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1. MISSION

The Bank of Albania is the country’s central bank and has the exclusive right to:

1. formulate and independently implement the monetary policy - the principle objective of the Bank of Albania is to achieve and maintain price stability, which is the best contribution of the monetary policy for sustainable and long-term economic growth;
2. issue and circulate the Albanian currency, by guaranteeing the quality of banknotes and coins, providing a secure and efficient supply to meet the needs of the economy for currency;
3. hold and manage official international reserves of the Republic of Albania as a guarantee to withstand adverse shocks to the real sector of the economy and support financial stability.

As the issuer of the national currency, the Bank of Albania promotes the smooth operation of payment systems to: ensure a safe and fast circulation of the currency in the economy at minimum costs; prevent systemic risk, and safeguard the stability of financial institutions and markets.

The Bank of Albania promotes financial system stability - public confidence in institutions, markets, and financial infrastructure - through regulating, licensing, and supervising banks and other financial institutions, as well as regularly identifying and analysing risks and threats to financial stability.
2. **VISION**

Enhancing good governance with a view to boosting public confidence in the Bank of Albania through:

a) strengthening the independence for accomplishing the mission and achieving the objectives, in conformity with obligations arising from the gradual approximation of our legislation and policies with the EU and ESCB legislation;

b) increasing the accountability to the public for the fulfilment of the main duties, as well as the primary objective and other statutory objectives of the Bank of Albania. This includes also adopting best accounting and auditing standards, regularly publishing financial reports and ensuring the integrity of external and internal audit processes, as key elements for public accountability.

c) enhancing the transparency on the activity of the Bank of Albania, through an open and clear communication with the public. The Bank of Albania will take the appropriate measures, in accordance with the law and its policies, to increase the comprehensibility and predictability of the monetary policy, improve accountability and boost public confidence in the institution.
3. VALUES

To foster public confidence in the institution, the activity of the Bank of Albania shall be guided by:

a) Integrity and ethics: acting in conformity with the legal and moral norms, and highest ethical standards, averting inappropriate influences by persons or organisations outside the institution, in the fulfilment of the duties;

b) Competence and professionalism: acting in accordance with the required expertise, know-how, capability, qualifications and qualities;

c) Effectiveness and efficiency: acting to achieve the desired outcome in the best way using minimum resources;

d) Team work and innovation: acting in cooperation, mutually assisting and sharing know-how, assuming initiative and showing creativity for presenting new ideas.
4. MEDIUM-TERM OBJECTIVES

The priority activities of the Bank of Albania are determined in the organic law. The primary objective of the Bank of Albania is to achieve and maintain price stability. In accordance with this objective, the Bank of Albania promotes and supports:

a) Foreign exchange system;
b) Internal financial market;
c) Payment systems; and
d) Improvement of the monetary and lending conditions in support of the country’s stability and economic developments.

Other objectives are conditioned by the primary objective and promote maintaining the liquidity level, solvency, and the smooth functioning of a banking system based on market principles.

4.1 MONETARY POLICY

The Bank of Albania formulates and implements the monetary policy. It supports a sustainable and long-term economic growth, promotes welfare and fosters financial stability.

The monetary policy is based on an inflation targeting regime and envisages the implementation of a floating exchange rate regime.

The goal for 2019-2021 is to enhance the effectiveness, flexibility and transparency of the monetary policy. The development strategy for the monetary policy is based on the trends of internal and external developments, the identification of future challenges, and the utilization of relevant best international practises. This strategy is revised regularly.
Objectives, measures, and expected outcome

a) Developing the analysing and forecasting framework, aimed at the further qualitative improvement of the monetary policy formulation and implementation.

Achieving and maintaining price stability requires a sound and reliable monetary policy framework, as well as the best available information and models. The Bank of Albania aims at improving and updating monetary policy forecasting models and analysis, applying contemporary modelling techniques, and updating its staff with the latest information.

Achieving this goal enables:

- Generation of macroeconomic projections based on a solid and advanced platform;
- Conduct of in-depth analysis of macroeconomic relations and operation of the Albanian economy;
- Evaluation of the monetary policy pass-through to the economy and measurement of its effects; it also facilitates the correlation between monetary policy and macro-prudential policy.

The Bank of Albania aims at implementing the best international practices for research, the empirical assessment of the Albanian economy and financial markets, as well as the continuous staff training.

b) Maintaining and developing the framework of monetary policy instruments, aiming to increase its effectiveness and flexibility

The functioning of the monetary policy transmission mechanism and the assessment of the instruments’ efficiency is another permanent priority. The study of the transmission mechanism channels and the assessment of the effectiveness of the range of instruments enables us to address new challenges with appropriate approaches, helping thus to achieve monetary policy objectives.

The monetary policy pass-through is closely related to the development of financial markets. The Bank of Albania will continue to cooperate closely with relevant institutions for the further development of these markets. For this purpose, the effects of monetary policy instruments will be studied, to further develop and enhance their effectiveness.

c) Further improving the communication with the public in order to enhance the understanding, predictability and the effectiveness of monetary policy.
The Bank of Albania aims to communicate the monetary policy decision clearly and effectively by: helping households and enterprises to make informed decisions; reducing economic and financial uncertainties; increasing the effectiveness and accountability of monetary policy.

For this purpose, the aim is to increase the range and quality of publications, while increasing the clarity of communication.

d) Developing further the communication and cooperation with domestic and foreign partners, for enhancing the synergy of domestic economic policies and bolstering the European integration process.

Increasing monetary policy effectiveness requires, inter alia, increasing co-ordination with the fiscal policy, knowing and consulting structural reforms across the board, and dialogue with various domestic partners. The national objective of European integration requires a continuous dialogue with European partners as well as knowing and implementing the European legislation in the field of Economic and Monetary Union.

4.1.1. EXCHANGE RATE POLICY AND FOREIGN EXCHANGE RESERVE MANAGEMENT

The Bank of Albania adopts and applies the exchange rate policy and manages the reserve of the Republic of Albania in accordance with the best international practices. Reserve management aims to:

- Meet foreign-currency liquidity needs related to the implementation of the monetary and exchange rate policies, and covering the country’s needs in times of crisis;
- Keep under control, in the most prudent way, liquidity, market and credit risks, during the investment of the reserve in financial institutions; and
- Generate reasonable income over the long term from invested funds, as long as this is not in conflict with the liquidity and security criteria set out above.

The Bank of Albania shall develop professional capacities to implement the increased flexibility of the monetary policy instruments and the mechanisms for monitoring the domestic foreign exchange market.

Objectives, measures, and expected outcome

a) Monitoring, analysing and promoting developments in the domestic financial markets
The Bank of Albania will support the Ministry of Finance and Economy, as the issuing institution of the Albanian securities, with know-how, operations and analysis, for the implementation of the pilot project for issuing benchmark securities through Market Makers. Also, the Financial Supervisory Authority will be provided with expert support for the revision of the securities law.

The resources needed to accomplish this objective include:

- **Technology**: Development of the centralised Albanian Financial Instrument Settlement and Registration (AfiSaR), as well as an addendum to the contract in the REUTERS information system to accommodate new operations, in the framework of the issuance of benchmark securities through Market Makers.
- **Human Resources**: Addition to the structure, in case of extension of the pilot project to more than one benchmark security, as well as staff training;
- **Financial Resources**: Developments in technological and human resources will be accompanied by financial costs.

The achievement of the objective will be assessed through the following:

- Increase of trading/liquidity in the secondary market of state securities;
- Improvement of competition, demand/supply ratio, etc. in the primary market of Albanian state securities.

b) Improving the financial result of foreign reserve investment and diversification

This will be done through the increase of instrument classes with:

- Covered bonds;
- Future Contracts;
- Reverse REPO;
- MBS (mortgage backed security);
- ILB (inflation linked bonds).

Measures, technologies and human and financial resources needed to achieve these objectives:

- Continuing staff training and sharing experiences with counterpart institutions and partner commercial banks;
- Increasing the capacity of current systems or purchasing a new system to support the expansion of classes of instruments in which investment is done;
- Making regulatory adjustments and the need for external legal counselling for the Global Master Repurchase Agreement with various banking institutions for REPO instruments.
Evaluating the fulfilment of objectives

- Achieving the above objectives enables the portfolio return to increase by about 10-15 basis points per year and with a similar volatility to the current one. Covered bonds and MBSs are assets with historical higher volatility than the asset classes currently acquired. However, the intention is to combine them with traditional assets, ILBs and future contracts - will increase the flexibility of active management- in the medium-term, it will bring a volatility that is at least similar to that of the portfolio.
- The measurement method would be: (i) for absolute return, comparing the return that would result for the benchmark without including the new classes, with the return of the benchmark with new classes; and (ii) for relative return, a result of an active management with and without new classes.

4.1.2. STATISTICS

The Bank of Albania aims to provide the public with comprehensive statistics, which are compiled in accordance with international standards and serve as a basis for the implementation of the monetary, macro and micro-prudential policies.

Official statistics produced by the Bank of Albania are used by public institutions, financial market participants, media, international organisations and the general public. Providing qualitative statistics and analyses will continue to be a priority to endorse policy-making, at national and international level, and help explain financial market’s developments.

Objectives of the Bank of Albania, in the field of statistics, are oriented toward fulfilling quantitative standards of international methodologies and EU legislation, related to the content and reporting of statistics to European and international institutions.

Particular attention will be paid to building up databases with granular data to increase the micro-macro consistency and to allow for the construction of new indicators. We will also work on compliance with statistics quality criteria, in accordance with international practices and standards on data quality. Fostering and deepening the dialogue with data users to better identify their needs will remain the focus of our work.
Main objectives for the period

a) Development and implementation of international standards and requirements

i. The Bank of Albania will work for the implementation of Regulation No 2016/867 of the European Central Bank on the collection of granular credit and credit risk data, in order to implement new reporting requirements from the banking system in the framework of the Credit Registry and to set up a database with detailed information on loans granted to natural and legal persons.

Within 2019, the Credit Registry will be updated, enabling the standardization of the collected information for supervisory, statistical, and macro prudential policies for monetary policy and research operations at the Bank of Albania.

ii. Implementation of new requirements for statistics on holdings of securities

The focus is the implementation, within 2020, of Regulation No 2015/730 of the European Central Bank concerning statistics on holdings of securities, as well as the development of a comprehensive database with detailed information regarding the securities held by the lending institutions and their affiliates in the country.

This will enable more detailed and qualitative data on securities, providing more thorough analyses in the fields of operations market, monetary policy and financial stability.

iii. Consolidation of sources of information and assessment methodology in the compilation of Financial Accounts for all economic sectors, in accordance with the requirements of the European Central Bank and Eurostat

The Bank of Albania will develop methodologies for debt assessment of non-financial corporations and households and will publish quarterly harmonized financial accounts for all economic sectors. This will complement the analytical framework for monetary policy and financial stability decision-making within 2020.

iv. Completion of the framework of financial soundness indicators

During the medium term, assessment methods will be carried out for the development of additional indicators relevant to the assessment of the soundness of the banking sector and banks in particular, related to the activity of other financial institutions, non-financial corporations, households and real estate markets. This serves to the
complement of the analytical framework within 2020, in support of evaluation analyses and macro prudential policies.

v. Harmonization with Regulation No. 1071/2013 of the European Central Bank concerning the balance sheet of the monetary financial institutions sector

The regulation, reporting system and relevant guidelines will be drafted, during 2020, enabling thus the harmonization with the European Union standards in the field of monetary aggregates, ensuring compliance with the reporting requirements of the ECB.

a) Improving the infrastructure for collecting, processing and sharing statistical information

This objective will be achieved through:

- improvement of technological infrastructure thanks to the automation of the production process of statistics, within 2020;
- further investment in the Regulatory Reporting Electronic System for the creation of a dynamic platform, multi-dimensional database (Data Warehouse and Business Intelligence Tools) within 2019;
- increase of cooperation with other statistical agencies through memoranda of understanding and joint activities.

b) Increasing new statistical indicators

This objective will be achieved through:

- fulfilment of the obligations deriving from the "Action Plan on Economic, Monetary and Financial Statistics for candidate and potential candidate countries ":
  - reporting on international trade in services and balance of payments statistics by geographical breakdown, which will enable the expansion of the statistical indicators base, increase the level of details and the degree of coverage of the indicators (within 2021).
  - drafting, publication and reporting balance of payments statistics, monthly (within 2020),
  - drafting, publication and reporting of statistics of companies of Albanian origin, abroad (OFATS, in cooperation with INSTAT); and
- Drafting and publication of interest rate statistics, according to the requirements of the European Central Bank, within 2019.
4.1.3. RESEARCH

The Bank of Albania aims to prepare qualitative economic studies, contributing to better understanding the Albanian economy and the social, economic and political processes affecting it. Research in the field of economics and finance aims to investigate the hypotheses put forward in economic analyses and research.

Main objectives for the period

The main objective is to integrate the results of economic research and empirical analyses, in order to advise and endorse decision-making, in view of objectives related to monetary policy, financial stability and financial market regulation. Innovation, competence and professionalism are values we seek to incorporate in the field of research, based on the interaction and creativity of each organisational unit.

The Bank of Albania will develop and test statistical techniques for structuring and using the statistical information generated by developments in the field of information technology and their dissemination in every aspect of the economic and social life. To this end, the aim is to implement and use research methodologies based on the “Big Data” platform, for conducting analyses and making forecasts for economic developments.

“Big Data” is a new standard of central banks that enables the perception of databases, methodologies and software necessary to analyse and interpret statistical data. The systematic use of this platform will be part of the analyses and forecasts of the Bank of Albania, to support decision-making and to guarantee monetary and financial stability.

In the framework of supplementing microeconomic statistical data and of studying Albanian consumers’ behaviours, the statistical databases on the Albanian households and their economic and financial characteristics will be expanded. This objective will be realised through statistics surveys. The primary goal is to:

- present a new statistical data set on households;
- improve and deepen research work, to support and the achievement of monetary policy and financial stability objectives;
- unify data sources in accordance with the best European and international standards.

The Bank of Albania aims at promoting discussion and analyses, focusing on the following aspects:
- reorganising and elevating the level, form and academic content of research activities, such as the Friday Seminar and the Research Workshop;
- publishing scientific research in international renowned journals on economy and finance;
- increasing scientific research capacities, through collaboration with higher education institutions and participation in international seminars and conferences, to enhance interaction with academia, within the country and abroad, on topics of interest to the institution.

4.2 ISSUE AND CIRCULATION OF THE ALBANIAN CURRENCY

The Bank of Albania aims to maintain public confidence in the national currency, through guaranteeing the quality of banknotes and coins and fulfilling the need of the economy for money, safely and efficiently.

Main objectives for the period

a) Fulfilling the needs of the economy for cash, fit for circulation.

The continuous study of the growing needs of the economy for cash fit for circulation is the main focus of the following medium-term period. This will be realised through:

- Monitoring, monthly, the amount of cash (logistic and strategic funds), compared to the economy’s demand for money, under ordinary and extraordinary situations;
- Producing banknotes with improved design and putting them into circulation within the following deadlines:
  o 200 LEKË and 5000 LEKË banknotes within 2019,
  o 1000 LEKË within 2020,
  o 2000 LEKË and 500 banknotes within 2021;
- Producing and putting into circulation of the new issue 10,000 LEKË within 2020.

b) Improving the quality of banknotes in circulation by enhancing the processing efficiency and capacity.

Guaranteeing the quality of banknotes is aimed firstly at preserving their integrity, in relation with the public that uses them, and upholding a dignified image of the Bank of Albania and the Albanian state. This will be realised through:
- further development of automated and contemporary processing, packaging and destruction of banknotes at the cash centre;
- replacement of processing systems with more advanced systems at the branches of the Bank of Albania;
- permanent control of the banking system and encouraging it to use systems certified and authorized by the Bank of Albania for accepting and processing banknotes.

c) Protection against counterfeiting

Protection against counterfeiting aims to maintain and boost public confidence in the national currency. This objective will be realised through:

- continuously improving security features of the Albanian banknotes;
- continuously improving human resources through training, qualifications and participation in seminars and workshops on the prevention of counterfeiting and protection of banknotes against it;
- increasing cooperation in the field of fight against counterfeiting, by formalising agreements with relevant authorities at national and European level;
- organising seminars with employees of the financial system, to inform, guide and train them on security features of Albanian banknotes, as well as factors that minimize their counterfeiting.

d) Improving the administration and enhancing the physical security of monetary values.

The Bank of Albania will strengthen control practices and physical protection measures, which guarantee security and intactness of the monetary values it administers, in light of issue and treasury functions, in accordance with the best relevant practices. This will be realised through:

- reviewing, as necessary, the procedures for the administration of such values, in order to perfect them in accordance with the highest standards;
- improving the conditions and premises where values are stored and held.

4.3 PROMOTING THE SMOOTH OPERATION OF PAYMENTS SYSTEM

Through the smooth operation of the payments system, the Bank of Albania aims to ensure a safe and fast circulation of the currency in the economy at minimum costs, prevent systemic risk, and safeguard the stability of financial institutions and markets.
Main objectives for the period

a) Promoting and overseeing the smooth operation of the payments system; regulating payment instruments and services on electronic transfers

Within 2019, the Bank of Albania will regulate the operation of securities’ clearing and settlement infrastructure, as well as expand the institutional capacities for their licensing and oversight.

In addition, efforts will be made towards consolidating the facilitating regulatory environment for retail payments. Within 2020, the EU’s Payment Accounts Directive will be adopted. This aims to offer every person the right to a payment account with basic features, regardless of his/her residence or financial situation, to improve the transparency on fees charged to these accounts, as well as to facilitate the switching of payment accounts from a bank to another.

Expanding the share of the population that owns a payment account and carries out transactions with it contributes to achieving the objectives set out in the national strategy on retail payments.

Within 2019, the draft-law "On payment services in the Republic of Albania" will be approved and will enter into force. The regulatory framework for the implementation of this act is intended to be adopted by 2020.

In the above projects, the Bank of Albania benefits from World Bank’s technical assistance, funded by the Swiss State Secretariat of Economic Affairs (SECO).

b) Promoting the smooth functioning of the payments system, through its role as reformer and catalyst of the system

The Bank of Albania aims to create a contemporary and comprehensive retail payments market, supported by safe and efficient infrastructures, as well as by a wide range of payments instruments and services that fulfil the needs of financially capable users, across the country.

The National Payments System Committee and the National Strategy on Retail Payments play an important role in this regard. The Bank of Albania will continue to work on implementing the action plan of the Strategy and organizing of meetings and other relevant activities in this regard.

c) Promoting the smooth functioning of the payments system, through the creation and operation of payment systems

The Bank of Albania aims to promote to use of electronic payments instruments,
through infrastructural developments to guarantee safe, fast and low-cost circulation of money in the economy.

The terms of reference for the implementation of the settlement of euro transfers by clients of commercial banks in the territory of Albania will be drafted within 2019. The implementation of the relevant infrastructure will be realized during 2020.

During 2019, the drafting of the interbank direct debit scheme is expected to be finalized.

In the period 2019-2022, work will be devoted to the creation of a national platform for processing SWITCH electronic payments and Instant Payments. This includes the drafting of the visibility plan, the terms of reference for the functioning of the scheme/infrastructure, the implementation of the chosen infrastructure and the implementation of the project.

In terms of expanding the participation in the Clearing System for Small Value Payments (AECH), efforts will be made to identify the necessary infrastructural developments and the regulatory changes to accommodate the participation of non-bank financial institutions in this system, as well as mitigating potential risks. These will be realised within 2019 Q2.

4.4 PROMOTING FINANCIAL STABILITY

Financial stability is the ability of the financial system (institutions, markets and the relevant infrastructure) to efficiently carry out its functions (including financial intermediation), under normal conditions, as well as under most adverse economic situations. In order to safeguard financial stability, it is necessary to prevent systemically important risks and to increase the resilience of the financial system and of the banking sector against them.

Addressing systemic risks in the financial system is the objective of the macro-prudential policy.

4.4.1 MACRO-PRUDENTIAL POLICY

In light of its legal functions and given that the banking sector dominates the Albanian financial system, the Bank of Albania plays a primary role in the implementation of the macro-prudential policy. This role is evidenced in the Macro-prudential Policy Strategy.
The Bank of Albania will engage in the assessment, monitoring and identification of the actions for addressing financial system risks, focusing in particular on systemic risk and the banking sector. When necessary, supported on the best international standards and the procedures existing in Albania, this activity will be carried out in collaboration with other public authorities.

The Macro-prudential Policy Strategy contains a number of intermediate objectives that correspond with the main risk continuously observed by the Bank of Albania. The final objective of the macro-prudential policy is to help safeguard the stability of the entire financial system by preventing and mitigating systemic risks and strengthening the resistance of the financial system.

Intermediate objectives include to:

i. mitigate and prevent excessive credit growth and borrowing;
ii. mitigate and prevent excessive maturity mismatch and market illiquidity;
iii. limit direct and indirect exposure concentrations;
iv. limit excessive risk-taking by systemically important financial institutions;
v. contribute to safeguarding the stability of the financial infrastructure.

For these objectives, the Bank of Albania will work towards identifying risk warning indicators, as well as the operationalization of the relevant macro-prudential instruments.

Main objectives during the period

a) The finalisation of the list of early warning indicators for the objectives 1-4 of the Macro-prudential Policy, by the end of 2019.

For this purpose, the Bank of Albania will:

- create, continuously maintain, and regularly reassess, the necessary database, contributing to building macro-prudential statistics;
- determining the critical level of warning indicators regarding the development of the respective risks and the need to act with the respective macro-prudential instrument, as well as reassess regularly the adequacy of these levels;
- build the relevant analysis on the regular assessment of the performance of the indicators, which will inform the decision-making bodies of the institution around the relevant assessment and the necessary macro-prudential actions.

b) The implementation of the macro-prudential capital buffers for the banking sector where objectives 1, 3, and 4 of the macro-prudential policy are combined, by 2019.
The Bank of Albania will prepare the relevant methodology for the implementation of the countercyclical capital buffers for systemically-important banks, by defining the basic indicators for the activation of these macro-prudential instruments.

c) The development of macro-prudential instruments related with sectoral risks, including those on credit for developing or purchasing real estate, by 2020.

The Bank of Albania will complete the framework of data reporting procedures that allow the calculation and implementation of such instruments as value of loan/value of collateral, value of loan (service)/income.

d) Enhancement of the internal procedures, to document the entire process of the macro-prudential policy cycle, by 2020.

e) The completion of stress tests methodologies for macro-prudential purposes, by 2021.

The focus is on constructing models that assess the possibility of risk contagion amongst bank and non-bank financial institutions. For this purpose, it will cooperate with international financial institutions or other units specialized in the provision of professional technical assistance.

Fulfilling the above objectives will contribute to the improvement of the quality of existing publications, the realisation of new evaluations and the increase of the range of publications in the framework of financial stability. This process will increase the contribution of the Bank of Albania to identifying, preventing and assessing financial stability risks, in collaboration with other institutions within the country and abroad.

To achieve the above objectives, the Bank of Albania will utilize the existing human, financial and technical resources, using synergies that are realised as a result of the cooperation between the departments that contribute directly on financial stability issues. Should periodic assessment of the objectives show that actions need to be taken, the Bank of Albania will respond accordingly to enhance the existing resources.

4.4.2 LICENSING, REGULATION AND BANKING SUPERVISION

The Bank of Albania seeks to implement and develop the best policies and practices for licensing, regulation and supervision of the banking/financial activity, in order to ensure the stability of the banking system and reduce the loss risk for depositors.
The main objectives of the supervision function are to uphold confidence in the banking system, protect depositors, promote market discipline and fair competition, as well as guarantee the sound activity of bank and financial institutions. All these contribute to strengthening financial stability in Albania.

Through the implementation of supervision, the Bank of Albania identifies the risks to banks and other licensed entities, as well as assesses whether strategies, organisational structures and policies, together with the levels of capital and liquidity, ensure a careful and adequate management of these risks.

**Main objectives during the period**

a) Aligning the regulatory and methodological framework with the legislation of the European Union, adopting the Basel Committee principles and addressing the observed problems and suggestions submitted by supervised entities.

The main legal initiatives is about alignment with requirements of the supervisory regulatory framework of Basel III, the draft-law "On Payment Services in the Republic of Albania" and the Law "On Recovery and Resolution in Banks in the Republic of Albania".

b) Further consolidating the methodology for risk-based supervision

The configuration of the Review and Supervision Assessment Process, which will be reflected through the necessary methodological and operational updates, aims to provide the necessary capital reserves by banks. The quality of bank administration will be subject to improved supervisory requirements by completing the review of the internal methodology for assessing their governance/management.

Another important component of micro-prudential supervision is the stress test analyses, through which the Bank of Albania requires banks to conduct their own analysis as part of the process of internal self-assessment of capital adequacy. The supervisory expectations regarding the various aspects of these analyses will be reviewed, resulting eventually in a relevant regulation, by 2019.

c) Further reduction of non-performing loans stock

In the medium term, the Bank of Albania’s intervention will consist in the full implementation of the measures provided for in the National Plan for the Reduction of Non-performing Loans, careful monitoring of banks’ practices for the creation of loan loss provisions, development of the market for the sale of non-performing loans, the encouragement of banks to implement recovery plans in the case of major borrowers and the orientation of new credit toward healthy sectors of the economy.
d) Continuous monitoring of technological developments and innovations in the financial system and payment systems

The above objectives will be fulfilled through steady cooperation and continuous exchange of information with foreign supervisory authorities and local authorities responsible for supervising the activity of entities licensed by the Bank of Albania.

For that, the adequacy of the technical and human capacities of the institution will be assessed. If necessary, increasing their number will also be considered.

The progress achieved in meeting the above objectives will be presented in the annual supervision reports.

4.4.3 BANKING RESOLUTION

As the Bank of Albania is the resolution authority and exercises resolution powers to ensure an organised intervention in failing banks, to minimise the impact on real economy, public finances and financial stability.

The resolution objectives are to:

- to ensure the continuity of bank critical functions;
- to avoid significant adverse effects on financial stability, in particular by preventing contagion, including to market infrastructures, and by maintaining market discipline;
- to protect public funds by minimising reliance on extraordinary public financial support;
- to protect depositors covered by the Deposit Insurance Agency;
- to protect client funds and client assets.

The resolution plans for each bank will be drafted within 2022, based on the information that banks collect.

The Bank of Albania is identifying the critical functions for each bank, based on the information provided by them, through recovery plans and internal assessments. The individual resolution plan for each bank shall comprise the identified critical functions and the way of ensuring the continuity of such functions.

Main objectives during the period

a) Analysing forms completed by banks, regarding the required information for drawing up resolution plans.
In September 2018, banks, for the first time, reported the required information for drawing up the plans. This information is about the governance and management of the bank, its main activities, structure of liabilities, the pledged collaterals, off balance-sheet items, payment, clearing and settlement systems used by the bank, information systems, financial and other interconnectedness and dependencies, as well as contractual agreements that may either affect or be affected by the resolution actions.

The completed forms will be analysed over 2019, in parallel with the drawing up of plans for each bank.

b) Drafting of the Regulation “On the minimum level of capital instruments and accepted liabilities”

This Regulation shall set out the method for the valuation of the minimum capital requirement and eligible liabilities, as the main financing source to the bank under resolution, when the bail-in tool is applied. The regulation shall be drafted within 2019. The resolution plans will include the individual level of requirement for this instrument, for each bank, during 2020.

c) Qualitative development of staff and technical capacities, and improvement of organisational structure

Regarding the qualitative development of the staff, the Bank of Albania will commit to enter into cooperation agreements with relevant European resolution authorities. A cooperation arrangement with the Single Resolution Board is expected to be signed within 2019. This arrangement will provide a strong support to the qualitative development of human resources.

The organisational structure of the Resolution Unit at the Bank of Albania is based on the principle of developing the skills of the specialists responsible for drawing up resolution plans, by portfolio of individual bank group, according to the approach: one systemically important bank and a group of non-systemic banks for one specialist. This approach allows drawing up qualitative resolution plans and supporting them by removing barriers for each bank, in compliance with the Law.

4.5 GOOD GOVERNANCE OF THE INSTITUTION

The Bank of Albania aims at further strengthening the good governance, through enhancing the institutional independence, transparency and accountability.
4.5.1 INDEPENDENCE

Enhancing independence with a view to accomplishing the mission and legal objectives is an obligation arising from the gradual approximation process with the European legislation integration.

The Bank of Albania aims at fully harmonising its own organic Law to the Statute of the European System of Central Banks.

4.5.2 ACCOUNTABILITY

The Bank of Albania aims at enhancing accountability to the Parliament and public at large, on fulfilling the legal obligations, the main objective and the strategic objectives.

Main objectives during the period

a) The preparation of financial statements in accordance with the International Financial Reporting Standards (IFRS).

Bank of Albania aims at drafting and publishing the financial statements which accordingly show the financial situation of the institutions, in compliance with IFRS. It requires the implementation of adequate accounting policies for the institution.

Amendments to requirements in the existing IFRS and the application of new standards in accounting policies and their implementation will be reflected during the medium term.

b) It requires updating the staff with the latest novelties and publications on accounting standards and their interpretation by the International Accounting Standards Board. The effective financial management, the strengthening of institutional capacities and the efficient use of human resources, based on a well-designed and good-governed strategic planning and budgeting.

The Bank of Albania aims an accurate and real reflection of budget projections, in line with the Medium-term Strategy.

In light of automating of the budget drafting process, within 2019, the Bank will assess the needs and alternatives for adapting and using an existing software, or creating a new application, with either internal or external sources.

Depending on the choice, the financial sources will vary for purchasing/developing a module for the planning process of the Bank of Albania budget.
includes also the training costs for the staff, or the possible assistance to acquire experience from other central banks.

c) Improvement of the correlation of strategic planning and budgeting processes.

The Bank of Albania aims at improving the detailing of these strategy objectives in financial terms, to support the compilation and approval of both the annual and the medium-term budget. During the medium-term period, a guideline on financial management and budgeting will be compiled in line with the strategy, as well as to inform and guide the organisational units to establish measurable objectives and draft budgets in compliance with these objectives.

The best practices and models provided by IMF missions will be used in this regard. If necessary, consultancy and/or dedicated staff will be required to coordinate the strategic with the budget planning.

4.5.3 TRANSPARENCY

Transparency and Public communication

Main objectives in the field of transparency and public communication consist in:

a) Enhancing transparency

Enhancing transparency implies expanding the scope of information and constantly improving communication channels with the public and various groups of interest, with a view to increasing the confidence in the institution and the effectiveness of the monetary policy. This approach will be effectively coordinated within the institution as part of the overall communication policy.

b) Communication with the public

Open and transparent communication with the public helps to increase the effectiveness of Bank of Albania policies, contributing to increasing the confidence in the institution. In this framework, communication with the public is a strategically important issue for the Bank of Albania, in order for the public to be informed and able to properly understand the decisions and policies implemented by the Bank of Albania.

i. Putting into circulation new banknote series
The Bank of Albania will introduce a new series of banknotes in 2019 and will put into circulation denominations of this series during the period 2019-2021.

Introducing and putting this series in circulation is rather important and a special moment. After more than 20 years, the design of banknotes in circulation is renewed and security features are improved, giving the Albanian banknote the looks of a contemporary banknote. At the same time, it shows resistance, high quality, integrity and credibility, comparable to those of most advanced countries.

Used as a means of payment, the national currency is a national element affecting the life of all citizens, no matter the age, place of residence and economic status. Hence, the Bank of Albania aims at informing the Albanian citizens on the new design and security features for the new series of banknotes to be put into circulation.

ii. Discontinuing outdated use of “new lek”-“old lek” terminology

For 50 years now, Albanians have been using the term new lek-old lek in their day-to-day activity. According to a Decision of the Albanian State in 1965, the 10 lek of 1947 and of 1957 would now equal 1 lek, as of 1964. The old reference, however, has been transmitted and used over the generations for many decades. It is still widely used, driving many times to ambiguities in calculating the payments, difference in prices adding or dropping a “0”, for example, for products and services offered in in the market, or confusion to tourists about prices in Albania.

In order to avoid this psychological confusion, the Bank of Albania will undertake a national campaign over a several-years period, to raise the awareness of the public, to use only lek, that is the nominal value featured on the banknote, and no longer refer to the “new lek”-“old lek” terminology.

c) Museum of the Bank of Albania and financial education

The Museum of the Bank of Albania is an important tool of communication with the public. In the next three years, the Museum aims at playing an important role in increasing financial literacy in Albania, by attracting the public, and in particular pupils and students.

The content of the Museum, presented according to the groups of interest, and in view of financial education objectives, aims at increasing the knowledge and awareness of the public on:

- Bank of Albania and the Albanian financial system;
- Albanian currency and relevant policies.
Main objectives during the period

a) Improvement of content for all the sections of the Museum

The history of the Bank of Albania and of the Albanian banking system, in the framework of the 100th Anniversary of the beginning of the activity of the National Bank of Albania, will be prepared in cooperation with scientific institutions and collaborators. This objective aims at:

- researching, gathering and studying the historical materials and archive documents in the field of monetary circulation, payment systems, and institutional developments of market and policy of monetary and financial management;
- engagement of scientific collaborators to draft and publish scientific materials, for the content of the Museum and their presentation to the public.

b) Enriching the Museum with additional numismatic objects and collections

This objective will be realised through minting new coins for numismatic purposes, purchasing collections and objects of historical importance, and collaborating with the General Directorate of Archives and other relevant institutions for borrowing objects of historical importance.

c) Enhancing communication through activities for educational purposes

The organisation of financial education activities aims at increasing financial literacy and financial inclusion in the Albanian society. To that end, the Bank of Albania will work toward educating citizens on the use of financial instruments and technology, providing them with information tailored for their respective age-group and interest, with the eventual goal of increasing their financial inclusion. This will be realised through:

- lectures by the staff of the Bank of Albania, or guest professors, according to the themes and the interested people;
- extra-curricular educational classes provided by the staff of the Museum with nine-year schools, for the financial education of children aged 6-12 years old.
4.6 INTERNAL CONTROL SYSTEM

The Bank of Albania functions in compliance with a set of rules and controls that regulate the organisational and operating structure, including the reporting processes and functions for the internal audit, operational risk management and business continuity.

The internal control system contributes to the fulfilment of objectives, ensuring the effectiveness of the institution, compliance with management policies, maintenance of assets, prevention and discovery of frauds and errors, accuracy and completeness of accounting registrations, and timely preparation of reliable financial information.

4.6.1 INTERNAL AUDIT

The aim of the internal audit is to serve as a reliable advisor to the administrators and the Audit Committee. This involves creating adequate experience for understanding the needs of the administrators and the Audit Committee, properly addressing strategic risks, and raising the awareness on new risks and taking preventing measures against these risks.

Main objectives during the period

The main objectives for the period 2019-2021 focus on ensuring compliance with international standards on internal audit, regarding:

a) the implementation of the plan of measures for recommendations resulting from the external and internal assessment of the quality of the internal audit function, for full compliance with international internal audit standards. This includes self-assessment and preparation for the next external assessment;

b) the increase of the internal audit independence and quality, by strengthening the reporting lines with the administrators and the Audit Committee;

c) raising the awareness of Bank of Albania’s staff on the functioning and clear division of the Line I of Defence (functions), Line II (risk management and compliance), and Line III (internal audit), and the coordination between Line I and Line II.

Also, the role of the Audit Committee will be strengthened; regarding: (i) integrity of financial reporting process; (ii) adequacy of internal audit system; (iii) performance of internal and external audit functions and operational risk management; and (iv) compliance with the legal and regulatory framework.
This will enable a deeper focus and higher effectiveness of the Supervisory Council in addressing issues related to transparency and accountability at the Bank of Albania.

### 4.6.2 OPERATIONAL RISK MANAGEMENT

The Bank of Albania aims at transforming the Operational Risk Management (ORM) framework to an effective and qualitative instrument to prevent and minimise the operational risk.

In the medium-term period and onward, the ORM function will regularly inform and support decision making on risks that may prevent the accomplishment of objectives, or have negative financial and/or reputational effects to the institution.

The main objectives include the increase and consolidation of the maturity level of the operational risk management framework, as a core instrument for the assessment from the International Operational Risk Working Group and the self-assessment of the Bank of Albania’s capacity for operational risk management.

The measures to achieve the above-stated objectives relate to the foundations of the assessment model of ORM maturity level:

a) increase of risk culture, raising the awareness on risk management values;
b) good governance by integrating ORM to the units’ functions;
c) improvement of risk reporting by the units and reporting on the effectiveness of the action plans on risk mitigation.
d) improvement of Operational Risk Management Process, through a comprehensive system, at institutional level, of the Key Risk Indicators;
e) considerations of the Risk Management Risk Results during the strategic planning;
f) raising the awareness, supporting and promoting the use of whistle-blowing for the prevention and detection of corruptive behaviours or frauds.

### 4.6.3 BUSINESS CONTINUITY

Bank of Albania aims at ensuring the continuation of critical business operations and business recovery within a reasonable time and at a minimum loss.

The main objective in the medium term is the drafting and implementation of the Business Continuity Management (BCM) Programme. This programme aims at establishing strategic and tactic capabilities to plan and respond on time to
events, operational crisis and disruption of the business activity, without affecting the continuity of operations.

In compliance with the best standards and practices, the planned measures to achieve the objective include the realisation of the Business Impact Analysis (BIA), to determine and evaluate:

- critical business operations as a result of a disaster,
- interdependence between critical activities;
- indicators of critical activities continuance;
- supporting infrastructure of critical operations and the needed resources to ensure their continuity and/or recovery in real time.

The BCM programme, prior to the approval, will be discussed with the interested parties.

Also, the following will be drafted, approved and implemented:

- BCMs strategies for the recovery of processes and resources;
- business continuity plans and Emergency Response Plans.

4.7 HUMAN, PHYSICAL AND FINANCIAL CAPITAL

In compliance with the independence principle, the Bank of Albania aims at having available adequate human, physical and capital resources to fulfil its legal mandate.

4.7.1 POLICIES ON EMPLOYMENT RELATIONSHIPS, QUALIFICATION AND CAREER DEVELOPMENT

To continuously improve services and work quality, the human resources policies at the Bank of Albania support the organisational units to achieve their objectives.

The Bank of Albania is committed to the sustainable development of human resources, to guarantee the sustainability of services and address new challenges. This is realised through the coordination and communication between the organisational units, adapting them to the duties stemming from the regulatory framework and the standards of the European System of Central Banks.

Main objectives during the period

a] identifying professional capacities and using them for personnel’s advancement and development in accordance with the identified fields of
interest and adopting best practices in human resources management.

b) improving and effectively using the technological capacities, for better management of the work time and identification of processes that need to be improved;

c) promoting a culture based on cooperation between departments and exchanging professional experience;

d) Identifying and providing new qualitative trainings, in Albania and abroad, for strengthening the personnel’s know-how and establishing the foundations for the work improvement and the implementation of new processes/methods.

4.7.2 EFFECTIVE USE OF FUNDS

Bank of Albania aims at enhancing the effectiveness of procurement procedures, ensuring the proper use of funds and reducing its own expenditures.

Main objectives during the period

a) reconstruction of the building No 2 of the Bank of Albania.

This objective will be realised through:
- signing the contract with the implementing company, based upon the criteria which dictate compliance with deadlines;
- signing the contract with the works supervisor to guarantee the quality and compliance with deadlines;
- monitoring works by the technical personnel to guarantee the compliance with the schedule of works and the delivery of the project in accordance with time frame set forth in the contract.

b) The construction of a new building for the needs of the Issue Department

This objective will be realised through:

- organisation of the competition to choose the project designer;
- realisation of procurement procedures for the project and implementing company
- ensuring the relevant permits;
- monitoring works by the technical personnel to guarantee compliance with the established deadlines.

c) Realisation of procurement procedures within the timeframe and at the required quality.
4.7.3 INFORMATION TECHNOLOGY

The information technology is an integral part in achieving the medium-term objectives.

Main objectives during the period

During 2019-2021, the Bank of Albania will invest in new technologies to:

a) improve the infrastructure

The Bank of Albania aims at continuously expanding and improving the network infrastructure, in line with the technology advancements and best international practices. The virtualization process of central appliances, for a better management, is important, by optimising the related services and costs. The new environmental-friendly technology and energy efficiency are on the focus as well.

b) automate processes

The support of the activity through the implementation of innovations for automating processes is an objective to enhance efficiency and productivity at the Bank. The automation of the Balance of the Payments, which will directly affect the increase of quality, performance and security of this process, is at the focus.

c) improve systems and enhance their sustainability

The support of the activity with integrated solutions, development of technology and expansion of functions, will be accompanied by the improvement of the supporting systems. The improvement of Credit Registry will be at the focus.

d) add and improve e-services;

In addition to continuous improvements for the technology developments, the expansion of services that Bank of Albania provides to third parties, will continue.

e) ensure security in information technology

The implementation of international standards and best practices, following on the developments in security aspects of technology and their implementation in information infrastructure are a core objective.

In particular the security program of SWIFT-CSP (Customer Security Program) service combines regulatory, procedural and technical improvements with a rigorous and continuous monitoring, accompanied with risk analysis in information
technology. This program may serve as an indicator for the risk-based decision making.

For the realisation of the above-stated objectives, the Bank of Albania will use also assistance from international financial institutions.