

THE MEDIUM-TERM DEVELOPMENT STRATEGY OF THE BANK OF ALBANIA 2023-2025

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The medium-term development strategy provides guidance on the activity of the Bank of Albania over the following three-year period. The strategy identifies the challenges faced by the institution, priorities and main goals, by planning the necessary activities to achieve them.

The Strategy serves as a guiding framework for the budgeting process in the Bank of Albania. The forecast process of income and expenses of the institution is organised for the accomplishment of tasks set forth in the organic law and the strategic objectives.

The approval of the Strategy by the Supervisory Council is an important aspect of the role of the highest decision-making and supervisory body of the Bank of Albania. This is also an essential element of good governance of the institution, in terms of division of responsibilities, between governing bodies, to set priorities, determine the means for their fulfilment, and monitor the performance achieved.

1. MISSION

The Bank of Albania has the exclusive right to: i) 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; (ii) 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; (iii) 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 of Albania.

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; regularly identifying and analysing risks and threats to financial stability; as well as ensuring organised resolution in troubled banks, to minimise the impact on real economy and public finances of Albania.

2. VISION

Adopting high standards of professionalism and good governance with a view to guaranteeing the fulfilment of the mission and boosting public confidence in the Bank of Albania, through:

- a) strengthening the independence for accomplishing the mission and achieving the legal objectives, in conformity with obligations arising from the gradual approximation of our legislation and policies with the EU legislation;
- b) increasing the accountability to the public for the fulfilment of the main duties, as well as the primary objective and other legal 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 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 enhance 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 third parties, 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: the desired results are achieved 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. In accordance with the main objective-achieving and maintaining price stability-the Bank of Albania promotes and supports: (i) foreign exchange system; (ii) internal financial market; (iii) payment systems; and (iv) improvement of 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 PRICE STABILITY AND MACROECONOMIC STABILITY

Ensuring the price stability, the Bank of Albania enables: the maintaining of purchasing power of Albanian families and enhances their confidence in both national currency and financial sector; contributes in taking sound decisions for savings and investments; supports the creation of job positions and helps in safeguarding the financial stability.

The monetary policy is anchored on an inflation targeting regime - at an inflation rate of 3% over the medium term - and is based on a floating exchange rate regime.

The monetary policy strategy reflects the achieved results, the best international practices, and the powers that shape both the economic and financial development, as well as future challenges. The analysis and lessons learned from tackling the pandemic caused from COVID-19, analysis of implications of the continuous innovation of financial products and markets, and the monitoring of climate risks to the economic and financial environment where the Bank of Albania operates have an important place.

Enhancing the quality of decision-making will focus on the following priorities:

a) Improving the framework of monetary policy

In view of enhancing effectiveness of the monetary policy, the Bank of Albania will invest to: further improve the quality of economic and financial analyses; increase accurateness of forecasts and their completion with alternative and/or risk scenarios; assess the options of the monetary policy reaction, and identify the most efficient alternatives.

Forecasting and analysis models will be improved and updated, by applying contemporary techniques in the field of modelling and enriching the knowledge of the staff with the latest information. Also, the best practices of scientific research and empirical evaluation of the functioning of the Albanian economy and financial markets will be adopted.

b) Strengthening coordination with fiscal and macro-prudential policies

Increasing monetary policy effectiveness requires a good coordination with the other instruments of the state intervention into the economy which have a crucial impact on determining the monetary and financial stimuli and on the aggregate demand level. This aims to achieve the best results in the sustainable and long-term growth of the country.

Dialogue and exchange of information with fiscal authorities will increase. In addition, the instruments of analysis and forecasting of the impact of monetary and fiscal policies on the economy and public finances of the country will be improved.

The coordination will respect the independence of the Bank of Albania in achieving its main objective.

c) Promoting the development of financial markets

The development of financial markets is crucial to improving the monetary policy pass-through mechanism and enhancing monetary policy effectiveness. With the finalization of the project with the EBRD to identify the obstacles for achieving a developed interbank market, the Bank of Albania will undertake other initiatives to stimulate the money market, in cooperation with the banking system and regulatory authorities.

In this context, the Bank of Albania supports the Ministry of Finance and Economy on its project of issuing benchmark securities through Market Makers. Developments of the technology and information systems and increasing staff's

know-how will be the priorities in this regard. The realisation of this project will enable a secondary, liquid, competitive and transparent market for securities.

The Bank of Albania will continue intermediation in the purchase and management of Government securities accounts from households. This will lead to a faster transmission of the monetary policy in the economy and will ease the decision-making of households under the new monetary conditions in Albania.

The Bank of Albania aims to expand the list of financial products through SWAP agreements, as well as the conduction of auctions for purchasing/selling foreign currency in the FORWARD market, in addition to SPOT one.

d) Improving the communication with the public

An open and direct communication with the public, which clearly and simply explains the reasons on the back of every decision, provides the necessary information to economic agents, for: taking the right decision, in a timely manner; reducing the economic and financial uncertainties; and increasing the effectiveness of monetary policy.

Improving the quality of monetary policy communication, in terms of clarity and enrichment of information with new data and forecasts, will increase the comprehensibility and predictability of decision-making, as well as the institution's accountability.

e) Strengthening the cooperation with partners

The Bank of Albania will continue to support the structural reforms across the board, in compliance with its legal mandate, as advisory to policies which affect the indicators and the financial system. The collaboration with fiscal authority will be further consolidated for drafting the economic development strategic documents. Cooperation with international partners will be intensified within the framework of starting the negotiations with the European Union and the fulfilment of the economic criteria of membership.

f) Increasing the flexibility of monetary policy instruments

The effectiveness of monetary policy instruments will be evaluated in function of optimizing their use. The Bank of Albania will employ the international experience to evaluate the flexibility and (if deemed necessary) the expansion of monetary policy instruments.

Increasing the flexibility of conventional and non-conventional instruments will enable appropriate approaches to address new challenges, helping to fulfil the mission of monetary policy.

4.2 FINANCIAL SYSTEM 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. The Bank of Albania aims to prevent systemically important risks and to enhance the resilience of the financial system and the banking sector against them.

4.2.1 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 for the implementation of the macro-prudential policy. This role is evidenced in the Macro-prudential Policy Strategy approved by the Supervisory Council.

The Bank of Albania will engage in the assessment, monitoring and identification of the actions for addressing financial system risks, focusing particularly on systemic risk and the banking sector. When necessary, based on the best international standards and procedures, this activity will be carried out in collaboration with other public authorities.

During the medium-term period, the Bank of Albania aims at:

- a) Enhancing the role of the Bank of Albania in the framework of macro-prudential policy in compliance with the international standards.
- b) Improving the implementation processes of macro-prudential policy, with a focus on enriching macro-prudential instruments related with structural systemic risks. Approval of the sub-legal framework on instruments for the borrower, within 2023.
- c) Completing the regulatory framework on the requirements that the banking sector must implement to ensure adequate cybernetic protection (within 2024).
- d) Increasing the capacities of the Bank of Albania for the analysis and improvement of both its own and the banking sector's resilience against the adverse effects of climate change. For this purpose, the Bank of Albania will work on: (i) preliminary assessment of the risks of climate change on Bank of Albania's policies and banking and financial activity (within 2023); (ii) defining regulatory requirements that improve information on the exposure of the banking sector to the effects of climate change (within 2024); and (iii) identifying the role of macro-prudential policy in reducing the risk arising from this exposure (within 2025).
- e) Improving the publications addressing financial stability and macro-prudential policy issues.

4.2.2 SAFETY AND SOUNDNESS OF BANKING SYSTEM

The Bank of Albania, through licensing, regulation and supervision of the banking/financial activity, aims at upholding confidence in the banking system, protecting depositors, promoting market discipline and fair competition, as well as guaranteeing the sound activity of bank and financial institutions. All these contribute to strengthening financial stability in Albania.

a) Aligning the supervisory framework with the European and global standards

Adoption of the international standards on capital and liquidity of Basel III and their implementing acts in the European Union (regulation and directive on capital requirements) aims at strengthening the banking sector's resilience, to be at a rather good position for absorbing shocks. It also aims at urging banks to continue to finance the economic activity and growth.

The focus over the medium-term period will be on:

- Updating the regulatory framework on liquidity and capital adequacy related to Pillar 1 risks - credit risk, market risk, and operational risk - pursuant to Basel III requirements and the interest rate risk in the banking book (IRRBB);
- Reviewing the applicable requirements of Pillar 2 for the internal assessment process of capital adequacy (the economic and the normative perspectives); and approval of regulatory requirements of the internal process on liquidity adequacy to banks;
- Completing the licensing and supervisory framework of risk management in the activity of payment institutions and e-money institutions, pursuant to the requirements laid down in the Law on Payment Services;
- Updating of the regulatory framework for the supervision of operational risk and the risk of information and communication technology. The Bank of Albania will adopt international standards for assessing the adequacy of the security perimeter against cyber-attacks and the business continuity of licensed entities; and
- Increasing cooperation with banks against cyber-attacks. The Bank of Albania will actively contribute to the structures created by the banking industry for the exchange of information and the coordination of the response, in real time, to any incident.

b) Consolidating the risk-based supervision

With the assistance of international partner institutions, will be realized the necessary methodological and operational instruments for a better calibration of differentiate capital requirements, according to the bank's risk profile. The new

methodological developments will be implemented in parallel with the existing methodology for a transitional period.

c) Increasing supervisory collaboration

The interconnection of the activity of banks with non-bank financial institutions and financial activities out of the supervision area of the Bank of Albania, poses the strengthening of collaboration and information sharing with other supervisory authorities of the Albanian financial market.

Collaboration with the Albanian Financial Supervisory Authority, the Albanian Deposits Insurance Agency and the General Directorate for the Prevention of Money Laundering, will be focused on the conduction of joint inspections in entities subject to supervision.

The participation in supervisory colleges for the main cross-border European banking groups will continue. This collaboration will be materialized through cooperation agreements with other central banks.

d) Addressing non-performing loans

The experience in addressing the non-performing loans portfolio will be standardized and improved, in line with the best European practices. Adverse international economic developments have potentially increased exposure to credit risk in an environment of rapidly rising interest rates and a declining world economy. The process of managing non-performing loans will be harmonized with the European Union practices.

e) Reviewing the reporting framework

Banking entities will be subject to International Accounting Standards and International Financial Reporting Standards. The process of reporting the financial statements of banks will be reviewed, in accordance with the standards of the European supervisory authorities. The Bank of Albania will adopt the International Accounting Standards, maintaining the supervisory parameters and the time series of the reported data.

f) Developing climate risk management policies

The Bank of Albania will cooperate with other public institutions to undertake the necessary initiatives to identify and manage risks from climate change (green finance). This will help banks to be more resilient against climate shocks, contributing to the safety and soundness of the banking sector and the financial system as a whole.

4.2.3 BANKING RESOLUTION

The Bank of Albania, in its capacity as Resolution Authority, exercises its powers to ensure an organised intervention in troubled banks facing financial distress, by minimising its impact on real economy, public finances and financial stability of Albania.

The resolution objectives are to: (i) ensure the continuity of bank critical functions; (ii) avoid every adverse effect on the stability of the financial system, by preventing the risk spill-over, including to market infrastructures, and protecting the discipline of the market; (iii) protect public funds, by minimising the extraordinary public financial support; (iv) protect depositors insured by the Deposit Insurance Agency; and (v) protect funds and other assets of the clients.

The Bank of Albania will focus on the following key areas, in the medium-term period:

a) Annual cycle of resolution plans

The Bank of Albania updates every year the resolution plan for each bank. The annual plan focuses on the strengthening of the banking sector's ability for the implementation of resolution. These plans include:

- Strengthening the governing framework regarding the resolution;
- Identifying the critical human resources for the continuation of the main activity;
- Adequacy of the information system management for the effective realisation of resolution;
- Drafting contingency plans for the operational and financial support of resolution and the relevant communication plans; and
- Meeting the target level of minimum requirements for regulatory capital instruments and eligible liabilities.

The banks' ability for resolution is monitored through the active communication and annual inspections. The drafting of technical manuals will support the banking sector for preparing contingency plans, in accordance with legal requirements.

b) Minimum requirements for regulatory capital instruments and eligible liabilities

Banks shall regularly update the methodology on determining the minimum requirement, by considering the capital requirement in force during each year and the transitional period, up to the final competition of the minimum requirement, in 2027.

c) Addressing the impediments to resolution

During 2023, banks will fulfil the recommendations for strengthening the capacity for resolution. The recommendations are based on the results of the self-assessment process of 2022, and the evaluation, by the Bank of Albania, of the annual priorities of each bank for dealing with the identified potential impediments.

During 2024-2025, the Bank of Albania will monitor the fulfilment of the individual work plan for addressing the possible impediments to each bank. The Bank of Albania will continuously monitor the measures taken by banks for eliminating the identified impediments and the updating of the assessment on the ability for resolution.

d) Improving the regulatory and methodological framework

Harmonisation of all practices in the field of resolution with the developments in the European legislation. The annual technical methodology for determining the minimum requirement will be updated regularly, according to the approach of the Single Resolution Board.

e) Monitoring the Resolution Fund

The Bank of Albania will update the calculation of the target level of the Resolution Fund as well as the annual contribution by banks to meet this level. Also, it will continue to monitor the management of the financial assets of the Fund in accordance with investment policy approved in cooperation with the Deposit Insurance Agency.

f) Strengthening human and logistical capacities

Cooperation with the responsible European authorities will be increased, through agreements for participation in meetings and resolution colleges, in order to increase the quality of information and the exchange of experience. This cooperation aims to coordinate the position of the Bank of Albania regarding the impact of regulatory changes in the European Union, on the subsidiaries of European banks in Albania.

4.3 SMOOTH OPERATION OF PAYMENT SYSTEM

Through the smooth operation of the payment system, the Bank of Albania aims to ensure a safe and fast circulation of currency in the economy at minimum costs, prevent systemic risk, and safeguard the stability of financial institutions and markets. This will be realised through:

a) Further operating and developing the payment systems

The Bank of Albania aims at safely and effectively operating both the Albanian Interbank Payment System (AIPS) and the Albanian Electronic Clearing House (AECH). This also includes the interbank direct debit scheme and the payment settlement denominated in euro within Albania (AIPS EURO).

The objectives over the medium-term period are:

- Implementing the undertaken regulatory and infrastructural innovations, such as:
 - (i) update the payment system to accommodate developments in retail payments, in an efficient and safe manner; implement the ISO 20022 standard of communication in the systems operated by the Bank of Albania; and support the interbank initiatives for the promotion of electronic payments;
 - (ii) encouraging the general public to use the direct debit scheme; and
 - (iii) supporting the participation of new actors in payment systems.
- Collaborating with market players in the framework of the National Retail Payments Strategy;
- Enhancing collaboration with the World Bank, the European System of Central Banks and the central banks of Western Balkans for the development and integration of the payment systems operated by the Bank of Albania.

b) Regulating, licensing and overseeing payment systems and its crucial elements, including the promotion of the well-functioning of payment services and instruments.

In the framework of the National Retail Payments Strategy, the Bank of Albania plays a supportive role to the market's actors for the implementation of: (i) the Law on Payment Services and its relevant sub-legal acts, which aims to enhance market innovations; (ii) the draft-law on basic payment accounts that aims to enhance financial inclusion; and (iii) the Instant Payment projects to support market players in establishing the regulatory framework that promotes the safety and efficiency of services offered in the market.

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

The Bank of Albania will continue the efforts towards consolidating the oversight of securities settlement systems, and the collaboration with the Albanian Financial Supervisory Authority in this regard.

c) Promoting the efficiency in payment 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 payment instruments and services that fulfil the needs of financially capable users, across the country.

The National Payment System Committee and the National Strategy on Retail Payments play an important role in this regard. To this end, the Bank of Albania will: (i) support market players through studies and consultations related to the development of national and/or regional infrastructures for the settlement of fast payments; and (ii) continue to work on implementing the Strategy and organizing activities in this regard, including financial education.

The Bank of Albania will contribute to improve financial education and inclusion in Albania, through educating the public in relation to: the adopted objectives and policies; economic and financial phenomena; and the understanding of banking and financial market instruments. This aims to enhance the financial well-being of individuals and the domestic macroeconomic and financial stability.

4.4 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, both in value and structure.

In 2023-2025, the Bank of Albania aims to:

a) Fulfilling the needs of the economy for cash

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 and coins based on the stock of logistic and strategic funds, as well as the needs forecasted for 2023 and beyond.

b) Improving the quality of banknotes in circulation

The Bank of Albania aims to guaranteeing the integrity of the banknotes, in relation with the public that uses them, and upholding a dignified image of the Albanian state, through:

- automated and contemporary banknote processing, packaging and destruction processes at the cash centre;
- controlling and encouraging the use of certified and authorized systems for accepting and processing banknotes.

c) Protection against counterfeiting

Maintaining and boosting public confidence in the national currency will be realised through:

- improving security features of the Albanian banknotes;
- strengthening the capacities and skills of the staff through training and qualifications;
- increasing cooperation with relevant authorities in the fight against counterfeiting;
- training the financial system on the security features of Albanian banknotes as well as factors that minimise their counterfeiting.

d) Improving the physical administration of monetary values

The Bank of Albania will strengthen the physical control practices, which guarantee security and intactness of the monetary values it administers, in accordance with the best relevant practices, 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.

4.5 FOREIGN EXCHANGE RESERVE MANAGEMENT

The Bank of Albania adopts and applies the exchange rate policy and manages the foreign exchange reserve of the Republic of Albania, in accordance with the best international practices.

Reserve management aims to:

- a) Meet foreign-currency liquidity needs related to the implementation of the monetary and exchange rate policies, preserving the financial stability and covering the country's needs in times of crisis;

- b) Safeguard the reserve fund, as a whole, by keeping under control, in the most prudent way, liquidity, market, credit, legal, settlement, custodial and operational risks; and
- c) Generate reasonable income, in the medium and long-term period, in accordance with investment and risk management objectives, as long as this does not oppose with the liquidity and security criteria set out above.

In order to better manage the foreign exchange reserve, the Bank of Albania aims to diversify the investment instruments including: (i) MBS (mortgage backed security); (ii) Reverse REPO; (iii) ESG instruments (environmental, social and governance investing); and (iv) ILB (inflation linked bonds). Achieving this objective will require:

- a) continuous staff training and sharing experiences with counterpart institutions and partner commercial banks;
- b) continuous updating of regulatory framework with the new alternatives in investment and the need to address risks, as well as the external legal counselling for the Global Master Repurchase Agreement model with various banking institutions for REPO instruments; and
- c) a new programme/system for the management of foreign reserve portfolio, adopted to the needs for diversification of portfolio through the expansion of new classes of financial instruments. This system will enable the management, measurement and reporting of embodied risk, or results/income created during the portfolio investment. The system will adopt the latest safety policies in the framework of cyber security and the approach based on ISO27001 standards. The system will also support the implementation of the monetary policy and the payment services and transfers.

4.6 DRAFTING AND SHARING OF 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. Statistical function is an important factor to the process of policy-making, as well as to communicate and monitor its effectiveness. Statistics are crucial to the transparency and public confidence of the Bank of Albania.

The key objectives in the field of preparing and sharing of statistics are:

- a) **Methodological approximation of statistics with the international standards and the legislation of the European Union**

This objective will be achieved through:

- adopting the European Union standards on the compilation of monetary aggregates and financial stability indicators (reporting of balance sheet items of credit institutions and monetary and financial institutions; statistics on the assets and liabilities of investment funds; statistical reporting requirements to insurance companies; statistical reporting requirements to pension funds);
- improving the legal framework (and quality aspects) on the collection of supervisory data, production and dissemination of supervisory statistics to banks, in compliance with the implementing technical standards on supervisory reporting of the European Banking Authority (EBA).

Prudential reporting of banks to the Bank of Albania and the adoption of the Financial Reporting Standards (FINREP) of the European Banking Authority, will enable:

- the establishment of a broad banking database for the better risk management through the supervised entities;
- the easing of reviews, forecasts of the risk performance and analysis for a greater transparency in risk accumulation in the banking industry;
- the share of information with other authorities in Albania and abroad, on entities conducting cross-border transactions;
- full compliance of regulatory reports and technical standards of statistical production with the European Commission requirements. The platform shall be based on the standardised language for the processing and required reporting of central banks to the European Banking Authority and to the European Central Bank.

b) Enhancing the quality and integrity of statistics to endorse policy making and explain developments in financial markets

An integrated system of data will be developed related to the commitment for good governance of statistical function. This system will enable the efficient and secure management of data, which are collected and disseminated by the Bank of Albania. This system will ensure full compliance of regulatory reports, including the technical standards of statistical production with the European Commission requirements and the required reporting of central banks to the European Banking Authority and to the European Central Bank.

c) Promoting and deepening the dialogue with data users to better identify their needs

In the framework of a more comprehensive, accessible and understandable communication on statistics, the number of users (whether experts or not) and the statistics used by the public is planned to go up, through increasing visualisation,

reading, and presentation of the produced data. Statistics will be more accessible, visible, and more useful from everyone, by utilising every bridge and method of communication.

4.7 SCIENTIFIC RESEARCH

The Bank of Albania aims to prepare qualitative economic studies in its fields of interest, contributing to the understanding of the Albanian economy and the social, economic and political processes affecting it.

The main objective in the field of scientific research is to integrate the results of economic research and empirical analyses, in order to endorse decision-making related to monetary policy, financial stability, supervision, and financial market regulation.

The research will focus on the study of new phenomena: climate changes; demographic and geographical developments; digitalisation; technological innovation; their effects on both economy and financial system, the risks they pose, and their implications to the Bank of Albania.

Climate risk analysis and models build to assess the risk effects on the Albanian economy, will receive more attention. These models will be the foundation for creating platforms dedicated to the analysis and orientation platforms of the monetary policy and financial stability decision making.

The Bank of Albania will continue to apply contemporary methods for testing the hypothesis and assessing the effects of economic and financial phenomena, both domestic and external ones, in view of its forecast and decision making.

Capacities and utility of research projects will be enhanced, by promoting discussion on research products, through: (i) collaboration with academia and joint national and international activities; (ii) elevating the academic content of research activities and scientific conferences (iii) publishing scientific research in international renowned journals on economy and finance.

4.8 GOOD GOVERNANCE OF THE INSTITUTION

The Bank of Albania aims at further strengthening the good governance, through enhancing the institutional independence, transparency and accountability, in accordance with the obligations arising from the gradual approximation process with the European Union legislation.

The Bank of Albania aims at having available adequate human, physical and capital resources to fulfil its legal and strategic objectives, by particularly paying attention to the policies on employment relationships; qualification and career development.

The sustainable development of human resources, to guarantee the sustainability of services and address new challenges, includes: (i) adopting the best practices in human resources management; (ii) promoting a work culture based on cooperation and exchange of professional experience; and (iii) providing qualitative training that creates the basis for implementing new processes/methods at work.

In view of detailing process of these strategy objectives in both annual and medium-term financial plans, the Bank of Albania will improve the management processes of assets and financial sources, in compliance with budget forecasts. To this end, the implemented practices will be further developed by using the best experiences and the technical assistance provided by the IMF missions.

In the medium-term, the Bank of Albania will reflect changes made to the International Financial Reporting Standards (IFRS), adopted for drafting and publishing the financial statements. The staff will be updated with the latest developments about the accounting standards and their interpreting by the International Accounting Standards Board. The Accounting Manual will be revised continuously in order to adapt to the evolving standards and to provide a complete framework in compliance with IFRS.

The construction of a new building for the needs of the Issue Department will be on the focus of the Bank of Albania investments, in compliance with the projection designed by the Bank of Albania's staff and the procured project implementation.

The information technology will focus on: (i) expanding and improving the network infrastructure, optimising and virtualizing central appliances for a better management, improving the related costs and services, as well as adopting the new environmental-friendly technology and energy efficiency; (ii) increasing services and enhancing the sustainability of clearing and settlement systems, as well as of other internal systems; (iii) automating the processes for increasing performance and security; (iii) further modernising the statistical data collection and processing; and (iv) strengthening security pursuant to the international standards and best practices, by including cybernetic protection and the implementation of the changes in SWIFTCPS (Customer Security Program).

In fulfilling the strategic objectives, an important role is also played by the Internal Audit System, which contributes to 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, as well as preparation in timely manner of reliable financial information.

The Bank of Albania will work on: (i) implementing the plan of measures for recommendations resulting from the external and internal assessment of the quality of internal audit function, in order to fully comply with and continuously update the regulatory basis with the international standards in this field; (ii) increasing the independence and quality of internal audit, by strengthening its reporting lines with the administrators and the Audit Committee, as well as enhancing human capacities; and (iii) bolstering the awareness of the staff on the functioning of the Three Lines of Defence model on effective risk management and control.

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.

The Operational Risk Management (ORM) will focus on: (i) increasing the risk culture; (ii) integrating ORM to the units' functions and updating processes based on occurred events or new processes; (iii) improving the risk reporting as well as reporting on the effectiveness of the action plans on the mitigation of operational risk; and (iv) integration of the ORM results during the strategic planning.

Special attention shall be paid on raising the awareness, continuously supporting and promoting the use of whistle-blowing for actions or practices doubted as corruptive, in compliance with the applicable legal framework.

Business Continuity Management (BCM) Programme shall be updated on ongoing basis, as a result of the emergencies created by the pandemic situation and the latest cyber-attacks at a national level.

