EDITORIAL

TWINNING PROJECT OF THE BANK OF ALBANIA WITH BANCA D’ITALIA AND BANQUE DE FRANCE

I. BACKGROUND

Diplomatic relations between Albania and the EU were established in 1991 and were developed further with the signing of the Trade and Co-operation Agreement in 1992. The Thessaloniki EC Summit in June 2003 clearly confirmed the EU perspective of the Western Balkan countries, and recognized Albania as a potential candidate country for EU accession.

The several-year relations progressed a step further with the signature of the Stabilization and Association Agreement (SAA) on 12 June 2006. The ratification process was concluded in less than three years and the SAA came into force on 1 April 2009. This paved the way for Albania to submit an application for EU candidate country status.

The SAA is an instrument of the European Union’s Pre-Accession Strategy towards countries aspiring to join the EU. Its implementation represents a challenge for the country as it has to prove that it is equipped with the necessary capacities required to implement the obligations under the SAA. Worth noting is that the central and local administration, the independent institutions and the judiciary play a key role in the implementation of the SAA.

The Bank of Albania is the institution responsible to implement the SAA provisions on the right of establishment and freedom to provide services/banks; free movement of capital, current payments and transfers; safeguarding macroeconomic stability (Copenhagen economic criteria); and approximation of the Albanian legislation with the EU acquis communautaire on the above listed areas.

European Union’s Pre-Accession Strategy represents a good starting point for the Albanian institutions in terms of the adoption of the European standards in the fields of their interest, and further approximation to the EU legal framework. In order to successfully carry out this duty, the EU supports the Albanian institutions by providing financial assistance through the Instrument for Pre-Accession Assistance (IPA), and more specifically, through the Transition Assistance and Institution Building component (IPA-I).

The Bank of Albania is one of the beneficiary institutions of IPA funds through the Twinning Project “Strengthening the institutional capacity of the Albanian Central Bank, particularly in the areas of banking supervision, statistics, payment systems and the implementation of monetary policy”, which is an EU-funded project to the amount of EUR 1 million. Worth noting is that
the Bank of Albania is a first-time recipient of the financial assistance provided by the EU under the Instrument for Pre-Accession Assistance (IPA).

The Twinning Project entered its implementation phase after the selection of the twinning banks, Banca d’Italia in partnership with Banque de France, and the preparatory meetings of foreign experts with Bank of Albania experts and representatives of the Albanian banking system.

II. LAUNCHING OF PROJECT

The launching ceremony of the Twinning Project was held on 23 March 2011. It was attended by representatives of the diplomatic corps accredited to Albania, as well as representatives from Banca d’Italia, Banque de France, Bank of Albania and the Albanian banking system. The Ambassador of the EU Delegation to Albania Ettore Sequi and Director General of Banca d’Italia Fabrizio Saccomanni were present at the ceremony as special guests.

III. OBJECTIVES OF THE TWINNING PROJECT

The primary objective of this project is to assist the Bank of Albania in the process of approximating the legal and regulatory framework with the EU acquis, and alignment of its practices to the standards of the European System of Central Banks. This project is widely based on the priorities arising from the SAA, which aim at safeguarding macroeconomic stability, strengthening the banking sector’s legal and regulatory framework, overall monitoring of the financial sector and improving and developing different economic statistics further.

The activities envisaged in the Twinning Project will be implemented through periodic study visits of Bank of Albania experts to Banca d’Italia and Banque de France, and visits of foreign experts to the Bank of Albania. In addition, during the 18-month period of the implementation of the Twinning Project, a Banca d’Italia representative has been appointed at the Bank of Albania, in the capacity of the Resident Twinning Advisor.

The following provides an overview of the respective modules of the project and the main activities they cover.

IV. TWINNING PROJECT MODULES

1. Supervision and Financial Stability

Banking supervision, being one of the most important activities of the Bank of Albania, will be one of the benefiting areas. The banking market is ever-growing in response to the domestic changes and launching of new products and services into the market. Therefore, continuous improvements are required to be made in the banking supervision sector in order to progress in line with the latest global developments. The review of the regulatory framework and the improvement of the supervisory capacities will be at the focus of this
project. In addition, it will also aim at the continuous improvement of the analytical forecast in the area of financial stability.

The Twinning Project activities in this module will focus on the training of Supervision and Financial Stability Departments staff, and on the provision of technical assistance in view of developing the instruments or manuals necessary to banking supervision.

The training activities deal with issues related to the supervision of banking risks, namely liquidity management, operational risk, internal assessment models; key IFRS issues (such as assessment of IAS 39, financial instruments) and advanced supervisory reporting systems, Basel regulatory framework and Capital Adequacy Directive criteria (Pillar I, II and III), the latest guidelines on stress-tests and the early warning system.

The technical assistance and advisory programme also aims at developing eight products necessary for the progress of banking supervision in the areas of banking supervision examination systems; review of regulations and reporting forms, macro-prudential supervision and support with technological infrastructure.

The successful implementation of the activities in this module will bring about success in the further approximation to the international supervision standards and meeting of EU accession criteria, contributing thus to the evolution of the Bank of Albania’s supervisory system into a more qualitative, integrated and informative model of the banking system. This improvement will consist in the review of the regulatory framework and the application of the best practices.

2. Financial Literacy

The objective of the Financial Literacy module is to develop the research work activities in the area of financial literacy based on the best international practices and European experience.

In view of achieving this objective, surveys will be carried out to measure the overall financial literacy of the Albanian population and the efficiency of Bank of Albania’s educational activities intended for high-school level education. Given the increasing importance of financial literacy global-wide, this module also envisages the organization of a high-level conference, in order to bring to Albania the best international experience and different initiatives in this regard.

3. Statistics

The Bank of Albania is the responsible institution for the collection, processing and dissemination of external sector data and monetary and financial statistics. The objective of the module on statistics is to enable the
establishment of a modern infrastructure for the compilation of different macroeconomic statistics at the Bank of Albania, particularly in the balance of payments area.

The activities under this module will be trainings, technical assistance and advice related to BoP/PIN statistics, with special focus on Direct and Portfolio Investment, and more specific on-the-job trainings on the data collection methods, questionnaires, business register of enterprises, information technology solution for data collection etc. A model will be developed to improve the quality of BoP/PIN statistical systems in line with the European standards. In addition, this model will deal with issues related to Financial Statistics, in order to facilitate the reporting process and ensure full coverage of the reporting of transactions in the banking system.

The expected results from the implementation of these envisaged activities are, among others, the enhancement of human capacities in terms of the adoption of new data collection methods, drafting of questionnaires, and application of stringent measures in relation to the observance of the deadline for the compilation and release of BoP/PIN data, enhancement of co-operation with INSTAT, and greater coverage of financial statistics and their use in the economic policy decision-making process.

4. Payment Systems

For the payment systems module, the Twinning Project envisages the review of the regulatory framework, in order to improve and comply it fully with the EU directives and actual practices in this area, and enhance the human capacities in the area of payment systems oversight.

The activities in this module will concentrate on the development of instruments and methodology to perform oversight activities with regard to payment systems, enhancement of human capacities in the management of payment settlement systems and gradual use of ESCB methods and procedures.

The expected results from the implementation of these envisaged activities are the drafting and review of the regulatory framework, particularly with regard to the oversight of payment systems, respective operational manuals and transposition of Payment Services Directive. In addition, they will seek to strengthen the collateral management and securities settlement procedure in compliance with the ESCB standards; implementation of an automatic securities settlement system and the application of new procedures.

5. Interbank Market

The further development of the interbank market is an important objective in view of the improvement of the monetary policy transmission mechanism in the country’s economy.
Therefore, the activities under this module aim at achieving three main objectives. The first objective relates to the further promotion of the interbank money market through the identification of the possible strategies and initiatives to achieve the commitment of the money market operators, development of the Government bond secondary market and the establishment of information technology solutions as a trading platform in the interbank market. The second objective relates to the enhancement of human capacities with regard to the development of the collateralized money market, with special focus on the operational tasks of the Bank of Albania in this market, its surveillance, and the collateral evaluation methodologies. The third objective relates to the drafting of fundamental principles of internal manuals on the activity of interbank money market surveillance.

The implementation of this module will lay the foundations for the establishment of a liquid interbank money market and responsive to monetary policy decisions, which is a major objective that requires further co-operation with other Albanian institutions.

6. Coordination of the EU Integration Process

The objective of the module on the Coordination of the EU Integration Process will be entirely implemented by Banque de France. It consists in the development and possession of necessary coordinative instruments in the EU integration process, in order to prepare for the representation at European level meetings and coordinate Albania’s EU accession process. Banque de France will provide its experience in the representation at European level meetings and management of the harmonization process of banking legislation with the acquis communautaire.

The implementation of activities under this model will focus on enhancing Bank of Albania’s staff qualification, having also under consideration the further steps of the EU integration process arising from the implementation of the SAA, approximation to the ESCB, recognition of Albania as a potential candidate country for EU accession and opening of negotiations on Albania’s EU accession. It will also aim at enhancing the efficiency of coordinative activities related to the successful representation of the Bank of Albania at the ESCB and ECB, and the development of relevant coordinative instruments.

V. TERMINATION OF THE PROJECT

The implementation period of the Twinning Project will take 18 months and it will terminate within the first half of 2012. As it was stated by the Ambassador of the EU Delegation to Albania Ettore Sequi, the Bank of Albania will be assisted by the central banks of Italy and France to prepare for economic EU integration, for this project is precisely a step towards economic integration between the EU Member States.

After the implementation of the Twinning Project, the Bank of Albania will have improved the organizational and operational framework of its main departments, hence approaching its European counterparts.