

PRESS CONFERENCE OF BANK OF ALBANIA'S GOVERNOR, MAY 19, 2000

1. WHAT IS PERFORMED AND WHAT IS NOT WELL PERFORMED BY BANK OF ALBANIA DURING 1999 IN THE FOURTH-MONTH PERIOD OF 2000?

Pursuing the law, Bank of Albania has strengthened its independence to fulfill the main target of its activity, "maintaining and achieving consumer price stability". Passing from an annual inflation rate of more than 42 per cent in 1997 by nearly 0 per cent at the end of 1999 and holding the same limits until the end of April 2000 is undoubtedly an indisputable success.

Based on the inflation level at the end of April 2000 and knowing the seasonal behavior of consumer prices and under the conditions of the normal performance of the political and economical situation of the country, ***the annual inflation target of 2-4 per cent is considered achieved for 2000.***

Determining factors of inflation level in 1999 and in the fourth month-period of 2000 are several, such as the strengthening of fiscal discipline, the exchange rate performance (of high quantitative effect), the appropriate monetary policy applied by Bank of Albania etc. Inflation decrease was affected by the shrinkage of credit investments, the level of imported inflation, public "accommodation" by a low inflation level etc.

The monetary policy effect, with this bearing, is measured by the compliance of the three quantitative targets: the floor rate on the net foreign assets of Bank of Albania, the ceiling on the net domestic assets of Bank of Albania and the net credit of the banking system to the government. These three objectives have been followed as in 1999 and in the fourth month-period of 2000.

On the other side, the minimum rate on three-month deposits suffered a significant reduction from 37 per cent in 1997 into 7 per cent, currently. The current interest rates are at the lowest historic level, achieved since 1992. These decisions were undertaken based on the

consumer price developments strengthening of domestic currency value and the deposit performance of the banking system. They have been designed to lower the financial expense of the economy, the expense of the government debt service and incitement of the economic growth in the long term, consequently. However, it is worth emphasizing that every undertaken decision on the interest rate cutting is based on the interest to hold depositors' confidence by the banking system, maintaining positive interest rates by real terms. The annual average rate on 12-month deposits at the end of April was 5,2 per cent.

Bank of Albania's decisions on interest rate cutting were accompanied by significant yield of treasury bills. In the framework of the recent 16 months, the yield level reduced respectively by 8.16, 7.58 and 8.99 per cent for treasury bills on three, six and twelve-month term maturity. On the whole, persons, operating in the market of government securities, are noticed to have reacted in compliance with Bank of Albania's decisions and after a reasonable period of time.

This has happened because this is amongst the most active and functional markets in Albania.

Current treasury bills' yields are at 11.9, 13.5 and 14 per cent on the three, six and twelve month maturities respectively, representing a much higher level than bank deposits on the same terms.

The lending market can not be mentioned of the same thing. The deposit rates' reduction did not occur with increase of lending rates.

Moreover, the average lending from 40-45 per cent rate in 1997, decreased in 25 per cent in 1998 and maintained the same average level until now. Excluding one bank, active in lending activity, almost all other banks supply credits at 18-20 per cent rate, thus indicating a significant rate lowering from few months before.

In November 1999, Bank of Albania took the decision of revoking the credit ceiling on second-tier banks. But, still the lending activity on 1999 still remained by very low rates. The first effects of the bank supported campaign did not abstain in reality. As above mentioned, in addition to the lowering signs of credit rates by some banks, banking system record an increasing tendency of credit rates.

So, according to the operating data on the first quarter of 2000, the credit aggregate on the private sector increased about Lek 1.6 billion from 2.2 billion recorded in 1999. If maintained, this rate seemed to record nearly as much as three times the credit extension by the banking system.

The banking system's performance and monetary policy, issued in detail at Bank of Albania's Annual Report, is officially sent in the Republic of Albania Parliament and Government on March 31, 2000 and reported in the Parliament of Republic of Albania on May 4, 2000.

First, during 1999, three new private banks commenced activity, FEFAD Bank, the First Investment Bank and the Intercommercial Bank. This is a relatively higher indicator of investors confidence to invest. Only FEFAD Bank added the loan portfolio of the banking system by about Lek 700 million.

Second, bank network is further extended on regional branches over Albanian districts. During 1999, there were opened two bank branches and three agencies.

Third, despite the surviving deformation of the current bank market and monopoly of the Savings Bank, it is strengthening the tendency for a growing role on private banks, promising a more normal and efficient functioning of this market. The Savings Bank, sharing 63,9 per cent of the bank market in 1998 (the total balance-sheet) resulted on 67,9 per cent share in 1999 and 64,1 per cent on 31. 03. 2000.

Fourth, banking system improved its financial situation during 1999. If at the end of 1998, the financial result was negative per Lek 3.3 billion, at the end of 1999 it resulted on Lek 1,3 billion Lek profit. The net result from interest rates which historically has been negative, counted positive for Lek 5.2 billion at the end of 1999.

Banking system appeared on profit even in the first quarter of 2000.

Fifth, the capital position is strengthened for some reasons. On March 31, 2000, the Supervisory Council of Bank of Albania took the decision to increase the minimum paid-up capital of current banks in Lek 500 million within September 1999. Almost all banks followed this decision. Based on terms and causes of disobedience, Bank of Albania approved the postponement of this schedule until February 2000 on one bank and until the end of 2000 for the other two banks. The newly established schedule was followed by all banks.

Thus, the subscribed capital on the entire banking system is paid out at 90 per cent extent. Bank capital is expected to grow due to the application of another Bank of Albania's decision that the paid up capital should account for Lek 700 million at the end of March 2001.

On the other side, capital inadequacy is significantly reduced by the state-owned bank group and on the entire banking system consequently. However, the state-owned group continues to have capital inadequacy due to the inherited loss of the previous years.

But, year 1999 did not record any quantitative improvement with regard to development of the payments system.

On the whole, the payments system bears the same problems of the previous years: high level of circulating cash, delays in money transfer especially within the country and high difference in technology and extension of Albanian bank network.

In addition to the increase of transaction volume as a result of system's extension with new banks and bank and branches, some of the private banks began to apply new payment instruments as ATM, DINERS CLUB and VISA cards which show a low application by themselves. The low development of payments system in Albania makes up another additional factor which holds bank costumers out from banks.

Bank of Albania bears its own responsibility with this bearing and is engaged in the framework of the National Payments

Committee as well as through the initiation of some projects in payments area to contribute with this concern (RTGS projects, the standard system of clearing etc).

2. PASSING FROM DIRECT INTO INDIRECT INSTRUMENTS FOR MONETARY POLICY IMPLEMENTATION.

The recent developments of monetary market (in 1999, 2000) indicated the **essential need** for passing from the application of direct into indirect instruments for monetary policy implementation. This passing won't be an immediate and easy process, it will require time, awareness and understanding by all money market participants, more specifically by ordinary depositors and contractors, second-tier banks, the Ministry of Finance as well as Bank of Albania on its own. In this framework it shouldn't be neglected the written and visual media which by "**interpretation of various information**" could accelerate or delay this process by directly affecting the real time and cost of accomplishing it.

In the same way, it should be stressed that all market players will earn from this transition despite that momentarily, it may seem not so physically tangible and remote from their interests.

Through its achieving, it will be finished the administrative mode of managing situations by allowing market forces **to fulfill their specific aims** in the market.

It could be asserted that this process has already begun since November 1999, when the Bank of Albania's Supervisory Council **removed de facto the credit ceiling (a direct monetary instrument, a monitoring instrument of bank quality)**. Casting this step, second-tier banks were allowed of the possibility to credit the economy based on their market analysis and claims deriving from the domestic market itself.

In the same time, Bank of Albania was preliminary engaged to increase the quality and efficiency of the banking system control. The revocation of this instrument was accompanied by an initial campaign to increase the credit level of the economy. The report held in the Republic of Albania Parliament clarified the

monetary policy of Bank of Albania with this regard.

Early 2000 developments revealed that interest cuttings from Bank of Albania were not yielding the expected result of the banking system and domestic economy. This was because the of "gap" established between the policy that Bank of Albania seeks to apply and its extension to the remotest depositing and holding segments to affect this way the ratio saving/consume.

Fulfilling of this gap will be accelerated **through passing from the use of minimum interest rates, the only direct instrument surviving amongst indirect instruments.** This transition is made necessary, if we consider the policy followed by the Albanian Government concerning state-owned banks (whose final purpose is privatization). Taking into account the current situation as well as the necessity for the successful accomplishing of this process, an intensive collaboration with IMF and the World Bank is planned for 2000 and further.

In this aspect, Bank of Albania will be working under three bearings more concretely in:

- 1- improvement of treasury bills market;
- 2- growing competition of monetary market;
- 3- improvement of bank instruments for monetary policy implementation.

This process has initiated with the improvement of treasury bills market since they will serve as a basis for all indirect instruments to be used in the monetary market because they are more publicly tangible.

- In this framework, it was changed the regulation of treasury bills issuing in the secondary market as well as the regulations, regulating their trade in the secondary and retail market. The only scope of these changes has been the increase of their flexibility and the reduction of bureaucratic obstacles by their exchange.

- During the first quarter, it has been worked with respect to market awareness and information through

various publications in the written media and organization of work-shops on treasury bills with all booking agents of second-tier banks as well as it has been posted a special page of treasury bills in internet. This campaign will move on through different press publications of near release.

Results have not been lacking either with respect to the growing number of participants or to the committed amount for treasury bill investments.

Concerning, **the increase of market competence**, Bank of Albania will aim to revoke the monopoly position to pave the way for market forces to decide market prices of borrowing and lending in domestic currency.

Through the successful accomplishment of this movement, Bank of Albania will be more alleviated to decide on the market condition and operations to be undertaken to achieve its final target.

Concerning, improvement of monetary policy instruments, Bank of Albania has performed the necessary improvements of the regulatory framework, but there remains much to be done concerning their useful efficiency. It bears the target of working with short term interests and leave the market initiative decide on the long term interests within annual background (6 and 12 months).

Bank of Albania is casting concrete steps in this framework. The recent meeting of Supervisory Council decided revocation of minimum rates on six months deposits. The commitment, concerning the growing efficiency of used interments, has initiated with bank awareness and finding common sense within the banking system simultaneously.

3. BANK LENDING TO THE ECONOMY AND CREDIT CAMPAIGN. CREDIT CONDITION AT THE END OF THE FIRST QUARTER, 2000.

During the recent 9-year period, Bank credit to the economy has occupied very low levels. The frequent decisions on interest cuttings of time deposits in domestic currency by Bank of Albania did not occur with significant decrease of lending rates by banks. So, compared to the previous year the difference between average

credit and deposit rates on annual maturity in 1999 increased by nearly two times (from 8.5 per cent into 16.5 per cent).

According to the monetary program on 1999, the credit ceiling was fixed at LEK 8 billion and at end year the credit result of the banking system increased by Lek 2.2 billion or 27.5 per cent of the total credit line. This indicates the low lending rate and the fact that credit ceiling as a direct monetary policy instrument of Bank of Albania already comprised no bank obstacle. For this reason in 1999, bank of Albania took the decision of revoking the credit ceiling on second-tier banks.

There could be mentioned many reason for credit disallowance. But, the most important are:

- ✍ the high lending risk in Albania makes private banks to be highly conservative with this respect;
- ✍ Albanian firms do not cooperate with banks and as such they are considered unsafe customers from them;
- ✍ impediment of state-owned banks from lending activities due to their high level of non-performing loans and based on the need to protect them from suffering further loans which would increase their privatization expense.
- ✍ the inefficient functioning of judicial and executor system
- ✍ obstacles in recording ownership etc
- ✍ the lacking authority of banks on the entire territory of the country;
- ✍ the high yield of treasury bills orients banks into the type of high profitable and free-risk investments.

3.1. WHY HAS BANK OF ALBANIA UNDERTAKEN THE INITIATIVE TO DEVELOP A CREDIT CAMPAIGN TO INCREASE CREDIT TO THE ECONOMY BY THE BANKING SYSTEM ?

The formal market of lending in Albania is currently small since there are only some private banks which extend credits mainly in foreign exchange and few in Lek.

The bad performance of credit portfolio has been also remarkable by state-owned banks which display high rates of non-performing loans.

The high level of these loans is a restraining factor for lending to the economy and the increase of bank confidence by customers.

According to the recent data of March, non-performing loans occupy 32.4 per cent of the credit aggregate mostly in state-owned banks.

Over 97 per cent of non-performing loans are at state-owned banks. The level of lost loans remains high by about Lek 7 billion or 35 per cent of non-performing loans.

If we consider the level of lost interests, the total of lost loans result Lek 10.6 billion.

A considerable part of these loans has been inherited from the previous years, however a similar figure is assessed as risky for the banking system.

Bank of Albania has reacted by strengthening its supervisory skills on second-tier banks and practice of requirements for establishing reserve funds to cover the loss from loans.

This situation of the credit portfolio does not necessarily mean that everything goes wrong in the banking system. On the contrary, based on banks reporting on their credit performance to

the economy, many positive developments were noticed in the first quarter of 2000.

The credit stock as banking system (including reorganization and capitalized interests of Bovilla Hydro-Power Station at the Savings Bank) increased by Lek 2.4 billion compared to the end of 1999. Whereas, performing above exceptions, the credit stock increased by Lek 1.6 billion.

The new credit, accorded by private and joint-venture banks, was Lek 3,4 billion, spread in the three terms (50.5 per cent short-term, 47.5 per cent medium-term and 2 per cent long term) and over 80 per cent of it recorded foreign exchange granting.

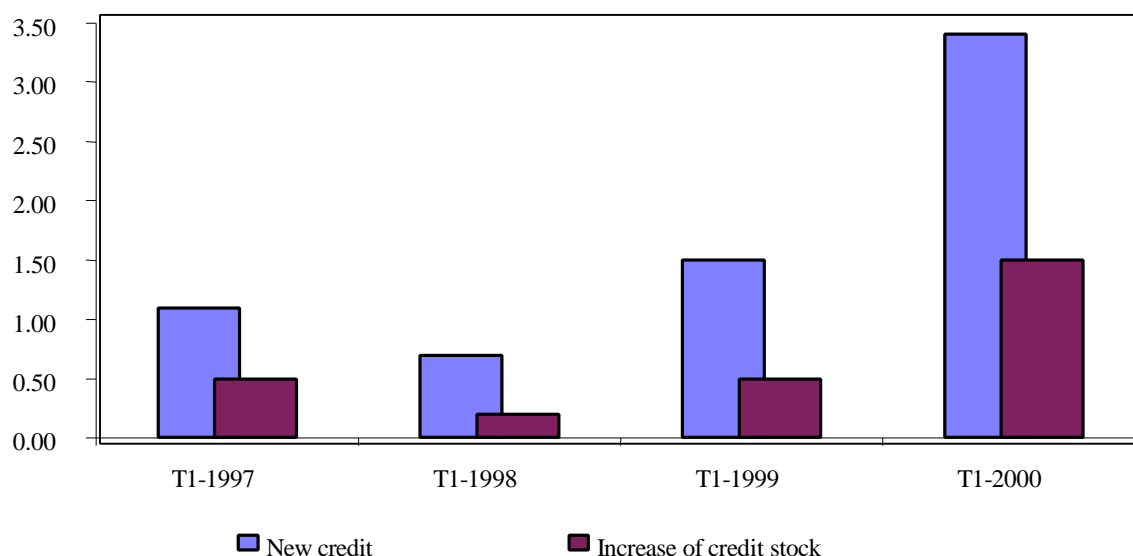
To be underlined is **the increase of the specific weight of the medium term loans by the credit stock**. As banking system, from 27 per cent at the end of 1999, it reached in 33 per cent in the first quarter of the current year.

Based on the lending evidence, the following table and chart presents the new lending situation and the increase of credit stock (on the first quarters in the three recent years) where banks are clearly observed on the dawn of a new lending situation for them.

In billions of Lek

	T1-1997	T1-1998	T1-1999	T1-2000
New credit	1.1	0.7	1.5	3.4
Increase of credit stock	0.5	0.2	0.5	1.5

New credit and credit stock performance
in the first quarters of 1997-2000



Providing procession of this rate, bank credit to the economy an activity as much disputable as essential in supporting private business will simultaneously carry noticeable improvements and conduct positive effects in the overall development of the economy. The revocation of credit ceiling seems to have a psychological effect in the growing the credit to the economy.

The average term credits have been issued to support business firms of processing industry and on the other hand, there keep their ongoing, credits for trade construction, fishing car repair etc. In the second quarter, the Intercommercial Bank , which has ambitious projects with this bearing will deliver its first credit.

Here are some of commercial banks which have a higher credit record during this quarter:

- ✍ **Tirana Bank** records about Lek 1.0 billion credit where 51 per cent is average term credit in foreign exchange.
- ✍ **Albanian-Italian Bank** records Lek 0.5 billion short term credits and Lek 0.2 billion average term credit both in foreign exchange.
- ✍ **Alpha Credit Bank** records Lek 0.4 billion average term credits, Lek 0.4 billion short-term credits and Lek 1.9 billion long-term credits.
- ✍ **FEFAD Bank** record Lek 0.5 billion average term credits
- ✍ **The American Bank of Albania** has extended Lek 0.1 billion new credits (on the three terms) and reflects a growing stock of long term credits by Lek 33 billion.

The central bank has no power to force increase of lending rate by second-tier banks. These banks based on the current law "On the banking system in the Republic of Albania" enjoy independence in their operation and decision-making activity.

Bank of Albania runs its control through undertaken decisions and used instruments. Since these decisions have resulted not fully effective, the central bank bears the commitment to initiate an encouraging credit campaign of the economy.

3.II. WHICH ARE THE FURTHER STEPS TO BE FOLLOWED IN THE CURRENT CREDIT CAMPAIGN OF THE ECONOMY?

First: Meetings.

It is very important to discuss with bank and business community the reasons for credit

disallowance and obstacles acquainted by banks during this process: for this reason:

- ✍ in May, there has been organized a discussion and exchanged opinions with Bank of Albania's officials on the credit campaign initiative undertaken by the central bank, concrete steps and expenditures to be carried by Bank of Albania and goals required to achieve.
- ✍ at the end of May, there will be organized meetings with second-tier banks to discuss their lending prospect, difficulties they have encountered and encounter during their lending process and requirements they pose to bank of Albania. Bank of Albania will also make a clear statement that it will first issue aggregated data on the entire system and latter be specific on each bank. We believe that these meetings will be assisted by the participation of representative members of the Parliamentary commission of Economy and Finance.
- ✍ at the beginning of June, there will be organized meetings with the business community, contacts with the Investors Union and the Chamber of Commerce.
- ✍ in June, there will be organized meetings with Albanian bankers' Club and the main business associations.
- ✍ there could be organized a meeting discussion between Bank of Albania and the Albanian Bankers' Club on consumer credi. This credit type can be first excited amongst the safe strata of the population and on a lower interest rate (consequently even profit rate). A similar thing will reveal and would lead to the broad public sensibility on bank benefits by every citizen, being a bank customer either as a bank depositor or credit borrower.

Before each meeting, they can be announced on press advertisements and afterwards be prepared and published a précis of discussions by Bank of Albania.

Second: Transperancy of lending activity.

- ✍ The completion of some pamphlets (leaflets) on the credit requirements by each customer. Not all banks display a

similar form of transperancy. Generally foreign banks have noticeable place by their booths where each person goes and receives the required information.

- ✍ Banks should be ready to fulfill at any time any customer requirement for receiving credit. These requirements should be classified according to business type or amount, days required for examination, next meeting with the customer etc. In this way, any customer, when applies, has finished the preparatory work and the credit officers of the bank cover further remaining procedures (formal admission of documents).
- ✍ Publishing data on the lending activity of non-bank institutions base on the legal acts and regulations and information as well.
- ✍ the mode how banks should require the business plan from their customers. Commercial banks in different countries issue booklets on how to organize business plans. This is a recommendation that needs discussion through the bank community in Albania. FEFAD bank together with its credit officers organizes business plans on its own, deciding in cooperation with the customer the settlement schedule. The American bank of Albania recommends for willing customers an organization raised by IFDC as an intermediary element drafting business plans.
- ✍ the close monitoring of the lending activity of informal market units. Loan associations could also be incited to assist the lending activity in certain small regions of the country or small activities and if they are successful then they will be transformed into regional development banks. Some of these banks are currently operating in our country.
- ✍ Data publication by Bank of Albania on the average rates of recent issued credits buy banks together with aggregated sums.
- ✍ Performing respective studies in connection with foreign investors in Albania their availing possibility of borrowing from commercial banks.

Third: Other aspects.

- ✍ Establishing the credit information institution would relieve the second-tier banks' service concerning the better awareness of customers willing to operate with them.
- ✍ The excitement of frequent information from the Dealing with Credits Agency linked with credit returning procedures, relieving terms for customers who obey schedules to finally discharge the idea of non-returning received credits.

3.III. GOALS OF THE CREDIT CAMPAIGN UNDERTAKEN BY BANK OF ALBANIA.

Finally this campaign aims:

- ✍ to educate the Albanian business through meetings publications financial assistance and professional consultation since at the early stages of establishing companies (L.T.D. or A. E.) various economic studies, necessary documentation required by banks since the bank "fear" against business originates from the lack of sufficient information from each-other;
- ✍ to raise customer awareness on how to receive bank credits what terms they are compelled to comply to be bank borrowers;
- ✍ Identify some of the reasons which could cause restriction of lending activity and respective measures to undertaken to reduce successive obstacles.

Based on the credit importance to the economy Bank of Albania will be engaged together with its human resources and will financially support this credit campaign to ever so little contribute in the functional improvement of this market. However, it is other institutions' duty to contribute in establishing a favorable climate for credit activity.

It is required strengthening of legal and judicial system's practice.

The efficiency of legal practice is closely linked with the credit performance for it provides the

necessary support and guaranty that the issued money will be bank returned.

Strengthening of fiscal units bears its own worth.

Reducing the possibility for holding double balance-sheets on business side will turn them in liable customers for banks.

4. STATISTICS DEVELOPMENT AND THE INCREASE OF TRANSPERANCY.

In November 1999, the Supervisory Council of Bank of Albania approved the strategy of medium term development for Bank of Albania. I want to underline once more two strategic targets of this paper: the improvement of statistics and the increase of transperancy.

4.I. STATISTICS DEVELOPMENT.

Bank of Albania has continuously drawn the attention by its statements and opinions on the relatively undeveloped situation of current statistics in Albania.

Statistics problems concern their total lack or their poor and frequently contradictory subsequence published or not by official or private persons.

This statistical circumstance practically brings obstacles in the comprehension of Albanian economy, its analysis, forecast and undertaking decisions. In this frame work, Bank of Albania as previously announced, initiated the implementation of two projects in the statistical area. Projects are being currently implemented on IMF assistance.

Albania has been also selected as pilot project for he membership of General Diffusion Data System (GDDS).

Bank of Albania, on the commitment in this area in collaboration with INSTAT, has projected holding a national conference in collaboration with INSTAT "On statistical information in Albania" on November 2-3. This conference intends to:

- ✍ to awaken the highest official authorities, business community and public audiences on the exceptional importance of statistical information;

- ✍ require from these groups to support the process of statistics development and their publication;
- ✍ introduce statistical data produced and published by bank of Albania;
- ✍ assess their using rate by the business community;
- ✍ insure the highest possible information on the current statistics, sources of information and the level of confidentiality, concluding with drafting a statistical map the order of statistics produced in Albania, placing the reference of producing and publishing person (s)
- ✍ propose directions of statistical development in the future.

4.II. THE INCREASE OF BANK OF ALBANIA'S TRANSPARENCY.

Bank of Albania has proclaimed 2000 as the year of transparency (or the year where it will be intensively worked to increase transparency) on own activity.

First of all, Bank of Albania is engaged to accomplish to the highest maximum possible, IMF standards on the transparency in the monetary and financial policy areas. I say to the highest maximum possible because it should be comprehended that the current development of banking and financial system allows no possibility to the application of certain standards.

The growing transparency rises the liability of central bank operations and decisions since its activity is subject of a public debate and confronting possibilities enable it to understand how fair are undertaken decisions or followed policies, whether they need correction or not, how , where and when they need be corrected.

The increase of transparency with other state institutions helps the coordination of policies and activities and the growing rate of consultation.

The increase of transparency improves its institutional recognition and allows the possibility to increase own authority and effect on other state institutions.

What's more important, it adds up to the bulk of Bank of Albania supporters.

The growing transparency will serve another scope that of public "education". For several reasons, media and public audiences are slightly adjusted with matters of economic nature.

If raised, the degree of public data and simplicity of their issuing, the assessment of economic decisions and policies would become a bound part of these activities as well as of business and economists which will discipline their economic behavior and orient them. In the long run, this helps Bank of Albania to construct and set into efficiency the transmission mechanisms of own decisions into the economy. If none understands the why of undertaking a monetary policy decision, no one will feel certain for his success and the signals received by the central bank from the economic environment will be distorted, hardening the enterprise of other decisions.

At last the increase of Bank of Albania's transparency will change the mentality and tradition of "keeping secrets", "information monopoly" or "the power on information".

In this framework, Bank of Albania feels necessary to require from media to assess the central bank commitment to increase own transparency, follow central bank actions, by showing no effort to speculate with them.

We are aware that this demands the appropriate time to be established. But, we also know that bank of Albania keeps a correct attitude and media's' reaction will be ever more serious, certainly.

Bank of Albania also appeals on business, individuals or other persons, requested on statistical information, to increase the level of willingness on issuing the required information.

The scope of data collection is not the punishment of these persons. The data are used only for study aims or for drafting policies. It is clear, that the more complete and accurate the received information will be the better will be the authorities' decisions and policies which in the long run improves the

statistical environment on individuals and businesses.

That's why Bank of Albania requires more collaborations by citizens and private persons.

4.III. FINANCIAL SUPPORT OF BANK OF ALBANIA.

Bank of Albania based on the favorable financial position and the free use of financial assets is engaged to finance similar campaigns as that on the treasury bills, credit, statistics development or public education notwithstanding the fact that they are duty of other state institutions in part.

Acting in this way, we believe that Bank of Albania will become a spur for these institutions.

5. THE ROLE OF BANK OF ALBANIA IN IMPROVING THE PAYMENTS SYSTEM.

The encouragement of the normal functioning of the payments system constitutes one of the legal duties of Bank of Albania, following the accomplishment of the final target, achieving and maintaining the consumer price stability.

To accomplish this duty, the law acknowledges Bank of Albania the authority of setting rules and procedures for performing payments, organization of settlement and clearing services and the supervision of the payment system in Albania.

Bank of Albania has been constantly engaged to fulfill its legal duties with respect to the payments system and liabilities descending from them. This engagement consists in improving procedures and the regulatory framework of the payments system on one hand and in the conception and pursuing all necessary steps for its physical improvement and development on the other hand.

Bank of Albania is currently performing two important functions in the payments system of the country: it offers the second-tier banks the service of clearing customer payments in Lek and the settlement of interbank payments in the second-tier bank accounts by itself.

5.I. THE CLEARING SYSTEM.

Based on the developed countries' experience, the structure of clearing service does not comprise an essential activity or a direct responsibility of the Central Bank. In general, there are the banks of these countries which in cooperation with other private operators organize respective contracts and clearing systems which offer swift payments services to customers.

The organization of this service by Bank of Albania has been ordered by several specific factors, such as: the lack of previous experience on a similar service in Albania, the lack of solid activity by second-tier banks, the low use of non-cash payments by individuals, (makes banks feel no market pressure to invest by this activity).

Bank of Albania has constantly undertaken measures to improve the quality of this service and made use of Swift system to settle all payment-orders at clearing sessions. On the other side, the regulatory framework of this service has been subject of constant improvement and review.

Bank of Albania intends to undertake continuous measures to increase the automatization standard of this service in order to facilitate payments and reduce moving schedules of documentation ect.

In this mode, we believe that there could be established adequate conditions to affect the growing individual and business claims to use instruments of non-cash payments. On the fulfillment of these conditions, Bank of Albania will consider the access of this service to the banking system, by resigning its direct operation on it and playing the role of monetary authority on this system.

5.II. THE SETTLEMENT OF INTERBANK TRANSACTIONS OF SECOND-TIER BANKS BY THEIR ACCOUNTS AT BANK OF ALBANIA.

Holding accounts by Bank of Albania is a legal obligation for second-tier banks. Through these accounts, they hold their daily liquidity and keep record of all bank transactions performed by themselves. To serve the banking system's stability, the central bank is interested that the functioning mode of these accounts reduce the

liquidity and the credit risk by the banking system.

To fulfill this target, Bank of Albania has continuously undertaken measures to improve the quality of service by these accounts.

Therefore, it has been achieved the unification of current accounts with the required reserve's and it is allowed the latter mobilization to 5 per cent for daily liquidity needs.

The growing volume of interbank transactions, the increase of treasury bill activity by second-tier banks and the latter extension by new banks are factors which affect the growing risk of liquidity and credit by the banking system and dictate the necessity to improve the management quality by these central bank accounts. In order to precisely control and reduce risk, increase flexibility of managing liquidity, increase the speed of performing interbank transactions etc, Bank of Albania decided to implement the RTGS system, (Real Time Gross Settlement System).

Bank of Albania is collaborating with the World bank for the implementation of this system and according to the present discussions, this system is expected to function at the beginning of 2002. The RTGS system will make up the basic mechanism of the payments system in Albania. In addition to the above mentioned effects it will sustain the application of indirect monetary policy instruments on Bank of Albania's behalf, increase of financial markets' activity as well as it will supply a safe mechanism in the settlement of other transactions performed on new payments instruments as payment cards ect.

5.III. PAYMENT INSTRUMENTS.

The type of payments instrument offered for performing individual and business payments is considered a direct responsibility of second-tier banks. They depend on the public claim for non-cash instruments, application facility and accommodation (the capacity to substitute cash instruments), type of clientele where the bank seeks to concentrate its own services. Notwithstanding the fact that bank of Albania bears no direct responsibility in connection with the application of payment instruments, it has encouraged banks to make use of new

payment instruments from the position of the supervisory authority of the payments system. So, some of the second-tier banks have undertaken initiatives in the effort to apply new payment instruments such as cash-cards for drawing cash by ATM (s) or performing payments and account operations on electronic banking or home banking. Therefore, two commercial banks have introduced the card service of two famous companies DINERS CLUB and VISA by the Albanian market.

However, Bank of Albania notes that the public use of these instruments is restricted. In spite of the inherited mentality and other reasons which influence the broad use of cash in Albania, Bank of Albania deems that cash reduction should be transformed into a medium term target. The settlement and advance announcement of this target will give banks the appropriate time to create the necessary infrastructure to face up a higher flow of customers and activity. On the other hand, it will concede the appropriate time to the state structures to determine proper steps to be cast with this bearing, intending achievement of this target.

5.IV. CONCLUSIONS.

1. Bank of Albania considers as highly important the implementation of RTGS system. It will continue to be directly involved in pursuing the necessary procedures and the implementation of this system in the bank within anticipated schedules.
2. Bank of Albania will continue to pay a special importance to the improvement of the clearing service organized by itself. At the same time, it will continue to sustain the common initiatives of the Albanian banking to organize this service independently from Bank of Albania.
3. Bank of Albania props up the second-tier banks initiatives to make use of new payment instruments. It will continue to exert its own influence, as the supervisory authority of the payments system, to expand these initiatives and establish appropriate infrastructure in their support.
4. Bank of Albania will continue to pay attention to the improvement of the

legal and regulatory framework of the payments system. It will be constantly engaged to insure the appropriate legal and regulatory support to any initiative that will be undertaken by itself or the banking system concerning the

- improvement of payment infrastructure in Albania.
5. The reduction of cash amount to the Albanian economy exceeds the Bank of Albania's liability and capacity. It believes that collaboration and commitment at government level will be necessary with this respect.