



## **TERMS OF REFERENCE**

**Project:** Enhancing Banks' Liquidity Risk Management

**Project Owner:** Mr. Indrit Bank, Bank of Albania,  
Supervision Department.

**Project Manager:** Mrs. Miranda Ramaj, Bank of  
Albania, Supervision Department.

**Deputy Project Managers:** Banking Community

**Technical Anchor (TAN):** One pier reviewer from  
Central Banks in the region

**Project Working Group:** BoA – BoA Supervision  
Department and representatives of  
all banks

### **I. - Background - Problem Identification**

Liquidity is the ability of a bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. The fundamental role of banks in the maturity transformation of short-term deposits into long-term loans makes banks inherently vulnerable to liquidity risk, both of an institution-specific nature and that which affects markets as a whole. Virtually every financial transaction or commitment has implications for a bank's liquidity. Effective liquidity risk management helps ensure a bank's ability to meet cash flow obligations, which are uncertain as they are affected by external events and other agents' behavior. Liquidity risk management is of paramount importance because a liquidity shortfall at a single institution can have system-wide repercussions. Financial market developments in the past decade have increased the complexity of liquidity risk and its management.

In Albania, banks' liquidity management is governed by the regulation "On the liquidity of the bank" no. 04 dated 19.01.2003 and amended with the decision no. 08 dated 12.02.2003 of the Supervisory Council of the Bank of Albania. The regulation provides only principles for the liquidity management. According to these guidelines, banks are given proper independence to adjust the liquidity level based on criteria set by the Bank of Albania.