

THE MEDIUM-TERM DEVELOPMENT STRATEGY OF THE BANK OF ALBANIA 2024-2026

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The Medium-Term Development Strategy identifies the main challenges to the Bank of Albania during the three-year period. The strategy prioritizes the main objectives and plans and the necessary activities needed to achieve them. These objectives are then detailed in the departments' annual work plans.

The Strategy serves as a guiding framework for the budgeting process in the Bank of Albania. The process of forecasting expenditures and revenues is organized in order to fulfil the duties assigned by the organic law and strategic objectives.

The adoption of the Strategy by the Supervisory Council constitutes a significant aspect of the role of the highest decision-making and supervisory body of the Bank of Albania. This is also an essential element of a good governance 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, VISION AND VALUES

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.

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; and ensuring organised intervention in failing banks, to minimise the impact on the real economy and public finances of Albania.

VISION

The Bank of Albania aims to adopt high standards of professionalism and good governance with a view to guaranteeing fulfilment of the mission and boosting public confidence through:

- a) Strengthening independence for accomplishing the mission and achieving the legal objectives, in conformity with obligations arising from gradual approximation with our legislation and policies with the EU ACQUIS;
- b) Increasing accountability to the public for fulfilment of the main duties by also including adoption of the best accounting and auditing standards, regularly publishing financial reports and ensuring the integrity of external and internal audit processes; and
- c) Enhancing transparency of the activity of the Bank of Albania, through open and clear communication with the public, in accordance with the law and its policies, to increase the predictability of the monetary policy and boost public confidence in the institution.

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 legal norms, and the highest ethical standards, warding off inappropriate influences by persons or organisations outside the institution in the fulfilment of legal duties;
- b) Competence and professionalism;
- c) Effectiveness and efficiency: the desired results are achieved using minimum resources; and
- d) Team work, innovation, initiative and showing creativity for presenting new ideas.

2. MEDIUM-TERM OBJECTIVES

In accordance with achieving the main objective and other objectives determined in the organic law, the priorities of the Bank of Albania are:

MEDIUM-TERM OBJECTIVES

MEASURES

2.1. INCREASING THE EFFICIENCY AND EFFECTIVENESS OF MONETARY POLICY AND THE QUALITY OF DECISION-MAKING

a) Improving the framework of monetary policy

- Further improving the quality of economic and financial analyses; (i) increasing accurateness of forecasts and their completion with alternative and/or risk scenarios; and (ii) assessing options for monetary policy reaction, and identify the most efficient alternatives.
- Updating forecasts and analysis models with contemporary techniques in the field of modelling.
- Adopting best practices for scientific research and empirical evaluation of the functioning of the Albanian economy and financial markets.

MEDIUM-TERM OBJECTIVES	MEASURES
<p>b) Strengthening coordination with fiscal policies</p>	<ul style="list-style-type: none"> – Increasing coordination with other instruments of state intervention into the economy which have a crucial impact on determining the monetary and financial stimuli and on the aggregate demand level. – Increase of dialogue and exchange of information with fiscal authorities and interaction in the design of the country's economic development strategies. – Improving analysis and forecasting of the impact of monetary and fiscal policies on the economy and public finances of the country.
<p>c) Promoting the development of financial markets</p>	<ul style="list-style-type: none"> – Undertaking other initiatives to stimulate the money market, in cooperation with the banking system and regulatory authorities. – Supporting the Ministry of Finance in issuing benchmark securities through Market Developers. – Continuing mediation to purchase and manage government securities accounts by individuals, for faster transmission of the monetary policy in the economy and making it easier for decision-making individuals. – Expanding the list of financial products through SWAP agreements, as well as conducting auctions for purchasing/selling foreign currency at FORWARD market, in addition to SPOT one.
<p>d) Improving the communication with the public</p>	<ul style="list-style-type: none"> – Increasing the quality of monetary policy communication, in terms of simplicity, clarity and enrichment of information with new data and forecasts, in order to increase the comprehensibility and predictability of decision-making, as well as the institution's accountability.
<p>e) Strengthening the cooperation with partners</p>	<ul style="list-style-type: none"> – The Bank of Albania will continue to support structural reforms, in compliance with its legal mandate, as advisory to policies which affect indicators and the financial system. – Cooperating with international partners (EU).

MEDIUM-TERM OBJECTIVES	MEASURES
f) Increasing the flexibility of monetary policy instruments	<ul style="list-style-type: none"> – Evaluating flexibility of conventional and non-conventional instruments of the monetary policy, so as to optimize the usage and (if deemed necessary) their expansion to address new challenges, helping to fulfil the mission of monetary policy.

2.2. PREVENTING SYSTEMIC RISKS AND INCREASING THE RESILIENCE OF THE FINANCIAL SYSTEM

2.2.1. Strengthening the role of macro-prudential policy

a) Addressing financial system risks, focusing particularly on systemic risk and the banking sector	<ul style="list-style-type: none"> – Improving the implementation processes of macro prudential policy with a focus on enriching the macro-prudential instruments related to structural systemic risks. – Approving the methodology for implementing the capital buffers for systemic risk. – Completing the regulatory framework on the requirements that the banking. – Sector must implement to ensure adequate cybernetic protection. – Increasing capacities for the analysis and improvement of both its own and the banking sector's resilience against the adverse effects of climate change, including: (i) assessment of the information and basic data needed for the design of a methodology for the exercise of the stress test against the impact of climate change for the banking sector; (ii) defining regulatory requirements that improve information on the exposure of the banking sector to the effects of climate change; and (iii) identifying the role of macro-prudential policy in reducing the risk arising from this exposure. – Improving the publications addressing financial stability and macro-prudential policy issues.
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MEDIUM-TERM OBJECTIVES

MEASURES

2.2.2. Safety and soundness of banking system

a) Aligning the supervisory framework with the European legislation

- Adopting the Basel III standards and their implementing acts in the European Union, aiming to strengthen the banking sector's resilience to absorb shocks, so as to urge banks to continue to finance economic activity and growth.
- Updating the regulatory framework on liquidity and capital adequacy related to credit risk, market risk, and operational risk and the interest rate risk in the banking book (IRRBB).
- Reviewing the applicable requirements of the internal assessment process of capital adequacy (the economic and the normative perspectives); and of the internal process on liquidity adequacy to banks.
- Updating the regulatory framework for the supervision of operational risk and the risk of information and communication technology and cyber-attacks. Adopting international standards for assessing the adequacy of the security perimeter against cyber-attacks and the business continuity of licensed entities.
- Increasing cooperation with banks against cyber-attacks and active contribution to the structures of the banking industry for the exchange of information and coordination of a response, in real time, to any incident.

b) Consolidating the risk-based supervision

- Implementing necessary methodological and operational instruments for 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 during a transitional period.

MEDIUM-TERM OBJECTIVES	MEASURES
c) Increasing supervisory collaboration	<ul style="list-style-type: none"> – Exchanging information and undertaking joint examinations, with the Albanian Deposits Insurance Agency and the General Directorate for the Prevention of Money Laundering, on non-bank financial institutions and financial activities out of the supervision area of the Bank of Albania. – Participating in supervisory colleges for the main cross-border European banking groups and continuing cooperation agreements with other central banks.
d) Addressing credit risk	<ul style="list-style-type: none"> – Harmonizing the process of addressing credit risk (granting, monitoring, classification and overall administration of loans) with European Union practices, to cope with the adverse consequences that come from an environment with rising interest rates and a declining world economy.
e) Review of the reporting framework	<ul style="list-style-type: none"> – Processing reports on the financial statements of banks will be reviewed, in accordance with the International Financial Reporting Standards (IFRS) – for prudential reporting purposes – and International Accounting Standards (IAS).
f) Developing climate risk management policies	<ul style="list-style-type: none"> – Operating with other public institutions to undertake the necessary initiatives to identify and manage risks from climate change (Green finance) so as to help banks be more resilient to climate shocks.

MEDIUM-TERM OBJECTIVES

MEASURES

2.2.3. Bank resolution in insolvent banks

a) Strengthening the ability of the banking sector to plan and implement supervision

- Annual updating of resolution plans that define the preferred intervention strategy for each bank, which determines the tools and powers to be implemented in the event of resolution and sets the MREL for each bank.
- Drafting technical manuals to support the banking sector in the preparation of contingency plans, in accordance with legal requirements.

b) Minimum requirements for regulatory capital instruments and eligible liabilities

- Banks shall be monitored in regard to the fulfilment of individual levels of requirement of regulatory capital instruments and eligible liabilities, up to the final completion of the minimum requirement in 2027.
- Banks shall regularly update methodology for determining the minimum Requirement, according to the approach of the Single Resolution Board.

c) Addressing the impediments to resolution

- Monitoring the fulfilment, by banks, of the recommendations for strengthening the capacity for resolution. The recommendations are based on the results of the self-assessment and the evaluation, by the Bank of Albania, of the annual priorities of each one for dealing with the identified potential impediments.
- Continuous monitoring of the measures taken by banks for eliminating the identified impediments and updating of the assessment on the ability for resolution.

MEDIUM-TERM OBJECTIVES	MEASURES
d) Improvement of regulatory and methodological framework	<ul style="list-style-type: none"> – Harmonisation of all practices in the field of resolution with developments in European legislation.
e) Monitoring of the Resolution Fund	<ul style="list-style-type: none"> – Annual updating of the calculation of the target level of the Resolution Fund as well as the annual contributions by banks to meet the level. – Monitoring management of the financial assets of the Fund in accordance with investment policy approved in cooperation with the Albanian Deposit Insurance Agency.
f) Strengthening the cooperation with European supervisory authorities	<ul style="list-style-type: none"> – Participating in resolution meetings and colleges, in order to exchange information and increase cooperation regarding the planning and implementation of resolution on banks, or banking groups, with cross-border operations. – Improving the methodological framework and automating the processes for performing analyses and assessments in function of the resolution in banks.

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MEASURES

2.3. PROMOTING THE SMOOTH OPERATION OF PAYMENT SYSTEM

<p>a) Safe, efficient and effective operation of AIPS and AECH systems</p>	<ul style="list-style-type: none"> – Updating systems in the field of AECH, in a safe and efficient manner. – Implementing the harmonized ISO 20022 standard in the systems operated by the Bank of Albania. – Supporting interbank initiatives for the promotion of electronic payments. – Designing and operationalizing a solution for the Instant Payment system with the Banca d'Italia to meet the necessary prerequisites to interface with the TIPS system in the future and to incite innovation and efficiency in the domestic market. – Accelerating participation in the Single Euro Payments Area (SEPA). – Intensification of efforts to consolidate the supervisory function for securities settlement systems, in cooperation with the Financial Supervision Authority in implementation of the Law on Capital Markets.
<p>b) Creating a comprehensive market for AECH, with safe and efficient infrastructures and a wide range of payment instruments and services</p>	<ul style="list-style-type: none"> – Support of market players in the development of national and/or regional infrastructures for the settlement of fast payments. National Payment System Committee. – Monitoring the implementation of the National Strategy for AECH. – Organization of activities to increase 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.

MEDIUM-TERM OBJECTIVES	MEASURES
c) Increasing Financial Education and Financial Inclusion	<ul style="list-style-type: none"> – Organization of activities in implementation of the strategy of financial education. – Analysing the results of the Survey for the Measurement of Literature and Financial Inclusion, to identify the shortcomings, attitudes and financial stance of the population. – Enrichment of financial education projects and programs, in accordance with the needs identified and adapted for vulnerable groups.
2.4. PRESERVATION OF PUBLIC CONFIDENCE IN ALBANIAN BANKNOTES AND COINS	
a) Safe and efficient fulfilment of the economy's needs for money, in value and in structure	<ul style="list-style-type: none"> – The production of banknotes and coins based on the economy's demand for money – in normal and extraordinary situations – the stock of logistical and strategic funds; and in the forecasts of needs for the following years.
b) Improving the quality of banknotes and coins in circulation	<ul style="list-style-type: none"> – Encouraging use of systems certified and authorized by the Bank of Albania for accepting and processing banknotes by the banking system. – Processing, packaging and destruction of banknotes via automated and modern processes.
c) Protection against counterfeiting	<ul style="list-style-type: none"> – Improving security features of the Albanian banknotes; – 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.

MEDIUM-TERM OBJECTIVES	MEASURES
d) Improving the physical administration of monetary values	<ul style="list-style-type: none"> – Improving the conditions and premises where values are stored and held. – Construction of a new facility for issue needs according to the design task and the procured implementation project. – Reviewing, as necessary, procedures for the administration of such values, in accordance with the highest standards.
2.5. FOREIGN EXCHANGE RESERVE MANAGEMENT	
a) Diversification of investment instruments	<ul style="list-style-type: none"> – Continuous staff training and sharing experiences with counterpart institutions and partner commercial banks", including (i) mortgage backed securities; (ii) Reverse REPO; (iii) environmental, social and governance investing; and (iv) inflation linked bonds. – Updating of regulatory framework with the new alternatives in investment for the Global Master Repurchase Agreement model with banks for REPO instruments. – Implementing a new system for the diversification of portfolios, through the expansion of new classes of financial instruments, in accordance with the cyber security framework and the ISO27001 standard.

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MEASURES

2.6. DRAFTING AND SHARING OF STATISTICS

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

- Harmonization of government financial statistics with the EU requirements on data quality, relevant field and methodology.
- 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 technical standards (FINREP) of the European Banking Authority.
- Increasing the quality and integrity of statistics to inform policy making.
- Ensuring compliance with EU acts on data collection, storage and reporting of data, in relation to the privacy and confidentiality of statistical information.

b) Integrated system of data

- Establishing a well-defined data governance framework that includes quality assurance, security and data management protocols to maintain the integrity and reliability of statistical information.
- Increased coordination with regulatory bodies to improve data collection processes and reduce reporting burden.
- Development and maintenance of a centralized data base to increase efficiency in the storage, processing and share of statistical data in accordance with EU standards.

MEDIUM-TERM OBJECTIVES	MEASURES
<p>c) Increasing transparency and access to data</p>	<ul style="list-style-type: none"> – Proactive and transparent information of the public and stakeholders on statistical activities, including data collection, methodologies and publication schedule. – Expanding access to data and statistical reports, through user-friendly platforms and formats. – Alignment of EU practices regarding deadlines for the publication of statistical reports. – Involving stakeholders through public consultations, seminars and workshops to gather feedback and ensure that statistical initiatives are aligned with public needs.
<p>2.7. SCIENTIFIC RESEARCH</p>	
<p>a) Integration of the results of economic studies and empirical analysis in decision-making</p>	<ul style="list-style-type: none"> – The research of new phenomena (such as: demographic and geopolitical developments, digitalization, technological innovation), of their effects and risks in the economy and the financial system and their implications in the work of the Bank of Albania. – Analysing climate risks; building models for evaluating their effects on the Albanian economy; and their use in guiding monetary policy decision-making and financial stability.
<p>b) Increasing the capacity and usefulness of research projects</p>	<ul style="list-style-type: none"> – Organization of scientific conferences and joint activities, national and international, with academia, to promote research productivity. – Publishing scientific research in international renowned journals on economy and finance.

MEDIUM-TERM OBJECTIVES	MEASURES
2.8. ADEQUATE HUMAN, PHYSICAL AND FINANCIAL RESOURCES TO FULFILL THE LEGAL OBJECTIVES	
a) The sustainable development of human resources	<ul style="list-style-type: none"> – Adopting the best practices in human resources management – Providing qualitative training for implementing new processes/methods at work.
b) Improvement of processes for the good administration of assets and financial resources	<ul style="list-style-type: none"> – Reflection of new requirements and changes in the International Financial Reporting Standards (IFRS) applicable to the bank, adopted for drafting and publishing financial statements. – Staff training on new developments in accounting standards and their interpretation by the International Accounting Standards Board. – Revision, on an ongoing basis, of the general accounting framework to adapt to the evolving standards and to provide a complete framework in compliance with the IFRS.
c) Modernisation and safeguarding of information technology	<ul style="list-style-type: none"> – Expanding the functionalities and increasing the stability of payment and settlement systems and other internal systems; – Improvement and optimization of the network infrastructure, through new technologies for environmental protection and energy efficiency. – Strengthening security, through the improvement of continuity and response plans to cyber risks, based on international standards and best practices for cyber protection.

MEDIUM-TERM OBJECTIVES	MEASURES
<p>d) Strengthening the role of the Internal Audit System in fulfilling legal objectives and respecting management policies</p>	<ul style="list-style-type: none">– Implementation of internal audit quality assessment recommendations and continuous updating of the regulatory base, in accordance with international standards.– Increasing the quality of internal audit and strengthening human capacities.– Improving operational risk management through (i) integration with the functions of the units and updating the processes based on the occurred events; and (ii) integration of operational risk management (ORM) results into strategic planning.– Updating the Business Continuity framework, as a result of the situations created by cyber-attacks at the national level.