

Fatos Ibrahimi: The reduction of cash in the context of reducing the informal economy

Speech by Mr Fatos Ibrahimi, First Deputy Governor of the Bank of Albania, at the Conference "Reducing the informal economy – a challenge of the Albanian Government", Tirana, 16 October 2006.

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Since the inception of the programme undertaken by the Bank of Albania, in cooperation with the Ministry of Economy and the Ministry of Finance, on reducing cash, it came clear that the issue of cash in economy cannot be treated as separate from the issue of the informal economy. The companies, which try not to expose their activities to the third parties, will avoid banks and will find alternative sources of financing and payment, mainly in cash. Therefore, the Government initiative on reducing the informal economy is to be welcomed when bearing in mind the great impact it will have on reducing the cash economy.

It needs to be said that the process of formalizing the economy has not been considered as an excuse for not undertaking a number of measures and initiatives, which may accelerate the progress of cash reduction. Among the actions undertaken in this context, I would mention:

1. The channelling of the state administration payrolls through the bank accounts

At this moment, the entire public administration payrolls are channelled through the accounts with the commercial banks. Despite the initial reluctance of a part of the public administration employees, the withdrawal of payrolls through the bank accounts has now turned into as common as any other services provided by the private market. The channelling of pensions through the bank accounts has met with certain complications, since the small amounts and the high circulation do not make them very attractive for the commercial banks. The licensing of the post for carrying out certain banking services has resulted to be a good solution for this issue.

The larger involvement of the private business in this process remains a challenge. In this context, the encouragement of channelling the payments through the banking system is a crucial step to be taken. The requirement of a rigorous application of the obligation that (small, medium and large) businesses have to open and operate with the bank accounts would not only serve to reduce cash but also to reduce the informality.

2. Monthly utility payment (electricity, water, telephone) through the bank accounts

The monthly utility payment is now made through banks. However, this is limited only to the clients of the bank the utilities have their account in. The holding of these utilities' accounts with all the banks in the system, or the finding of a kind of interbank cooperation would not only serve to increasing the amount of payments channelled through banks, but also to enhancing the competition. Another difficulty encountered in this context is the implementation of bank accounts direct crediting by the utilities. This has been due to the concentration of these companies in certain banks, and also because of the problems encountered in the standardization of the bills according to particular banks' requirements. The Bank of Albania continues to be committed to finding a solution to these problems.

3. The expansion of the ATMs and the POS (point of sale)

Automated teller machines (ATMs) experienced a further development over 2005 - 2006. Most banks have established a number of ATMs in Tirana and in other main cities throughout the country. The number of electronic terminals has grown from 93 at the end 2004 to 266 in August of the present year, while the number of users has increased from 34,090 to about 295,250. ATMs are used through debit cards, but credit cards are also being widely used. Both Visa and MasterCard are actively being used in Albania and most banks are members in one of them, providing the respective cards. Although the use of cards is still limited, the growing number of service units accepting electronic payments (POS-Point of Sale) from 155 in December 2004, to 1073 in August 2006, and the gradual change of

the attitude favouring the holding of cash will lead to the enhancement of the use of cards as a mean of payment.

The service of electronic transactions (*e-banking*) as a banking product began four years ago, although it may be said that it has not reached satisfying levels as far as its introduction and the use by the public is concerned. So far, two banks have been providing this service to particular clients (mainly businesses) for the carrying out of transfers, different payments etc. Over the present year, other banks have planned to provide this service.

Table 1: Number of cards and ATM/POS

	2004	2005	2006
Cash cards	26,736	173,161.00	220,657.00
Debit cards	6,552	50,066.00	70,176.00
Credit cards	806	2,550.00	4,245.00
Pre-paid cards		136.00	169.00
Total	34,094	225,913.00	295,247.00
ATM	93	205.00	266.00
EF/POS terminals	155	779.00	1,073.00

4. The network and services expansion through the bank offices

Over 2005 the banking system continued to expand its network rapidly within the Republic of Albania territory. It expanded with more than 50 branches and agencies throughout the country, although most of them were established in Tirana. A considerable number of branches and agencies have been opening in small towns, indicating that a large share of the population is now being provided with banking services.

Almost all banks have established new branches and agencies, but just like in 2004, the opening of 29 branches and agencies by the small banks (G1 group) makes an impact. It mainly relates to the significant growing number of *Banka Popullore* branches, which opened 15 new branches throughout the territory of Albania over 2005, and to several other banks within this group, which expanded with some new branches and agencies after a period of long inactivity. The number of employees grew considerably over 2005, by 24 per cent, from the growth of 26 per cent over 2004. This significant growth in the number of employees is mainly related to the expansion of the banking system network and to the extension of the banks' activities, which requires a better division of work and a more complete organizational structure. By the end 2005, the Albanian banking system had 3,479 employees, from 2,816 over the previous year.

Compared to the previous year, the number of employees per banking unit decreased over 2005. In 2005, banks had 13.9 employees per banking unit, compared to 15 over 2004. Such a decrease has been a consequence of the growing number of branches and agencies with higher rates than the growth of the number of employees. A considerable number of branches and agencies have been established in sparsely populated areas; as a consequence, the number of employees in these branches and agencies has been quite small.

The number of loan officers has increased considerably, following the significant growth of lending over 2005 and in the upcoming period. A considerable number of banks have restructured their loan departments, aiming at a more distinct division of duties and responsibilities.

The increase in the number of banks, branches and their agencies, as well as the growing number of bank employees have caused the coverage of the population to improve significantly. Thus, the number of inhabitants per bank, banking unit and per bank employee has decreased considerably.

Table 2: Coverage with banking services

	2003	2004	2005
Number of employees	2,236	2,816	3,479
Number of branches, agencies	161	188	250
Number of employees per:			
bank	149	176	217
banking unit	13.9	15	13.9
Number of inhabitants per¹:			
bank	206,851	194,971	184,410
banking unit	20,815	16,593	12,539
bank employee	1,388	1,108	901

Table 3: The expansion of the banks' network by the end of the 9-month period of 2006

No.	Banks	No. of Branches	No. of Agencies
1	Raiffeisen Bank	37	46
2	National Commercial Bank	22	9
3	United Bank of Albania	3	1
4	Italian Albanian Bank		6
5	Italian Development Bank (former Dardania)	1	
6	Tirana Bank	31	4
7	National Bank of Greece (Tirana Branch)	4	8
8	International Commercial Bank	5	
9	Alpha Bank (Tirana Branch)	9	1
10	American Bank of Albania	10	11
11	ProCredit Bank	20	1
12	First Investment Bank (Tirana Branch)	1	1
13	Emporiki Bank	3	4
14	Credit Bank of Albania	1	1
15	Credins Bank	10	4
16	<i>Banka Popullore</i>	29	
17	Union Bank	1	3
	TOTAL	187	100

¹ According to INSTAT, the population of Albania totalled 3,102,777 inhabitants in 2003, 3,119,543 in 2004 and 3,134,982 in 2005.

5. The implementation of the Automatic Electronic Clearing House (AECH) project

After the introduction of the RTGS system for the settlement of gross payments, the payments infrastructure expanded with the Automatic Electronic Clearing House (AECH) system, which aims at reducing the processing time of small value payments considerably, encouraging as such the use of banking payments. Over the present year, significant improvements have been made in terms of the information technology and communication with commercial banks, which has been indicated by the programmes used and by the purchase of new programmes by several banks. These programmes constitute a better sustaining for the Banking Accounting Manual requirements and serve to the needs of the institution to expand the activity and introduce new services, such as e-banking.

6. The review of the legal framework related to the payment system in the country, paying a special attention to that part which supports the new payment instruments and actors in the country

The abovementioned developments in technology and information have been supported by the Bank of Albania through the formulation of the Regulation "On the use of information technology and communication of the entities licensed by the Bank of Albania", approved upon the Supervisory Council decision No. 32, dated 3 May 2006. This regulation will not only assist the provision of a more prudent and complete supervision of the information technology and communication used by banks, but at the same time it will help banks in their day-to-day work and in the use of this technology. Moreover, it will increase the security measures that banks should apply in order to provide the security and the good use of the information, the maintenance of the information and the continuity of work in cases of extraordinary events.

Another crucial issue to be paid a special attention to and where certain deficiencies are present, is the SWIFT system. There needs to be a better administration of the users' profile, in order to observe the three stages of sending the messages (creation, verification and authorization), and a division of security officers' duties (left and right officer) from the different operational duties at the SWIFT.

It is also necessary that the internal bank audit (or external when provided by consultant companies) be expanded, including the information technology entirely. This audit, which currently is limited only to the system users' profiles or to the access rights they have in the system, should include issues that relate to the functionality of these systems, the accuracy of generating the information, the changes in the system, the information security during the operation and in transmission (for on-line branches) etc.

7. The enhancement of transparency of the bank commissions applied for loan payments, and in particular the decrease or abolition of domestic commissions or of incoming payments, are another *measure that the Bank of Albania is implementing in the context of attracting the public and businesses as far as the banking services are concerned.*

Referring to the significant decrease of currency outside banks to total money – from 31 per cent in 2002 to 24 per cent over the present year – as an important indicator of the cash economy, it can be said that the abovementioned measures have provided their effect. However, the reduction of the informal economy remains a decisive factor in order to reach to the levels of cash in more developed economies, which is below 10 per cent. In this context, the establishment of the Credit Information Bureau, initiated some time ago by the Bank of Albania and expected to finalize over the coming year, is believed to make an overwhelming contribution to reducing the business informality in the interbank level.