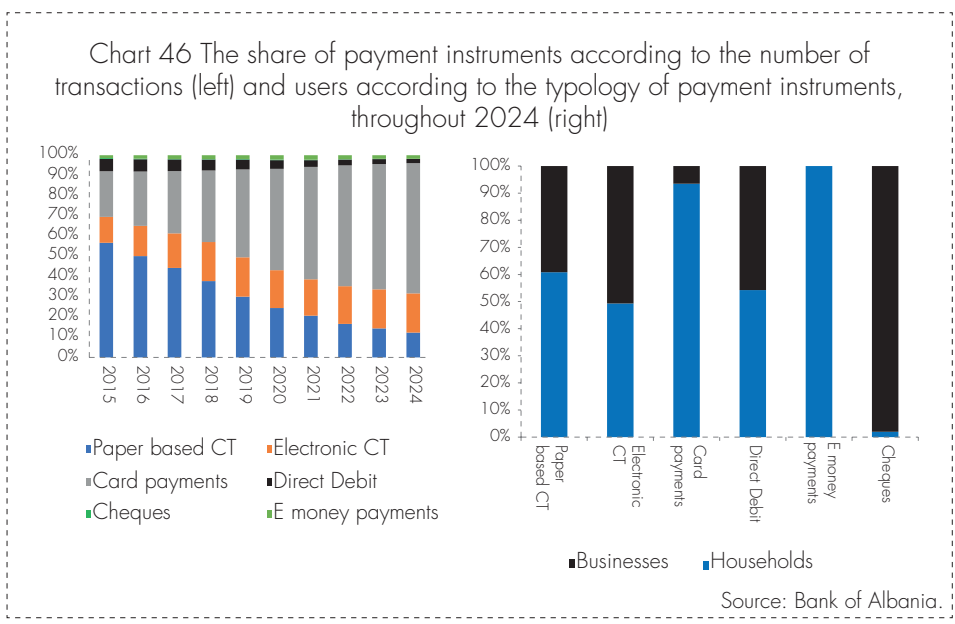
Source: Bank of Albania.



digitalization in financial services and the facilitation of e-transactions for both households and businesses.

PAYMENTS PROVIDED BY THE BANKING SYSTEM

Banking institutions are the main providers of payment services. In recent years, they have been active in promoting digital payment instruments following clients’ preferences for a fast, safe and easier approach to financial services. Thus, “home banking” applications are offered by all banks and are being widely adopted by the Albanian users. In addition to their basic features, such as providing information on the account balance, they are being used for online payments as well. The share of the number of remote credit transfers has gone up by 61% of total transfers.

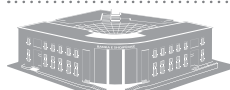


In 2024, the number of payments and the value of “home banking” transactions increased by 22.1% and 19%, respectively. The upward progress of online transfers was also driven by a series of factors such as the measures taken by the Bank of Albania to reduce commissions for this type of transaction²⁹, developments in infrastructure, expansion of internet access, as well as the familiarization of bank customers with the use of this instrument.

The number of accounts accessible remotely increased by 23.2% in 2024, accounting for 39.1% of the total of all customers’ accounts in banks. Given the ongoing innovations and the automation of services, the use of Home Banking is expected to continue rising, offering an ever more efficient and personalised experience to its clients.

Electronic money payments have gone up by 18.6% number-of-transaction wise, and by 11.8% value wise, compared to last year, reflecting the increasing

²⁹ Referring to the differing commissions between on-line payments and those in-person in bank branches.



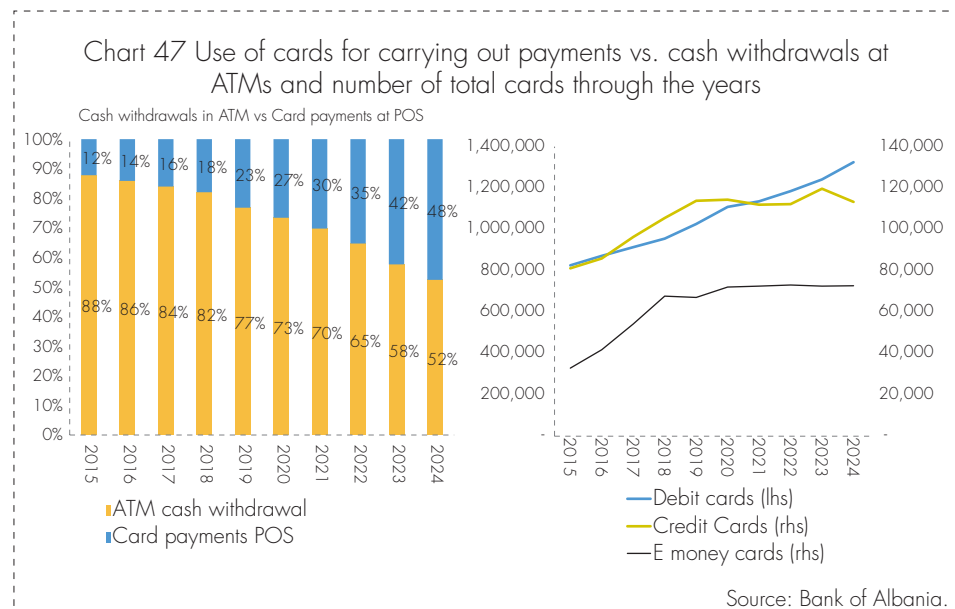
trend in the digitalisation of payments. These payments, which are carried out electronically or as pre-payments, are primarily used by households.

BANKS CARDS AND THE INFRASTRUCTURE FOR THEIR USE (ATM & POS)

Almost 64% of the total number of payments through banks were carried out with debit and credit cards. Compared to the same period last year, the number of card payments has increased by 26.3%. Households recorded the highest use of cards (93.5% of card payments).

All eleven banks that operate in the Republic of Albania are licensed as card issuers, of which nine of them are licensed also as card accepters. At the end of 2024, there were 1,510,606 active cards in circulation, a number which has gone up by 5.4% from last year. Almost all the cards available feature a payment as well as a cash option. The use of debit cards dominates at 87.7%, with an ALL 6,746 average value per transaction. The rest of card payments are carried out through credit cards, which usually record a higher average value per transaction.

The use of cards for purchases at POS terminals has continuously increased, as a result of a combination of factors, one of them being the spread of more POS terminals over the course of the years, the increase in the number of cards issued, and lately a heightened financial awareness among people ³⁰ regarding the use of these cards at terminals.



³⁰ In January 2024, the Bank of Albania approved the "Strategy of the Bank of Albania for Financial Education and Inclusion 2024-2025," which promotes financial inclusion as a public good, further reinforcing financial inclusion, consumer protection, an increase in the financial wellbeing of households and overall sustainability of the financial system.

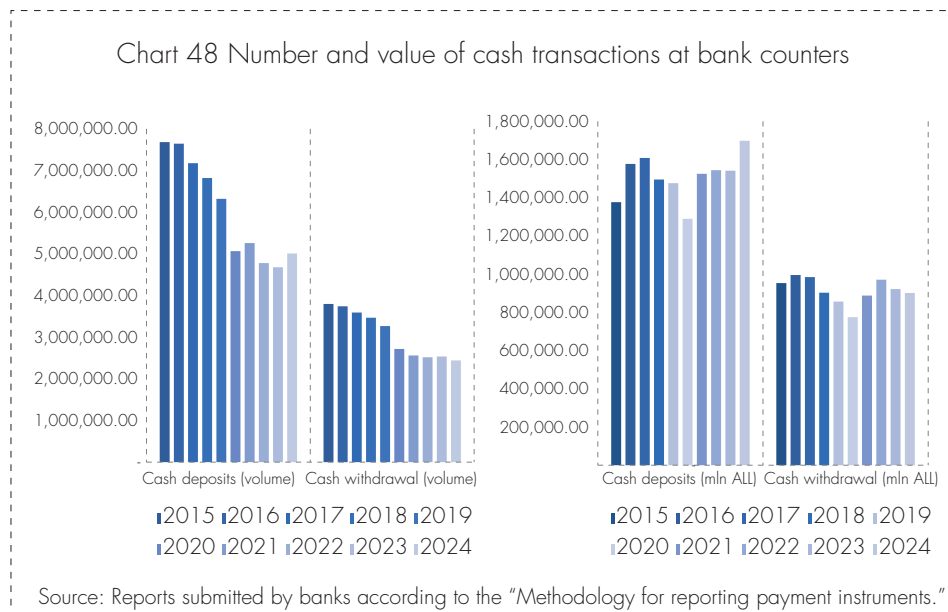


The POS infrastructure offered by commercial banks has been considerably on the rise, which shows that businesses are becoming more familiar with the provision of POS services. They have a positive reaction when clients request to pay with cards. Their number was up by 27.61% compared to 2023. Over the year, the number of virtual POS systems has increased, indicating that e-commerce has become more prominent in Albania.

The number of ATMs rose by 9.3% over the year. This was due to the higher level of tourism, offering foreigners remote services. Although ATMs are primarily used for cash withdrawals, in 2024, there was a rising number of ATMs offering other services, as well. Twenty-six ATM terminals are now offering cash deposits, and 144 offer transfer orders. These functions allows bank clients to use alternative means to manage savings and make payments.

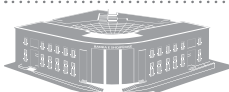
CASH TRANSACTIONS

Cash deposits at bank counters have increased in both number (by 7.1%) and value (by 10.1%) in 2024. On the contrary, transactions of cash withdrawals continue to follow a downward trend over the years. The use of physical cash in the Albanian economy remains a predominant phenomenon, causing high costs to the economy.



2.7.3 ELECTRONIC MONEY INSTITUTIONS

Electronic money products are offered by non-bank financial institutions licensed as electronic money institutions. There are ten electronic money institutions operating in the Albanian market, offering a variety of solutions for different consumer groups. The use of electronic money provides convenience mainly to that group of the Albanian population that does not own a bank account. The advantages for this group consist in higher flexibility when conducting



payments, considering the spread of these institutions across the country through agents, as well as lower costs on small-value payments, such as fines, monthly utility bills, etc.

Over the first nine months of 2024³¹, these institutions have processed close to 11.7 million electronic money payments in total, up by 12.5% compared to last year.

2.7.4 PAYMENT SYSTEM OVERSIGHT AND THE REFORMATORY ROLE

Beyond the operation of the payment systems, the Bank of Albania oversees their supervision and the use of payment instruments. As a result, it continues to improve and strengthen the regulatory framework and payment infrastructure in compliance with the European standards.

The payment services activity is laid down on the Law “On payment services” and its regulatory framework, which has transposed the Payment Services Directive (PSD2) of the EU. This law has opened the payment market for a variety of services and institutions, in favour of increasing competition, reducing costs and increasing transparency for the consumer.

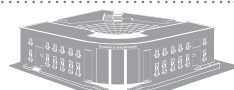
At the end of 2023, the Law “On the payment account with basic features” was approved, with its effects entering into force in April 2024. This Law lays down the terms and conditions for opening and using a payment account with basic services for consumers and households, including in particular those who are not covered by banking services, regardless of income level, employment status or history of repayment capability within the Republic of Albania. The Law is also expected to positively affect the use of payment services and increase the number of citizens that own and use a payment account. Up until the end of 2024, there were 1007 new accounts opened at banks by pensioners, recipients of government assistance/invalidity claims, and students.

INFRASTRUCTURE DEVELOPMENT

For the purpose of developing the infrastructure, the Bank of Albania has worked meticulously throughout 2024 on:

- The project to upgrade the AIPS, AIPS euro and AECH systems, which aims to implement international standards for message processing (SEPA/ISO 20022). These standards render transactions more secure as well as ensure uniformity in the exchange of data at a global level. This project is expected to be completed by 2025.
- The project for the development of the instant payments infrastructure. “Instant payments” are small-value settlement of electronic payments available 24/7/365, meaning that interbank transactions are settled immediately or almost immediately. By ensuring that the movement

³¹ Data on electronic money is available until September 2024. Annual data will be generated after March 2025.

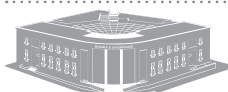


of funds is carried out in real-time, instant payments increase the availability and safety of funds for the users and support the efficiency of the financial system. Instant payments are also valuable because they help to extend the use of electronic payments and financial inclusion among people.

The project for the development of infrastructure for instant payments has become ever more important over the past year to the benefit of economic interactions between the countries of the Western Balkans and the integration of Albania into the EU markets. The Bank of Italy (BdI) has been engaged in the process of developing an instant payment system identical to TIPS of the ECB for Albania, and the other regional countries of the Balkans (referred to as TIPS Clone). This will enable the development of instant payments at a national and cross-border level between the countries of the region. In January 2025, the Bank of Albania together with the other regional central banks signed the Letter of Interest during an official ceremony held at the Bank of Italy.

NATIONAL PAYMENT SYSTEM COMMITTEE

In order to increase the efficiency and reliability of the payment markets and their respective infrastructure, the Bank of Albania plays the role of a catalyst in the field of payments. The Bank of Albania uses its expertise in the field of payment systems and shares it with the market players through regular consultations and coordinated meetings with representatives of the private and public sectors. Within this role, it leads the National Payment Systems Committee. The annual meeting of the National Payments System Committee was organised on 5th December 2024, which corresponded with the 10th anniversary of the Committee's establishment. Priority projects in the field of payments were discussed during this meeting such as open banking, SEPA membership of payment service providers, and the development of the instant payment system in Albania. The experience of other countries and services related to instant payment transactions were presented during this meeting. There was particular emphasis put on the topic of financial education, where the Bank of Albania has played a key role in organising educational activities on the use electronic payment instruments and promoting more affordable and efficient cross-border payments through SEPA schemes.



BOX 6: THE PROCESS OF SEPA MEMBERSHIP AND THE ROLE OF THE BANK OF ALBANIA

SEPA – the Single Euro Payments Area – aims to harmonise the method used to carry out payments in Euro in electronic form (cashless) between member countries³². It is the next step toward realisation of economic and financial market integration within the European Union, and is supported by the European payment industry, governments of EU countries, the European Commission, the Eurosystem and other public authorities. Taking into consideration the principle of one single market, the standardisation of euro payments aims to increase their efficiency through low costs and speedy transactions.

On 12 June, the Bank of Albania, on behalf of the Albanian financial community, submitted an official request to join the SEPA geographical area, marking an important step towards integrating the Albanian financial system into the European market. Albania became the first country in the Balkan region that applied to receive SEPA membership. The Bank of Albania led the application process, however this process came as a result of close and synergistic collaboration with other government authorities.

The work dedicated to the application for SEPA membership has been ongoing for years. The Bank of Albania has undertaken a series of measures to approximate national legislation with the *acquis communautaire* of the EU in the field of payment services, in order to fulfil the regulatory criteria needed for membership. These criteria aim to evaluate approximation with the European standards related to the supervision of payment services, financial system supervision, supervision of the activities for preventing money laundering and preventing financial terrorism, ensuring the principles of competitiveness, protection of personal data, free movement of capital and lastly, the coordination of European foreign politics with national politics.

The Bank of Albania has worked closely with the World Bank to realise legal changes in due time, and has received good feedback on its readiness to become a SEPA member. The transposition of the European Payment Services Directives 2 and exiting the “grey list” were crucial to the fulfilment of these criteria. However, there is still work being done in order to address unfulfilled criteria. On 3 April 2024, the Regulation “On determining the requirements for credit transfers and direct debit in euro” was approved. The approval of this regulation fulfilled one of the legal obligations required by SEPA membership.

Another point which indicated a meeting of the requirements was the strengthening of some legal aspects related to the prevention of money laundering and financing of terrorism. The Regulation “On information accompanying fund transfers,” which was drafted in cooperation with the Financial Intelligence Agency, addressed some of the main shortcomings as regards compliance with SEPA membership criteria.

The decision to accept countries into SEPA system is made by the European Payments Council, an institution based in Brussels, which is responsible for the standardisation and improvement of the payments system in Europe. In its meeting, on 21 November 2024, the EPC decided to accept Albania into the

³² The SEPA geographical area comprises 36 countries, where, in addition to the European Union countries, the other member countries include the United Kingdom, Iceland, Norway, Liechtenstein, Switzerland, Monaco, San Marino, Andorra, the Holy See, and from November onward, Albania and Montenegro, as well.



geographical area of SEPA. During the same meeting, the EPC approved the membership of Montenegro as well, which had applied a little after Albania.

Following the approval of Albania in the geographical area of SEPA, each institution providing payment services in Albania must apply individually to become member of schemes managed by the EPC. This also implies that some technical conditions must be developed by our institutions so that they can adopt their infrastructure to the operationalization of SEPA payment schemes.

Albanian institutions may start their application to get memberships in these schemes starting from April 2025. The Bank of Albania is collaborating with the World Bank and the EPC to guide these institutions in the application process and adherence to the schemes.

