BANK OF ALBANIA
ANNUAL REPORT 2009

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Fax.: 355-4-2223558
E-mail: public@bankofalbania.org

www.bankofalbania.org

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Governor of the Bank of Albania, Mr. Ardian Fullani.

Bank of Albania Supervisory Council

From left to the right in front:

FATOS IBRAHIMI	*Vice Chairman (First Deputy Governor)*
ARDIAN FULLANI	*Chairman (Governor of the Bank of Albania)*
TEFTA ÇUÇI	*Member*
KSENOFON KRISAFI	*Member*

From left to the right in the back:

ADRIAN CIVICI	*Member*
HALIT XHAFA	*Member*
ARJAN KADAREJA	*Member*
LIMOS MALAJ	*Member*
BENET BECI	*Member*

FOREWORD BY THE GOVERNOR

Dear reader,

I am honoured to present you with the Bank of Albania's Annual Report for 2009. It provides a complete opinion of the Bank of Albania on the Albanian economy and financial market performance. More than a legal obligation, the Bank of Albania regards this opportunity as a necessary step on its way to transparency and public education. Against this backdrop, this report gives a detailed overview of the attainment of the Bank of Albania's Core Purposes and the work of the institution I govern.

The country's economic activity and the development of the Albanian financial markets were affected by the global economic and financial crisis. Summarizing the essence of our conclusions in light of this brief overview, right from the start, I would like to underscore that the Albanian economy has shown an admirable degree of resilience in 2009. Although the global crisis effects were felt early on the economic activity, likewise in most countries of the region and in the developing countries, the initial soundness in our economy and our financial system and the swift and determined response of monetary and fiscal authorities contributed to limiting its impact on our economy. Thus, in the course of the past year, the Albanian economy succeeded in achieving a positive growth and maintaining essential macroeconomic balances and financial stability.

However, during the past year, the country's economic activity showed clear signs of progressive slowdown. The first half experienced banking system liquidity constraints, which were reflected in lower lending paces and upward financial market interest rates. The country's external position was characterized by a slowdown in exports and other capital inflows, shaking the foreign currency supply and demand ratios, being associated with a depreciating exchange rate trend. The Bank of Albania reduced its basic policy rate in January and increased the liquidity injection, in response to upward liquidity demand of economic agents. Alongside the high fiscal stimulus that accompanied this period, such measures contributed to maintaining a positive economic growth rate. The second half of the year showed a qualitatively different picture of developments. The domestic demand slowdown was accentuated during this period in the reduced credit demand and in further slowdown in the activity of the private sector. Alongside the reduction of fiscal stimulus during this period, it was associated with reduced growth rate in the third and the fourth quarter. In response to these developments, the Bank of Albania decided to further cut the basic policy rate in October, by 1.0 p.p., to 5.25%. The basic policy rate cut and the exchange rate depreciation resulted in stimulating monetary conditions during 2009. On the other hand, in response to reduced imports, the external position of the Albanian economy showed correction signs, reflected in a steadier exchange rate performance.

The Bank's monetary policy has been compiled and implemented in line with the attainment of our legal objective: achieving and maintaining consumer price stability. Against this backdrop, 2009 marked another year of success in keeping inflation on track and anchoring inflationary expectations. In 2009, the average inflation rate was 2.2%, while throughout the year it fluctuated within our targeted band. The below-potential economic growth and low global market prices generated subsiding inflationary pressures, balancing the negative spillovers of exchange rate depreciation.

Another highlight over the past year was the preserving of financial stability, as the best stimulus for the country's prosperity in light of current conditions. In this regard, the Bank of Albania has done a great job, especially by reviewing the regulatory base, constantly adapting our organizational and analytical structures, conducting prudent on-site and off-site examinations, and constantly exchanging information with the counterpart institutions. The major institutional investment is rewarded above all by boosting public confidence in our banking system, enabling at the same time the continuation of its financial intermediary function.

Dear reader,

Seeking to highlight the core elements of Bank of Albania's work, I should point out that 2009 was characterized by intensification of our efforts in improving the infrastructure and establishing the necessary regulatory base for a smooth and sustainable development of financial markets. Significant achievements were made in terms of: reviewing and strengthening the supervisory regulations; fulfilling the legal and regulatory framework for financial system development; further developing the payment system; deepening the study and research capacity; improving the statistics produced by the Bank of Albania; enhancing the Bank of Albania's communication with authorities and the public at large; as well as strengthening the cooperation with international organizations and counterpart institutions. All these developments will be displayed in the pages of this Annual Report.

Let me finally conclude this foreword by thanking the Bank staff, whose dedicated work has been at the heart of our achievements. I am convinced that 2010 will record further steps in strengthening the Bank of Albania's institutional capacity.

Sincerely,

Ardian Fullani

Governor

¼ lek. Nickel coin, issue of 1926.

CHAPTER I WORLD ECONOMY

I.1. ECONOMIC PERFORMANCE

Year 2009 was featured by contraction of the global economic activity, an outcome of economic decline in the developed countries and significant economic slowdown in the developing countries[1]. This economic performance recorded the first negative rate in 20 years. The economic activity in the developed countries was mostly negative over the first half of the year, while it improved during the second half due to macroeconomic and fiscal stimuli applied by the governments of the countries affected from the financial crisis. On the other hand, world trade indicators increased over the past year. Thanks to a more positive economic environment, financial markets were characterized by stability and downward interest rates.

Inflationary pressures were low, due to sluggish demand in the developed economies over the first half of the year, with some of them even recording negative CPI inflation rates. The economic activity recovery during the second half of the year made the global inflation rate settle around 2.5% for 2009.

EURO-ZONE AND US ECONOMY

The Euro-zone economy contracted markedly during 2009. According to EUROSTAT preliminary estimates, Euro-zone economic growth for 2009 was -4.0%, from 0.8% in 2008. The economic decline was more pronounced in the first two quarters of the year, recording negative growth rates. During the third and the fourth quarter, due to monetary and fiscal incentives taken by the governments of these countries, the Euro-zone economy recorded positive growth rates in quarterly terms, recovering from the recession that had started in 2008. During 2009, the European Central Bank pursued a loose monetary policy by combining the interest rate cut with liquidity provision to the market, in an effort to improve the balance sheets of the banks of the system and raise their lending capacity. Among the key factors positively contributing to the economic growth were the expansion of net exports and the public investments, while consumer spending and private investments dropped sharply. Confidence indices improved in the second quarter of 2009. Euro-zone unemployment continued to rise, due to weakening domestic and external demand and collapse of capacity utilization in manufacturing sector. In December 2009, Euro-zone unemployment rate hit 10%, the highest rate recorded in 10 years.

Euro-zone annual inflation rate was 0.3% in 2009, due to low demand and high base comparison from 2008. The annual inflation rate dipped into negative territory from June to October, before turning positive in the last two months of the year.

During 2009, the economic activity in the U.S. was volatile and at opposite directions during both halves of the year. The first half of the year was characterized by rapid contraction, whereas the second half recorded economic growth. However, over the whole of 2009 GDP decreased by 2.4% compared to 2008. The main drivers to this decline were consumer spending, aggregate investments and exports, which decreased by 0.6, 23.5 and 9.9% respectively in annual terms. On the other hand, federal government outlays rose by 1.9% in annual terms, while imports, which have the opposite effect on GDP calculation, decreased by 14.3%. During 2009, the Federal Reserve pursued a loose monetary policy, not only through interest rate cut, but also through injecting backup liquidity into the market, helping commercial banks improve their balance sheets and grow the lending potential. Inflationary pressures dampened over the year thanks to low energy prices of raw materials and weak aggregate demand. Average annual inflation for 2009 was negative, -0.4%. By contrast, unemployment rate picked to 9.3%, from 5.8% it was in the previous year.

Table 1 Some key macroeconomic indicators

	GDP change			Unemployment rate	Average inflation rate		
	2008	2009	2010[1]	2009	2008	2009	2010[1]
USA	1.3	-2.4	1.5	9.3	3.8	-0.4	1.7
Euro-zone	0.8	-4.0	0.7	9.4	3.3	0.3	1.1
Germany	1.0	-5.0	1.2	7.5	2.8	0.2	0.8
United Kingdom	0.6	-5.0	0.9	7.6	3.6	2.2	1.4
France	0.4	2.2	1.2	9.4	3.2	0.1	1.1
Japan	-1.2	-5.9	1.6	5.1	1.4	-1.3	-0.7

Source: EUROSTAT, Respective Statistical Institutes

[1] European Commission's EEF, Autumn 2009

- *BRIC ECONOMY*[2]

In the course of 2009, mainly in the first half of it, BRIC countries experienced the effects of the global economic crisis, which conditioned the economic performance of emerging economies. These effects were reflected differently in the economies of these countries. In China and India, GDP growth rates moderated significantly during the first half of the year, as a result of weakening external demand and declining investments in domestic economies. The economic activity recovery was helped by various fiscal and monetary incentives taken by governments of these countries. In this way, the economies of India and China expanded by 7.2 and 8.7% respectively, compared with 2008. By contrast, the economies of Russia and Brazil, influenced by the price cut in raw materials and energy, recorded contraction of their economies in the course of this year. Contraction was more concentrated in the first half of the year, whereas the rest of the year recorded economic growth on a quarterly basis. The corresponding average inflation rates went downward during 2009 in Russia, Brazil and China. Over the year, the central banks of Brazil and Russia pursued a loose monetary policy, lowering the basic policy rate, while the central banks of China and India increased the required reserve for the second tier banks, in an effort to prevent any potential inflationary spirals.

Countries	Annual real GDP change			Annual inflation		
	2008	2009	2010[1]	2008	2009	2010[1]
Brazil	5.1	-1.7[2]	3.5	5.6	4.9	4.1
Russia	5.6	-7.9	1.5	14.1	11.7	9.9
India	7.3	7.2	6.4	8.3	8.7	8.4
China	9.0	8.7	9.0	5.9	-0.7	0.6

Table 2 Some key macroeconomic indicators for BRIC countries

Source: IMF, OECD, Respective statistical institutes

[1] *IMF, WEO estimates, October 2009*

[2] *Average rate for the first three quarters of 2009.*

- *THE ECONOMY OF THE COUNTRIES IN THE REGION*

The countries in the region were faced with the effects of the global financial crisis, which triggered respective GDP contractions in 2009. Aggregate investments and exports were the key indicators mostly influenced by this adjustment. Rising unemployment in the region triggered the decline in domestic demand and inflation rate.

In Italy, Gross Domestic Product contracted by roughly 4.8% in 2009. Dampened domestic demand and accelerated decline in aggregate investments were two main factors triggering this performance. In Italy, the accelerated paces of economic downturn were concentrated on the first half of 2009, whereas the Greek economy deteriorated during the second half of the year. The decline of GDP in Greece, combined with macroeconomic structural vulnerabilities, triggered the widening of budget deficit to four times higher than the threshold specified under the Maastricht Treaty[3]. Turkish economy contracted by 5.8 per cent in 2009 compared with 2008, due to the decline in domestic demand and exports. The Former Yugoslav Republic of Macedonia posted contraction of economic activity, as a result of the decline in consumer spending and exports.

Ensuing the economic downturn, unemployment rate picked up in Greece, Italy and Turkey in 2009. Due to the sluggish domestic demand, the average inflation rate fell in all these countries, compared with the same indicator for 2008.

Countries	GDP change			Annual inflation			Unemployment rate
	2008	2009	2010[1]	2008	2009	2010[1]	2009
Italy	-0.9	-4.8	0.7	3.5	0.8	1.8	7.8
Greece	3.0	-2.0	-0.3	4.2	1.3	1.4	9.5[4]
Macedonia	5.5	-2.0[2]	1.5	8.3	-0.8	1.1	32.1[3]
Serbia	5.5	-2.9	1.5	12.9	7.8	7.2	15.5[5]
Croatia	2.4	-5.8[2]	0.2	5.8	2.2	3.0	14.9
Turkey	0.9	-5.8[2]	2.8	10.5	6.3	5.6	14.1[4]
Kosovo	5.4	:	:	9.4	-2.4	:	:
Albania	8.0	5.1[3]	2.2	3.4	2.2	2.0	12.7[3]

Table 3 Economic indicators for the region countries

Source: Respective Statistical Institutes, Eurostat, EcoFin, IMF

[1] *IMF, WEO estimates, October 2009, and European Commission's EEF, Autumn 2009*

[2] *European Commission's estimates, Autumn 2009*

[3] *Arithmetic mean, first three quarters of 2009.*

[4] *Arithmetic mean, January-November 2009.*

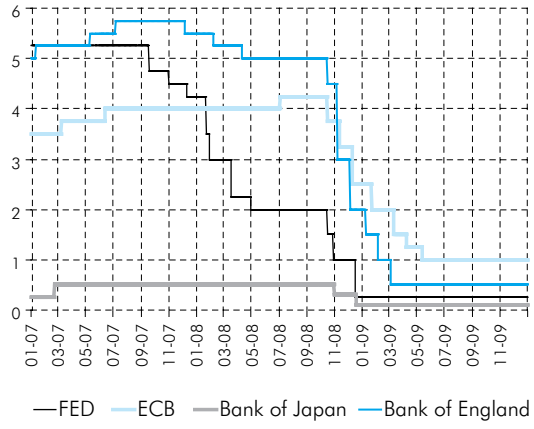
[5] *Arithmetic mean, January – October 2009.*

Unavailable data.

I.2. MONETARY POLICY AND FINANCIAL MARKETS

During 2009, the main central banks pursued loose monetary policies, in order to promote lending activity that had dropped sharply due to 2008 financial crisis. The European Central Bank cut its key rate four times in 2009, to a record low of 1%, down from 2.50 per cent at year-start. The last interest rate cut occurred in May. The Bank of England cut its key rate thrice, by 0.5 p.p, to 0.5%. Being at record low level, it is kept unchanged since March 2009. The Federal Reserve and the Bank of Japan, having restricted room for easing the basic policy rate, kept it unchanged throughout 2009. The basic policy rates for these banks were respectively 0-0.25 and 0.1%.

Chart 1 Basic policy rate performance



Source: ECB, FED, Bank of England, Bank of Japan

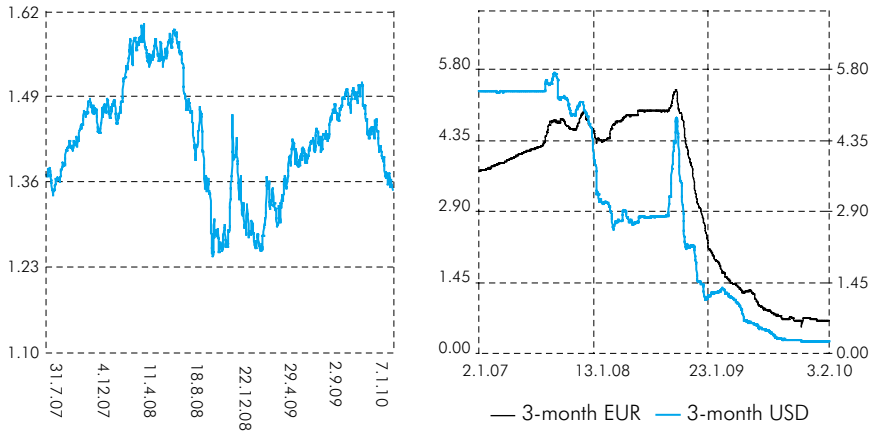
During 2009 the global financial markets were characterized by lower interest rates and normalisation of tensions induced by the prolonged crisis of the previous year. The positive signs coming from the main economies showed an improvement of many economic indicators and global financial markets. In the second half of the year, the main developed and emerging economies recorded positive growth rates and the global confidence and trade indicators recorded ongoing recovery signs. Financial markets showed a positive performance and a moderate volatility. However, many temporary stimuli that supported this positive performance advise for a more prudent interpretation of indicators. Inflationary pressures were contained during most of the year, enabling the pursuit of loose monetary policies by the main central banks.

Libor and Euribor money market rates dropped sharply in 2009, transmitting the ECB's and Fed's key interest rate cut. One-, three-, and six–month Euribor rates decreased by an average of 2.51, 2.58 and 2.37 p.p., during this period, as compared with the previous December, whereas the 3-month Libor rate decreased by 1.58 percentage point. Although the interbank market interest rates showed a downward performance, the uncertainty and risk perception by market agents were not over yet and the risk premium suggest a prudent stance related to long-term maturities.

European bond market was highly volatile in 2009, whereas the U.S. yields picked up during this period. Yield rise was more apparent in April, to be more contained in the following months. Rising pressures were triggered by increased bond issuance by the governments of these countries, where economic recovery reinforced the opinion for a possible rise in basic policy rates in the medium run.

In 2009, Euro was highly volatile in foreign exchange markets and appreciated against the U.S. dollar, while in annual terms it settled at lower levels than in the previous year. The economic performance and macroeconomic indicators

Chart 2 12-month USD and Euro Libor rates (left) and the euro/dollar exchange rate (right)



Source: ECB, Bloomberg

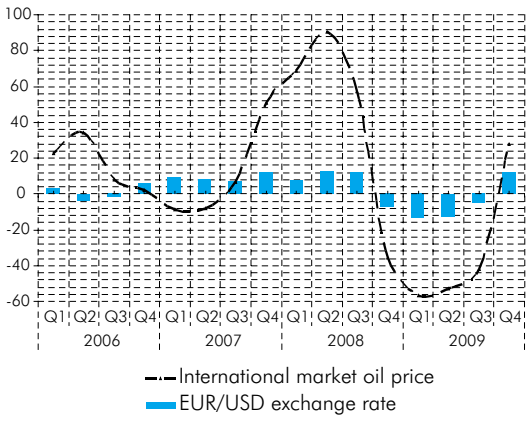
influenced the respective volatility and appreciation of one currency against another one. Euro appreciated against the British pound, while it lost terrain against the Japanese Yen. The euro depreciated by 5.17% against the dollar compared with the previous year.

I.3 PERFORMANCE OF BASIC COMMODITY PRICES

International oil price was buoyant in 2009, directly affected by the performance of economic activity in advanced economies. The average oil price of USD 61/bbl dropped by approximately 38.7% related to 2008. The weakening of aggregate demand and the decline in industrial production in developed economies were key drivers of oil price cut per barrel. By contrast, the U.S. dollar's appreciation against some major international currencies in 2009, and the measures applied by OPEC to control oil production, gave upward impact on international oil price. International oil demand resulted 1.6% lower than in 2008. Also, oil supply went downward, being decreased by about 3.7% compared to the total supply for 2008.

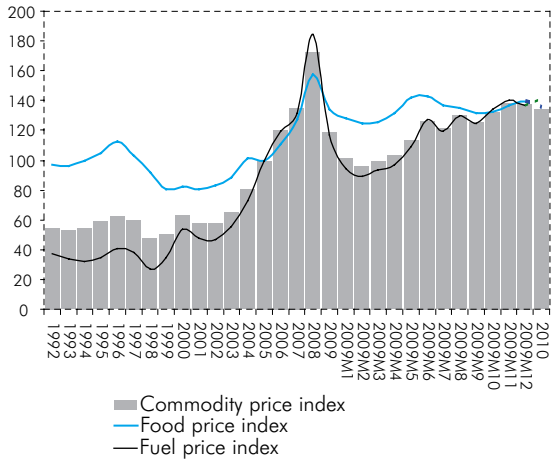
In average terms, the basic Commodity Price Indexes in 2009 reflected lower rates than those of 2008, primarily due to high prices noted in the first half of 2008. If we analyse price performance throughout 2009, an upward trend is noted, fuelled by gradual improvement of global economic conditions and increased demand for these commodities. Fuel Price Index recorded the fastest rise during 2009 by 44.7%, while Commodity Price Index and Food Price Index rose by 36.2 and 9.1%,

Chart 3 Annual international oil price change and the Euro/USD exchange rate



Source: Eurostat, EIA

Chart 4 Performance of Commodity Price Index



Source: IMF

respectively. Despite this performance, compared with the previous year, the Commodity Price Index decreased on average by 31% , the Fuel Price Index decreased by 36.9%, whereas the Food Price Index decreased by 14.7%.

ENDNOTES

[1] According to IMF data, the world economic growth for 2009 was -0.8%; - 3.2% for developed economies, and 2.1% for developing ones.
[2] BRIC countries are Brazil, Russia, India and China.
[3] Budget deficit was 12.7% of GDP, whereas public debt was about 113% of GDP for 2009. For 2008, the budget deficit was respectively 7.7 and 99.2% of GDP. The Maastricht Treaty defines the maximum threshold for the budget deficit to 3% of GDP and for the public debt to 60% of GDP.

1 lek. Nickel coin, issue of 1930.

CHAPTER II ALBANIAN ECONOMY

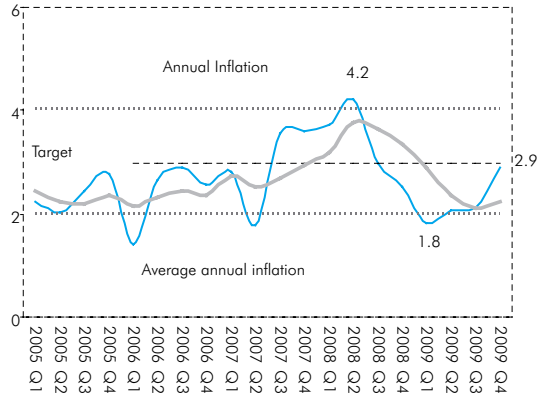
II.1. PRICE STABILITY AND THE BANK'S PRIMARY OBJECTIVE

The Bank's Core Purpose is to achieve and maintain price stability. Price stability is the biggest contribution that central banks can make, to ensure a sustainable and long-term growth through promoting long-term investments, enhancing efficiency of funds allocation in the economy and providing support to financial stability. In line with its strategy, the Bank of Albania is committed to achieving and maintaining a 3.0% annual inflation rate, with a tolerance band of + / - 1 percentage point. Announcement of the quantitative inflation target is aimed at anchoring economic agents' expectations and reducing inflation risk premium.

II.1.1. CONSUMER PRICE PERFORMANCE, TARGET MEETING AND MONETARY POLICY

The country's macroeconomic developments during 2009 were influenced by the global crisis. Although the world economy showed recovery signs in the second half of the year, the economic activity remains well below its pre-crisis level. Against this international scenario, Albania's economic growth decelerated, as a result of the sluggish domestic and external demand, tightened liquidity conditions and reduced foreign currency inflows. These developments were accompanied by subsiding inflationary pressures.

Chart 1 Annual inflation* settled close to the target as at end 2009



* By quarters, (in percentage)
Source: INSTAT and Bank of Albania estimates

Annual inflation in 2009[1] was within the tolerance band of + / -1.0 percentage point, around the Bank of Albania's price stability target of 3.0%. The tendency to subdue inflationary pressures noted since the second half of 2008 was over in the first quarter of 2009 - annual inflation hit the lowest rate, 1.8% over this period - and stabilized close to the lower limit of 2.0% in the next two quarters. In the fourth quarter, annual inflation showed an upward trend, averaging 2.9% and converging towards inflation target. Inflation rate peaked by 3.5% in December.

Low headline and core inflation rates – averaging respectively 2.2 and 1.3% in 2009 – reflected the base effect from the comparison with high prices of the previous year[2] and the subdued domestic inflationary pressures in the

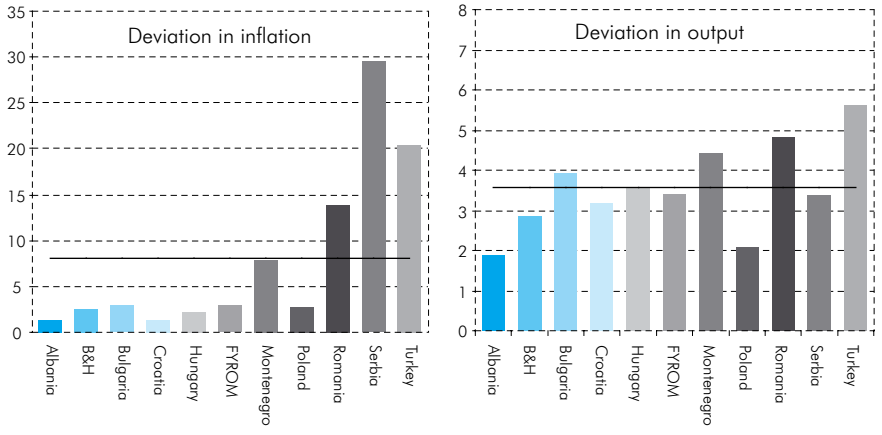
context of economic slowdown and lack of administered price rise. On the other hand, the pass-through to consumer prices[3] provided a considerable impact and managed to balance the downward pressures from expansion of the negative output gap[4].

The economic activity decelerated progressively during 2009. According to preliminary data of INSTAT, the economic growth for the first nine-month period of 2009 was 4.9%, about 2.9 percentage points lower than the average growth for 2008. Annual GDP growth shrank by 5.4% in the first quarter to 4.1 per cent in the third quarter. Among the aggregate demand components[5], private investments reflected the main shock of the global financial and economic crisis, whereas consumer demand decreased in the third quarter. The low availability of domestic and foreign resources to finance consumer spending and business investment projects, and high uncertainty about the future have contributed to shrinking the private investments and raising the tendency of consumers to save. Net exports shrank by 7.6 per cent on average in 2009.

During 2009, the monetary policy pursued by the Bank of Albania aimed at creating appropriate conditions for a balanced development of economy under a high uncertain setting. The Bank of Albania took the decision to cut the basic policy rate twice, in January and October 2009, down to 5.25%, from 6.25% at the end of 2008. The loose monetary stance was followed by exchange rate depreciation and liquidity injection by the Bank of Albania. The pursuit of a loose monetary policy was motivated by subdued inflationary pressures, clear signals for aggregate demand slowdown and low capacity utilization rate in the economy. Meanwhile, inflation forecasting and agents' expectations related to it, remained anchored close to Bank of Albania's target.

In addition to loose monetary stance, fiscal stimulus has also supported the positive growth rates over this year. Due to better coordination of

Chart 2 Inflation and output[6] volatility in Albania – the lowest in the region



Source: IMF Outlook Database, October 2009

macroeconomic policies, inflation and output volatility in Albania was the lowest in the region over the period of 2000-2009. Monetary policy has been successful in meeting its principal objective (the average annual inflation for said period is 2.7%), thus helping create a favourable economic environment for the private sector to make decisions about consumption and investments, which would support a sustainable economic growth.

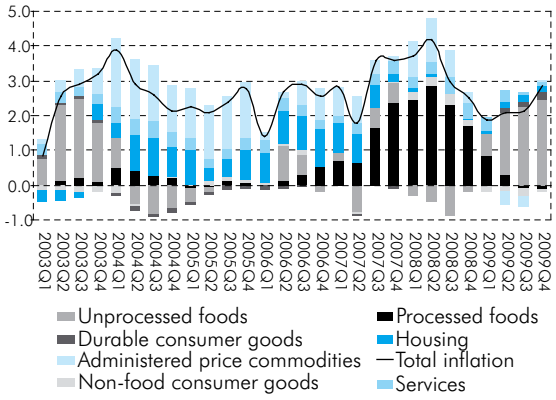
II.1.2. PRICES OF CORE CPI BASKET ITEMS

Annual inflation, though at low levels compared to the previous year, showed an upward quarter-on-quarter trend for 2009. The inflation rise at the end of the year was triggered chiefly by the full pass-through to consumer prices, in the presence of upward raw materials prices in the global markets. Relative to the previous year, inflation was 1.2 percentage points lower, caused chiefly by the base effect and downward pressures due to output gap expansion.

Constituent component analysis highlights "Unprocessed foods" as the item providing the main impact on headline inflation. This item's inflation increased at higher paces, accounting for an average of 82% to headline inflation. Meanwhile, other consumer basket items contributed less to the formation of this rate.

Annual inflation rise of "Unprocessed foods" averaged 9.9% in 2009. The prices of these products rose progressively over the course of the year. In December, the annual inflation of this item peaked at 15.1%, contributing by 2.8 percentage points to the 3.5% headline inflation of this month. This item's inflation is driven mainly by fruit and vegetable prices, which are highly seasonal and volatile. The insufficiency of domestic products to meet the demand for these goods during the second half of 2009, and the increased cost of imports, when prices of these goods were affected by the pressure of exchange rate behaviour - the lek's depreciation against two major market currencies - were translated into higher prices for them. Also, the seasonal behaviour of unprocessed food prices during December picked up the inflation rate by several percentage points.

Chart 3 Contribution of "Unprocessed Foods" (82% on average) to annual inflation for 2009 (in percentage points)



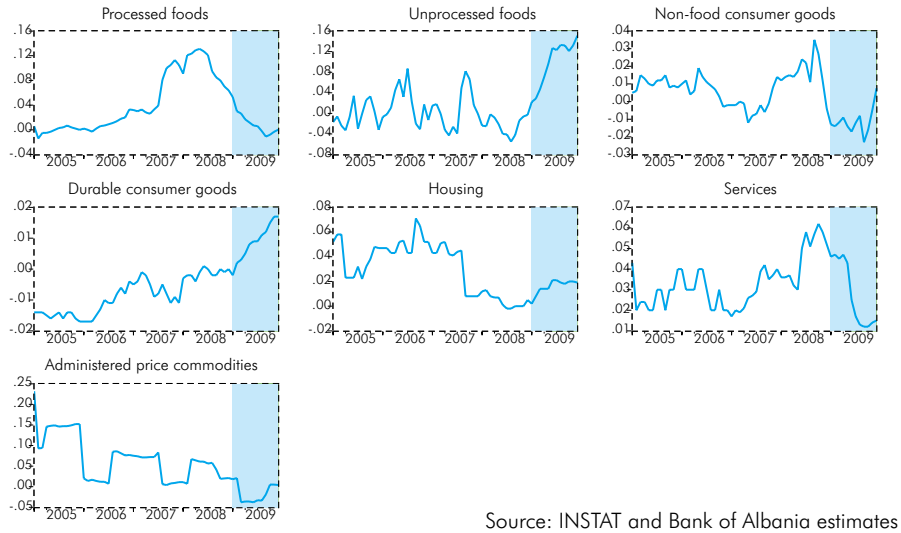
Source: INSTAT and Bank of Albania estimates

The "Processed foods" item recorded a price decline during 2009, reflecting a completely different performance compared with the previous year. Its average inflation rate was 1.1% in 2009, down from 10.3% in the previous year. The contribution of this item to average headline inflation was 0.3 percentage points (compared to 2.3 percentage points in 2008). This item's low inflation rates were driven mainly by base effects from the comparison with the high rates of 2008. On the other hand, the annual price cut of basic

foods in the international markets balanced the pass-through of exchange rate depreciation. The reverse move of these prices abroad – slight upward trend on monthly terms noted in the second half of 2009 – would increase the contribution of this item to headline inflation in the presence of the lek's depreciating trend.

The prices of "Administered price commodities" reflected an unusual behaviour in 2009. For the first time in ten years, this item's annual inflation was negative (-2.2% on average) until September. Deflation of administered price commodities was an outcome of non-rise in electricity price and fall of mobile phone tariffs in 2009. In the last three months of the year, annual inflation of this item increased slightly by 0.5%, giving a positive contribution by 0.1 percentage points against the negative contribution (roughly -0.4 percentage points) of this item to headline inflation rate.

Chart 4 Annual inflation by goods and services items (in %)



Source: INSTAT and Bank of Albania estimates

Among other items, the contribution of "Services", "Housing" and "Durable consumer goods" items has fluctuated within the range of 0.1 - 0.2 percentage points to annual inflation rate, recording the lowest historical rates of inflation rise.

Prices of "Non-food consumer goods" continued to negatively affect the headline inflation (-0.1 percentage points). However, the fall of inflation rate of the sub-item *"Services to personal vehicles"* (wherein oil is part of), was not as pronounced at year-end as it was in the one-year period starting from November 2008. Moreover, for the first time in December, the fuel prices picked up by 4.4% on an annual basis, from the average 11.5% drop during the period of December 2008 - October 2009.

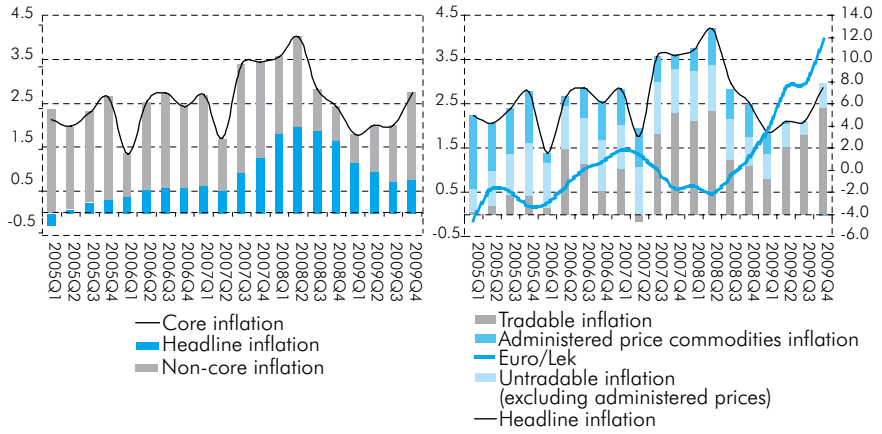
- *MAIN INFLATION TREND*

In 2009 the contributions of core and non-core inflation to annual headline inflation were presented at a different profile compared with that of two

previous years. Inflation-forming process during the reference year is mostly attributed to short-term consumer price volatility, materialised principally in non-core inflation. Its average contribution marked 1.3 percentage points, accounting for about 60% of the average annual inflation rate. The high and upward non-core inflation rates during the last months of 2009 indicated the presence of mostly supply-side pressures, less dependent on monetary policy impact.

The contribution of core inflation - long-term constituent of inflation - resulted about 0.9 percentage points, at low and downward rates by the end of the year, reflecting the impact of moderate domestic demand-side pressures at home. Year 2009 started with an annual core inflation[7] of 1.8% to later close at 1.2%. On average, this indicator recorded about 1.3%[8] or 1.5 percentage points lower than that of the previous year.

Chart 5 Inflation formed principally from rising contribution of non-core constituent and from tradable sector. Intensification of the lek's exchange rate pass-through*



* The charts show annual changes of indicators. Annual Euro / Lek exchange rate, on the right axis of the corresponding chart.
Source: INSTAT, Bank of Albania estimates

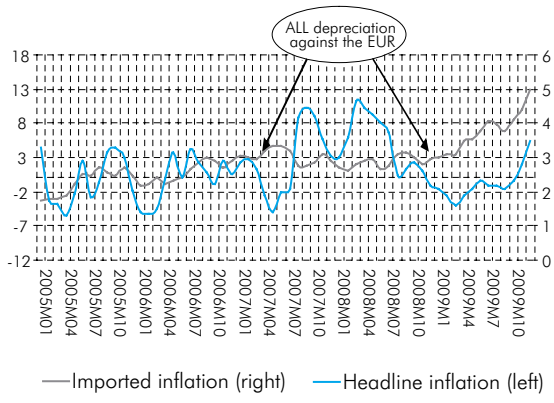
Average annual inflation of tradable and non-tradable sectors of the CPI basket for 2009, was respectively 2.7 and 1.6%. Contributions of both inflations to headline inflation were relatively comparable to each-other until first-quarter end of 2009. The following period was characterized by rising inflation rates of tradable goods, peaking at year-end (by 5%). On the other hand, until mid 2009, the non-tradable inflation reflected the cancelling out of price rise in electricity and public transport service. Moderate price volatility in this sector determined the record low level of corresponding inflation, which settled around 1% in the second half of the year. The performance of non-tradable inflation balanced somehow the inflationary pressures generated from rising prices of tradable goods sector and services of the CPI basket. For reference, the contribution of this sector's inflation to headline inflation resulted about 73%, while in 2007-2008 it was around 50%. The perennial depreciating behaviour of the national currency against the euro and dollar led to import price rise. This pass-through was more complete in the fourth quarter of 2009.

Low rates of core inflation and non-tradable inflation reflect the moderate domestic demand-induced inflationary pressures during 2009.

- *IMPORTED INFLATION*

The low level of import prices[9] in 2009 reflected the favourable conjuncture of raw materials prices in the international market, global economic contraction and statistical effect of comparison with a very high price level recorded in the previous year. In Italy and Greece, consumer prices picked up by 0.8% and 1.2% respectively in annual average terms. Inflation rates of these countries are about three times lower than their historical average.

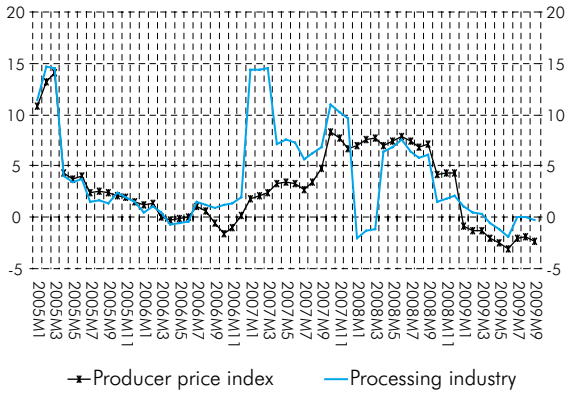
Chart 6 Full pass-through to consumer prices, principally in Q4 of the year



Source: Bank of Albania, Statistical Institutes of Italy and Greece

Notwithstanding the low foreign prices, imported inflation[10] edged up, due to the lek's depreciation over 2009. The imported inflation rate recorded an average growth of 6.9%, while its historical average (1999-2008) is 2.4%. During 2009, the lek depreciated on average by 7.6% and 13.2% respectively against the euro and the dollar. The pass-through to consumer prices was weak during the first nine months of the year. Based on empirical studies[11], the pass-through to consumer prices is almost full with a three-quarter lag. This behaviour was not evidenced during 2009. The domestic demand slowdown did not enable the full pass-through. The deteriorating financial situation of businesses operating in the services sector, including imports, indicates that this depreciation was absorbed by the reduction in their profit margin.

Chart 7 Producer costs decreased without exerting any inflationary pressures



Source: INSTAT and Bank of Albania estimates

- *PRODUCER PRICE, LABOUR COST AND PRODUCTIVITY*

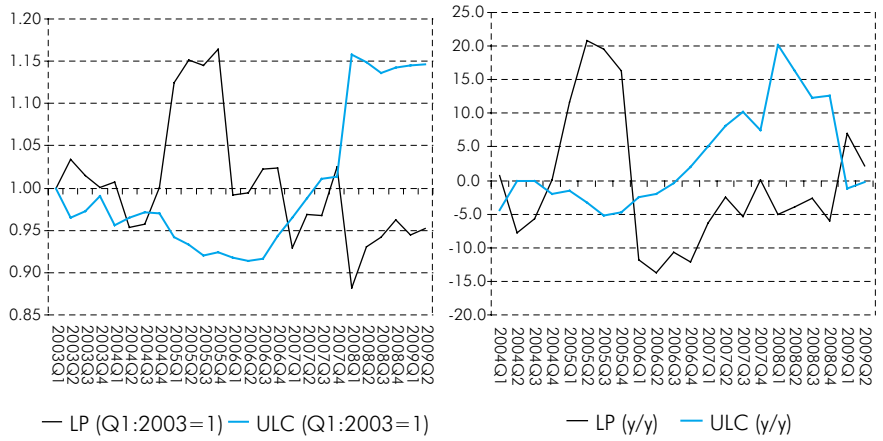
Producer Price Index, which reflects the business costs in production, declined during the first nine months of 2009. It recorded a 1.9% decline in annual average terms during this period. Deflation of these prices is triggered by the considerable decline in raw materials prices in international markets and moderate wage growth. However, the third quarter of the year highlighted a deceleration at the price cut rate, due to the depreciating exchange rate trend and slight rise in monthly terms of raw materials prices abroad.

The price index of "Processing industry" – the industrial item with the largest share in the PPI basket – fell by about 0.2% in annual terms during the first nine-month period of 2009. This decline was driven principally by cost reduction in "Food industry" sub-item. Producer price cut of this sub-item was

on average 4.2%, easing the price pressure of these products on CPI basket. Producer price index for "Extracting industry" and "Industry of electricity, gas and water generation and distribution" increased respectively by 2.4% and 0.7% relative to the same period of the previous year.

The slowdown in wage growth rate in nominal and real terms during 2009 signals dampened inflationary pressures from the labour costs. The real labour productivity (LP) and unit labour cost (ULC) in the economy[12] have shown a clear trend following 2006. The average annual growth rate of LP was 4.6% for the first half of 2009, mitigating the upward trend induced by the real wages growth to unit labour cost. The latter is assessed to have fallen for the same comparative periods (-0.7%), mostly due to the cancelling out of administrative measures taken during the first half of 2008, intending to increase formality in the economy.

Chart 8 LP growth rates and the ULC sustainability



Source: INSTAT (short-term statistics and quarterly GDP) and Bank of Albania estimates

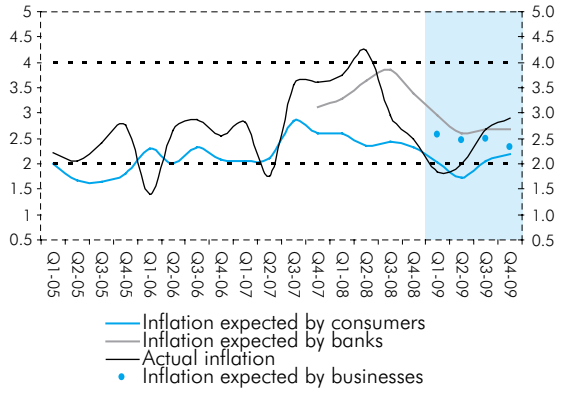
It is assessed that the above developments have not pushed inflationary pressures up on the labour-cost side in the country's economy.

- *INFLATION EXPECTATIONS*

One of the monetary policy goals is to control and anchor inflation expectations to meet the price stability objective. Expectations of various market actors on inflation influence their behaviour in the future, generating economic consequences. Inflation expectations in the short run are also a good indicator of monetary policy credibility in the country. Given their importance, measuring of inflation expectations by various groups within the economy is done periodically by the Bank of Albania, through business and consumer confidence surveys, as well as through bank expert surveys.

Successful implementation of Bank of Albania's monetary policy is based on anchoring public inflation expectations, thanks to a long history

Chart 9 Consumer, business and bank expectations for inflation after one year remain around 2% – 4%



Source: Confidence and bank surveys

of low inflation[13] and pursuit of a transparent and independent monetary policy. 2009 inflation expectations were characterized by low positive values within the range of 2-4%.

Inflation expected by consumers recorded low rates during 2009. This behaviour has been observed since the beginning of measuring inflation expectations. Consumer expectations for inflation after 12 months, after achieving the lowest annual rate for the second quarter (+1.7%), rose respectively to +2% and +2.2% during the last two surveys in 2009. Meanwhile, business expectations for inflation after a year have remained almost unchanged, at around +2.5%.

The inflation rate expected by bank experts during 2009 continued to mark higher rates than the one expected by both other groups. These rates are lower compared with those recorded during the previous two years. Out of aggregation of probability with which banks estimate different expected inflation rates, there results less risk for inflation to overshoot the targeted range in 2009 relative to the previous year.

II.2 MACROECONOMIC HIGHLIGHTS

The crisis that hit the world economy was reflected in our country through reduced growth rates during 2009. Data on aggregate demand at home suggest that the sluggishness of private consumption, coupled with declining investments, have been the main drivers to the sluggish demand growth at home.

Table 1 Key economic indicators in years

	2002	2003	2004	2005	2006	2007	2008	2009
Real GDP (in %)[14]	4.2	5.8	5.7	5.7	5.4	6.0	7.8*	4.9*
GDP (at current prices, in ALL mln[15])	622,711	694,098	750,785	814,797	882,209	966,651	1,087,867*	1,143,373*
GDP (at current prices, in USD mln[16])	4,444.8	5,694.0	7,303.4	8,156.1	8,993.0	10,693.0	12,966.2*	12,035.5*
GDP (per capita in USD)	1,437	1,831	2,336	2,597	2,854	3,394	4,073*	3,765*
Number of employed persons (in thousand)[17]	920	926	931	932	935	966	974	972*
Unemployment rate	15.8	15.0	14.4	14.2	13.9	13.5	13.2	12.8*
Inflation rate (y-o-y)	1.7	3.3	2.2	2.0	2.5	3.1	2.2	3.5
Budget deficit (including grants, as a share of GDP)	-6.1	-4.9	-5.1	-3.5	-3.3	-3.5	-5.5	-7.0
Public debt (as a share of GDP) [18]	62.9	58.9	56.5	57.4	56.1	53.5	54.8	59.5
External debt (as a share of GDP)[19]	21.0	18.4	17.2	17.3	16.5	15.2	17.9	23.1
Current account (excluding official transfers, as a share of GDP)	-10.3	-9.0	-6.8	-10.0	-7.3	-11.4	-15.8	-15.6
ALL/USD average exchange rate	140.1	121.9	102.8	99.9	98.1	90.4	83.9	95.0
ALL/Eur average exchange rate	132.4	137.5	127.6	124.2	123.1	123.6	122.8	132.1

** Preliminary estimates.*

Source: INSTAT, Ministry of Finance, IMF, and Bank of Albania estimates.

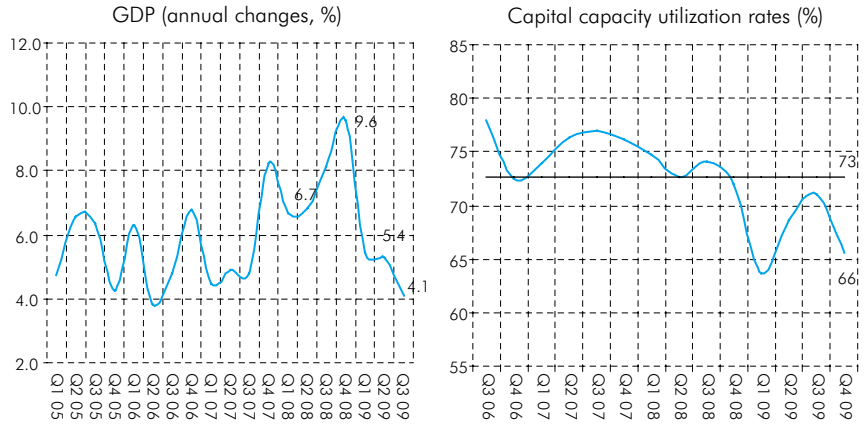
The fiscal stimulus, coupled with the loose monetary stance, supported the economy in generating positive growth rates, though at lower paces than in the previous years. The slowdown in the demand and the economic activity brought about slight rise in unemployment. The impact of supply and demand factors resulted in expanding the negative output gap, exerting downward pressure on inflation.

II.2.1. GROSS DOMESTIC PRODUCT AND AGGREGATE DEMAND

Annual Gross Domestic Product[20] growth rate was 4.9% during the first nine-month period of 2009, slowing from 5.4% in the first quarter to 4.1% in the third quarter. A year ago the economic growth was 7.8%. In parallel with the plunge in external demand, production was also affected by shrinking private investments and contracting consumer demand.

Current data signal further slowdown in lending to the private sector, reduction in the pace of income tax on economic activity and decline in the confidence in all sectors of the economy for the fourth quarter[21]. Based on these indicators and on other qualitative information, the Bank of Albania deems that the growth of Gross Domestic Product in the fourth quarter is at minimum values. Taking into account the growth rates of the last three quarters and the information available for the fourth quarter, the Bank of Albania assesses that the real economic growth for 2009 is at about 3%.

Chart 10 Economic growth slowdown and low capacity utilization rates



Source: INSTAT (GDP) and Bank of Albania estimates (BCI)

- *AGGREGATE DEMAND COMPONENTS*

Information on the aggregate demand at home indicates its slowdown in 2009. Assessment of the extent of its slowdown is still uncertain for the fourth quarter. Meanwhile, net exports (external demand) narrowed by 7.6% in 2009, thus reducing the negative contribution to aggregate demand.

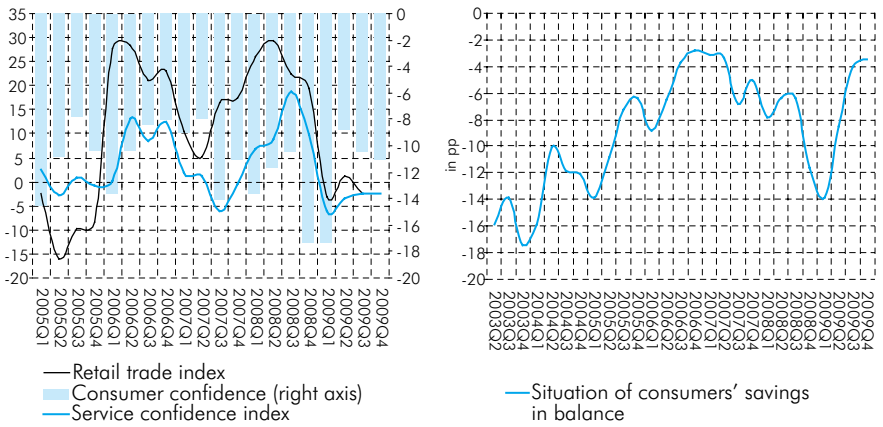
Private consumption is the main component of aggregate demand. The share of the final consumption of population to gross domestic product for the period of 1996-2007 is around 80%. Given the indirect data, private consumption slowed during 2009, in contrast to its historical growth rates.

Private consumption continued to be supported by the disposable income as the main source of its funding. Since income taxes have not changed, wages have continued to grow – though at lower rates than in 2008 – and inflation has settled at low levels. Disposable income has continued to grow during 2009. On the other hand, the reduction of inflows from remittances, curbing of credit to households and the exchange rate depreciating trend[22] have not helped finance consumption in 2009.

It comes out of consumer confidence surveys that household savings have been upward during the second quarter of 2009. The balance of household savings, whose trend was downward until the first quarter of 2009, rose sharply in the other three quarters. Currently, the balance of savings stands at a higher level compared to its historical average. The rise in consumer savings may be interpreted as a sign of increased prudence, in the conditions of economic slowdown, increased uncertainty about the future, and tight credit conditions.

Information on the performance of final consumption of the population in 2009 is based on quantitative data of retail trade and consumption of goods imported from abroad, as well as on qualitative data obtained from business and consumer confidence indices. Analysis of these data shows slowdown of consumption, especially during the second half of 2009. Retail trade index, which remained almost unchanged in annual terms in the first half of 2009, decreased by 2.3% in the third quarter of this year. For the first time since 2005, it recorded a negative growth rate, while the historical average of annual index changes (since the beginning

Chart 11 Reduced consumer demand and upward expectations for savings



Source: INSTAT and Bank of Albania

of its measurement in 1999) is 12.7%. On the other hand, the import of consumer goods continued to increase at high rates during the first nine-month period of 2009, compared to its historical growth. In the last quarter of 2009, this seasonally adjusted indicator dropped by 11.3%, compared to the fourth quarter of 2008.

The data from surveys support the quantitative information on slowed growth of private consumption at home during 2009. The consumer confidence index dropped sharply in the first quarter of 2009. Even after its improvement in the second quarter, consumer confidence index continued to record low negative values. The performance of confidence index on services sector was in line with the retail trade index in 2009. The level of this indicator dropped sharply in the first quarter of 2009 and continues to remain at lower levels than its historical average during the fourth quarter of 2009, signalling low levels of consumption during this quarter.

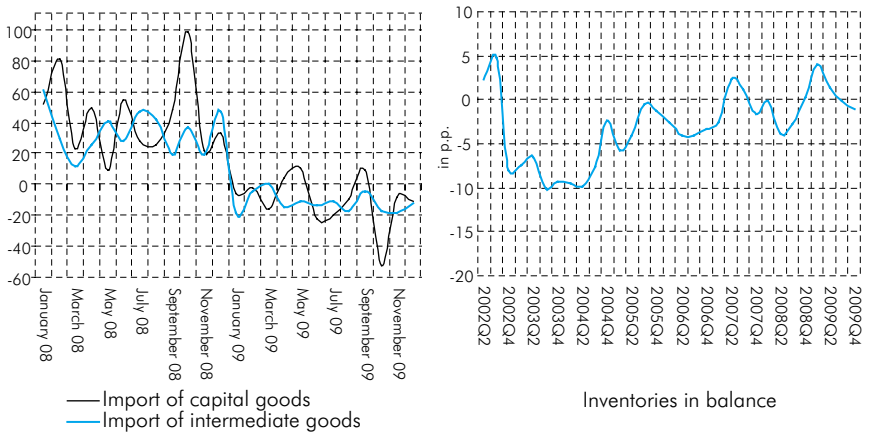
Public spending provided a positive contribution to aggregate demand in 2009. Government spending rose by 13% in annual terms. This rise is comparable to the public spending increase for 2008. The last quarter of the year highlighted the withdrawal of the fiscal stimulus, estimated from the reduction of expenditures made over this period. The public spending increased by 3% in annual terms during the fourth quarter, while the average annual rate at which it increased for the first nine-month period is 17.8%. Public spending was based on the rise of budget deficit, while public revenues marked a moderate annual increase by 2.7% in 2009.

Meanwhile, public investments edged up, averaging 1.4% in 2009. For the first nine-month period, public investments rose 104% in annual terms, whereas for the last quarter-end they dropped by 47%.

Private investments were more affected by the financial and economic crisis. The uncertainty about the economic situation, at home and abroad, the subdued domestic and external demand and the tightened lending terms resulted in contraction of private investments during 2009. Import of capital goods, which indirectly shows investments in the economy, decreased by 12.7% in 2009. Investment loans slowed markedly in 2009, increasing from 30% at year-start to 3% in December relative to the previous year.

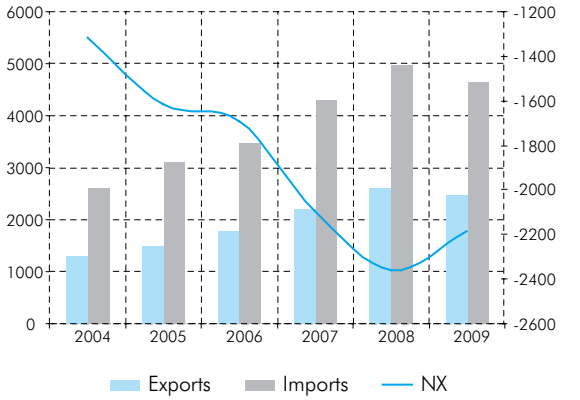
Information obtained from business confidence surveys indicates contracted investments in 2009. Qualitative indicators of business confidence surveys remain negative and downward. Most businesses (73%) do not expect to carry out investments during the last quarter of 2009 and first quarter of 2010, due to low current capacity utilization rate. Businesses in the manufacturing sector accumulated inventories during the first half of 2009, reversing the direction in the second half. The reduction in the stock of inventories has decreased the contribution of this item to investment component over the second half of the year.

Chart 12 Contraction of private sector investments



Source: INSTAT and Bank of Albania

Chart 13 Net exports have contributed negatively to the aggregate demand but at a lower rate than in the previous year (in Eur million)



Source: Bank of Albania

Net exports continued to give a negative contribution to aggregate demand during 2009, albeit at a lesser extent compared with 2008. They narrowed by 7.6% compared with previous year level.

During 2009, both imports and exports of goods and services decreased annually, respectively by -6.3% and -5.2%. Given the external sector structure[23], the decline in imports has offset the decline in exports, resulting in improved net exports. Import and export developments are affected respectively by shrinkage in domestic demand and the plunge in external demand.

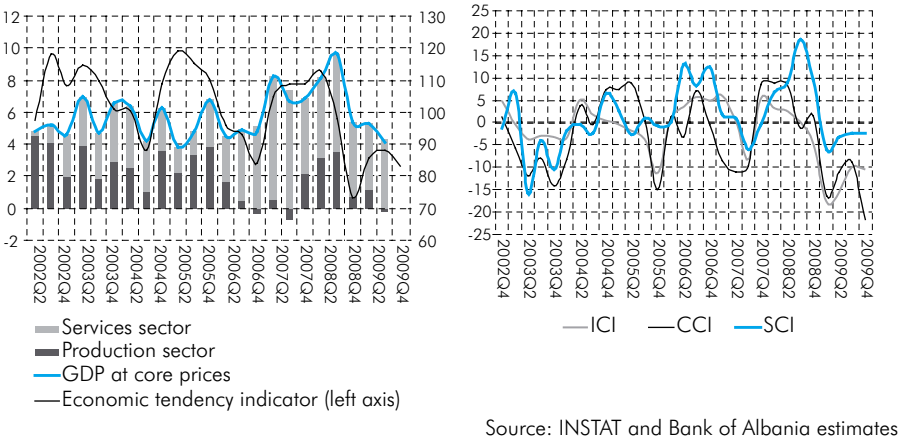
- *OUTPUT BY SECTORS OF THE ECONOMY*

Service sector output continued to be the main driver of generating positive domestic economic growth rate. The latest data from business and consumer confidence surveys indicate further economic activity slowdown even during the fourth quarter of 2009.

Production sector[24] slowed sharply during the first nine-month period of 2009, reducing its positive contribution to economic growth. This contribution is estimated to be about 0.6 percentage points, compared to 1.5 percentage points over the same period of 2008.

Within the production sector, the value-added from industrial sector to Gross Domestic Product was 5% lower in average terms than the one generated during the same period of 2008. The deterioration of industrial sector's performance was mainly triggered by the decline in external demand.

Chart 14 Sectors' contribution to annual GDP growth and economic tendency indicator (in pp, left chart) and performance of ICI, CCI and SCI (in pp, right chart)



Source: INSTAT and Bank of Albania estimates

It was reflected in the decline in exports and sales as a proxy for the turnover indicator in volume. Thus, exports of processed goods posted an annual decline of 12 per cent in average terms for 2009, compared to the two-digit rise in the previous year. The sales volume in the industrial sector decelerated its annual growth rate over the first three quarters, recording an average annual growth rate of 7.3% compared to 11.3% and 8.3% it was respectively in 2007 and 2008. The contraction noted in the processing industry was offset by expansion marked in "Energy, gas and water" sector, due to significant growth of domestic electricity generation.

Table 2 Slowdown of industrial output (annual changes, %)

	9M 2007	9M 2008	9M 2009
Industry	11.3	8.3	7.3
Extracting industry	21.8	2.0	-16.8
Processing industry	11.9	7.9	6.5
Electricity, gas and water	5.6	12.5	20.2

Source: INSTAT and Bank of Albania estimates

The latest data from surveys hint that during the fourth quarter 2009 the industrial sector maintained the same trend as in the third quarter. The industry confidence indicator decreased by 0.6 percentage points in the fourth quarter, somehow breaking the positive developments noted in the second and the third quarter of 2009. Currently, the industry confidence indicator stands at 8.4 percentage points below its historical average.

During 2009, the energy balance significantly improved in several core indicators relative to the previous year. These positive developments were materialised in increased generation, sharp descent in imports, and for the first time even export of electricity. During 2009, electricity generation increased by 34.1% in annual terms. The favourable hydro meteorological conditions at home made the domestic generation satisfy the domestic needs for electricity, without weighing on the trade balance. The exported electricity during 2009 was 486.4 GWh, whereas imports marked the lowest value since 2003.

Electricity loss to generation ratio deteriorated during 2009, recording 39.7%, from 26.6% in the previous year.

Table 3 Energy balance indicators

Energy balance indicators in GWh	2003	2004	2005	2006	2007	2008	2009
Production	4,904	5,491	5,451	5,550	2,947	3,835	5,140
Imports (-)	937.4	567.1	365.3	632.6	2,799.7	2,475.5	53.1
Exports (+)	0	0	0	0	0	0	397.4
Balance (exports-imports)	-937.4	-567.1	-365.3	-632.6	-2799.7	-2475.5	344.3
Received (-)	304.6	301.7	868.2	549.5	134.8	234.6	141.4
Given (+)	326.2	390.3	729.5	637.2	106.6	293.4	131.9
Balance (given - received)	21.6	88.6	-138.7	87.7	-28.2	58.8	-9.5
Total balance of exchange	-915.8	-478.5	-504.0	-544.9	-2827.9	-2416.7	334.8

Source: AEC

During 2009, electricity consumption grew by 5.7 per cent in annual terms, down by 3.8 percentage points relative to 2008. The increase in household and non-household consumption of energy, though positive, showed signs of deceleration in 2009. In line with the economic activity slowdown in the main sectors of the economy, the increase in business energy consumption resulted 1.3%, about 15.0 percentage points lower than in 2008.

*Table 4 Quantity of electricity consumption by users**

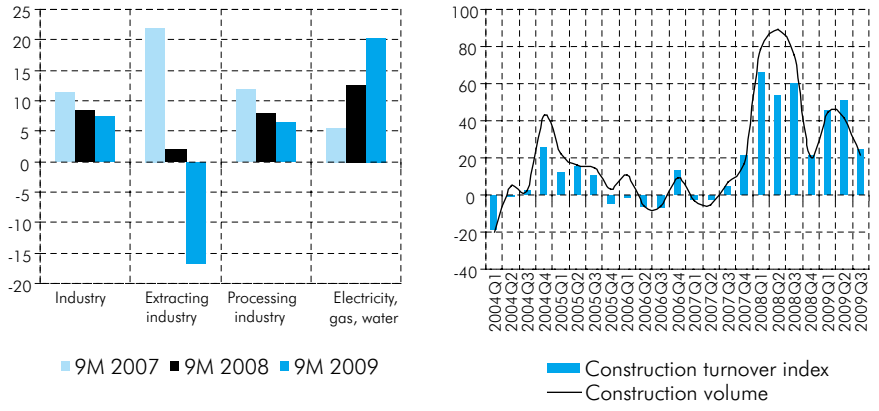
Indicators of electricity consumption in GWh	2003	2004	2005	2006	2007	2008	2009
Consumed energy	4,200.1	4,565.8	4,502.0	5,684.7	5,514.2	6,036.6	6,381.5
Non-billed consumption	708.2	888.7	988.9	2259.8	1873.3	1927.4	2117.1
Household consumption	2220.1	2234.2	2106.8	2121.6	2078.3	2291.9	2423.1
Non-household consumption	1271.8	1442.9	1406.3	1303.3	1562.5	1817.4	1841.2

Source: Electricity Distribution Company

** Data on electricity consumption are obtained from the Electricity Distribution Company, as the sole retail supplier of the electricity.*

Construction sector marked an average annual growth of about 5.2% in terms of the value-added in first three quarters of the year. Construction development dynamics speeded-up during the first two quarters of the year, offsetting the negative contribution of industrial activity to production sector.

Chart 15 Turnover volume[25] by industry branches (left) and turnover volume and construction volume (right, annual changes in percentage)



Source: INSTAT

More concretely, an annual growth of 6.7% and 9.7% was recorded respectively in the first and the second quarter, while in the third quarter the value-added in production reflected an annual moderate decline by 0.7%. High rates of annual growth in the first half of the year were largely driven by engineering constructions that are financed mostly from public sources. In the third quarter of the year, the turnover indicator of the volume of construction and of cement consumption signalled decelerated activity in construction, recording positive annual rates about twice lower compared to the respective average annual rates marked in the first three quarters.

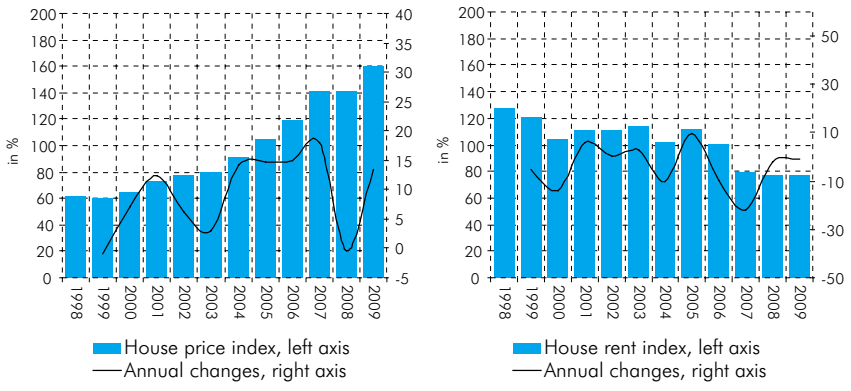
Construction confidence index shows slowdown over the course of 2009. In the fourth quarter of 2009, the aggregate index fell by 13 percentage points, at record low levels since the beginning of its measurement (second quarter 2002).

Box 1 Real estate price performance

Real estate market is characterized by increase of house selling prices and slight decline of house renting in 2009. House price performance over the year recorded a turning point, after the deceleration marked in 2008.

The country's real estate market during 2009 was characterized by a decline in the demand for house and a sustainable supply. The declining demand assessment was based on indirect quantitative and qualitative surveys. Thus, construction sector recognised that household demand for house purchase had declined. Decreased remittances and ongoing tightening policy by banks related to mortgage loans to households did not support the demand for house purchase. On the other hand, house supply remained stable. According to official data, the number of construction permits approved by Tirana Municipality during the first nine-month period of 2009 was comparable to those granted in 2008.

Chart 16 Rise in house selling process and slight decline in house rents during 2009

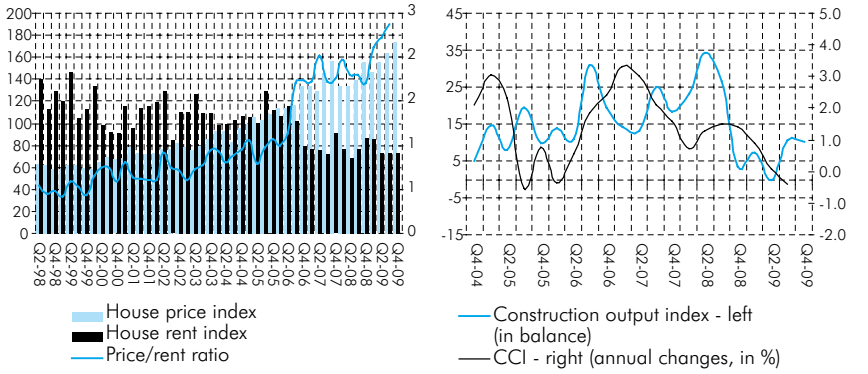


Source: Bank of Albania

The juxtaposition of the demand and supply in the market was not reflected in the house price performance in 2009; House Price Index picked up by 13.4% during the year. A year ago this change was -0.1%. House price rise over the year is attributed mostly to appreciation by 7.6% of the European currency, in which the house selling prices[26] are denominated. House Price Index has increased 2.6 times since the beginning of its measurement in 1998.

Construction costs show a slight falling trend in 2009, which started by the last quarter of 2008. Construction cost index, after recording a slight rise by 0.5% for the first half of 2009, fell by 0.4% in the third quarter, in annual terms. Based on the latest information from construction confidence survey, though producer prices experienced a slight rise in 2009, they still remain at low levels compared to their historical average. Developments in construction cost and producer prices were not reflected in the selling price.

Chart 17 Rise of price/rent ratio (left), producer price index (balance) and construction cost index (right)



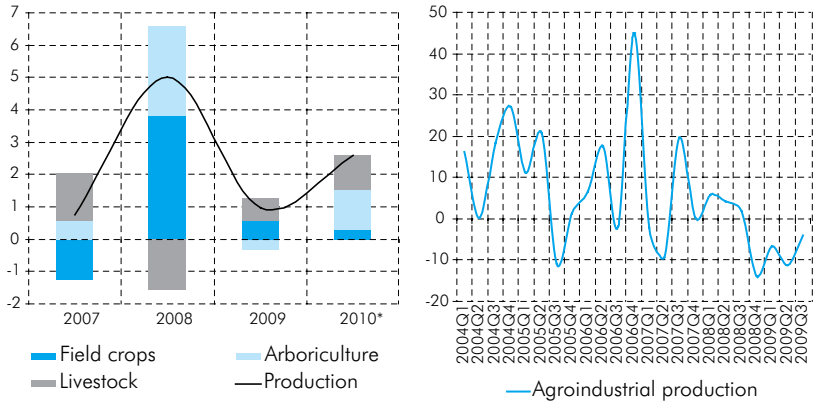
Source: Business and consumer confidence surveys, Bank of Albania

During 2009, the house rent index fell on average by 0.7% in annual terms. In contrast to the selling price performance, the house rent index dropped by 40% since the beginning of measurement. The selling to rent price index ratio, after a "quiet" period during Q4 2006 – Q4 2008, continued its upward trend again in 2009 (chart 17).

The value added generated by the agricultural sector grew on an average annual rate of about 2.4%, during the first three quarters of 2009, about 1.2 percentage points higher than the growth marked in 2008. As a result, this sector made a moderate contribution to annual growth of gross domestic product. Data from the Ministry of Agriculture, Food and Consumer Protection, attest to an annual growth of agricultural output[27] by about 1% in average annual terms for 2009, with the main contribution provided by the livestock sector. Agro-industrial production for the first three quarters of

2009, contracted on average by 7.3% in annual terms, compared with the high growth of 4% marked over the same period of 2008.

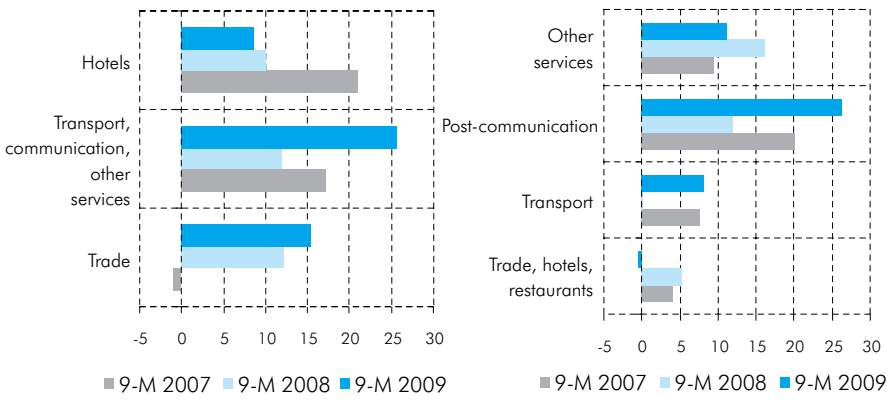
Chart 18 Sub-sectors' contributions to annual growth of agricultural output (left chart, in pp) and performance of agro-industrial production (right chart, annual change in %)



Source: Ministry of Agriculture, Food and Consumer Protection

The domestic demand slowdown slightly affected the performance of the service sector. The value-added generated by the sector made an average contribution to annual growth of GDP, which fluctuates around 4.4 percentage points for the first three quarters of 2009. For this period of the year, the value-added recorded the highest average annual growth rate on post-communication activities, about 26.3%. Communication (post) sector expanded its activity at higher annual rates over the third quarter of this year, about 34.3%. Acceleration of activity over this quarter was also noted in transport (about 15.5%) and in 'trade, hotels and restaurants' (about 6.4%). By contrast, activities included under "other services"[28] marked a lower value-added, about 2.3% in annual terms.

Chart 19 Turnover volume (left) and the value-added to gross domestic product[29] (right) by service activity



Source: INSTAT and Bank of Albania estimates

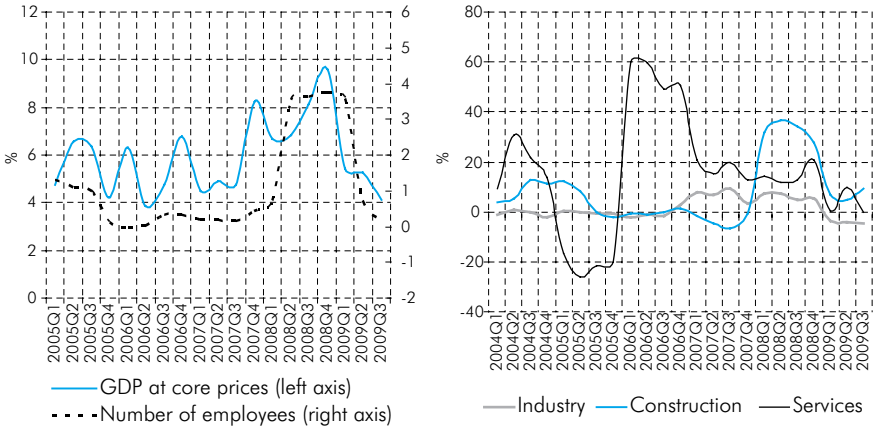
Service confidence, based on data from business confidence surveys related to this sector, appears less pessimistic than the other sectors. The confidence index related to businesses operating in the service sector, after falling sharply in the first quarter of 2009, remained steady over the other three quarters.

Based on survey data, the capacity utilization rate index shows the same trend in all sectors of the economy. In average terms for 2009, the capacity utilization rate in industry and construction has largely decreased, respectively by 8.5 and 6.1 percentage points compared with the average rate of 2008. In the service sector, this rate has decreased by 3.9 percentage points. Currently, the capacity utilization rate in the economy stands at 66%, about 7 percentage points below the long-term average, suggesting the existence of idle capacities in the economy.

- *LABOUR MARKET AND WAGES*

The trend of labour market index and intersectoral distribution of employment (data as of third quarter 2009) affected the economic slowdown over 2009.

Chart 20 GDP at base prices and the number of the employed persons (annual %, left chart) and employment index performance by economic activities (annual %, right)



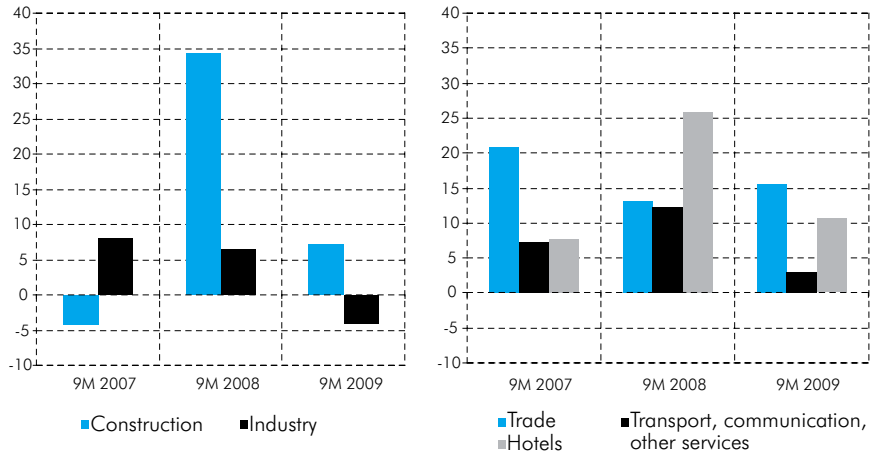
Source: INSTAT

Unemployment rate slightly increased during the first nine months of 2009. The slowdown of the annual growth rate of the number of the employed persons[30] - mostly in private non-agricultural sector, while no changes were recorded in the public sector - in addition to slight upward trend in the number of unemployed, resulted in rising unemployment rate, at around 12.8 per cent in the third quarter of 2009.

Employment index[31] for non-agricultural economic enterprises also reflected a slowdown of the domestic economic activity, reducing the average annual increasing rate to 1.5% during the first three quarters of 2009, compared to the average of 13.5% and 11.3% posted in the same period of 2008 and

2007. Contraction of industrial activity was reflected in an average annual reduction of employment in this sector, by about 4.1 per cent in the first three quarters of the year. During the same period, the number of the employed persons in construction sector rose on average 7.1% annually, a rate of about 5 times lower than the annual rate posted in three quarters of 2008[32]. Service activities also experienced decelerated annual rates regarding employment, posting an average annual increase rate of about 3%, 4 times lower relative to the first three quarters of 2008.

Chart 21 Employment index by economic activities*



*Annual average change for the first three quarters of each year, in percentage
Source: INSTAT

The survey data are in line with the trend noted in the labour market. In light of economic slowdown, the business demand for employees did not increase, thus resulting in relaxing conditions of the labour market[33]. This assessment, coupled with the low capacity utilization rate, suggests that the potential supply outstrips the demand and therefore, idle capacities have been created. This "excess" capacity exerts downward pressure on wages and inflation.

WAGES IN THE ECONOMY

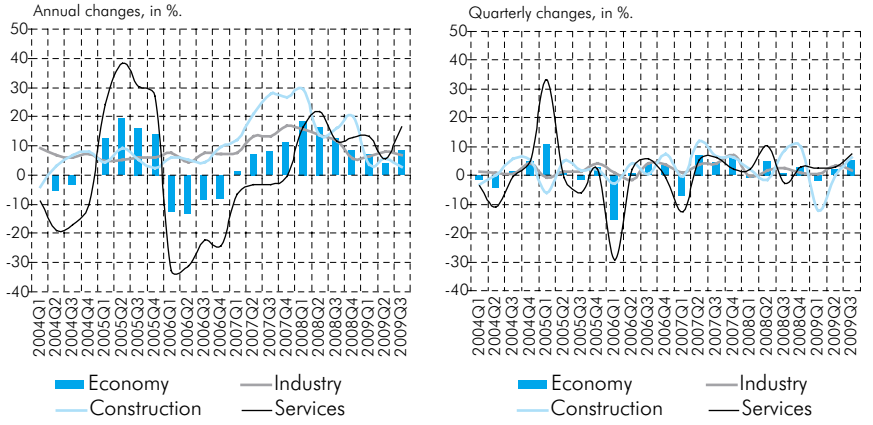
During the first nine-month period of the year wages marked an upward trend, but at lower paces than in the previous year. Wage performance over this period reflected the relaxing labour market conditions in the context of sluggish economic growth and low inflation rate. Wage index in the economy[34] recorded an average annual growth rate of around 6.6% for the first three quarters of the year, dropping sharply from 15.8% increase in 2008, but fluctuating close to the annual historical average of 6.4% for 2005-2008. Meanwhile, the real wage[35] during this period increased on an annual average of 4.5%, about 1 percentage point higher compared with the historical annual average since 2005.

In the first and second quarter, the average wage continued to slow its annual growth rates, respectively by 7.3 and 4.0%, following the trend

observed in the second quarter of 2008. Developments of this indicator in the third quarter of the year broke this trend, recording an average wage raise by about 8.4% in annual terms.

The average wage performance by sectors of the economy displayed a different dynamics during the first three quarters of 2009. The average annual increase recorded higher levels for services activity (11.8%), which has represented the main sector in the economic growth over the past two years. In industry and construction, this indicator increased respectively by 7.1% and 4.1% on average, almost half of the high levels marked in 2008.

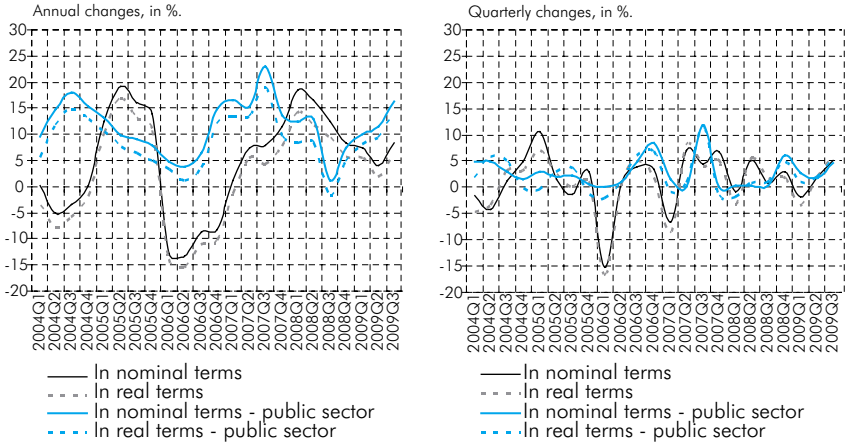
Chart 22 Average wage in some sectors of the economy for 2004 Q1- 2009 Q3



Source: INSTAT and Bank of Albania estimates

The average monthly wage[36] in the public sector accelerated the upward trend shown since the second half of 2008, reflecting the reverse trend relative

Chart 23 Average wage in the economy and average monthly wage in the public sector for the period of 2004 Q1 – 2009 Q3



Source: INSTAT and Bank of Albania estimates

to the wage index in the private sector. More specifically, an annual average increase to about 12.7% was recorded compared with the average annual rate of 10.8% during the period of 2005-2008. The average monthly wage in the public sector has reflected principally the increase of wages for certain categories of occupation in this sector, peaking in the third quarter, by 16.4%. This indicator increased in real annual terms by on average 10.4%, about 3 percentage points higher than the figure of 2005-2008.

During 2009, the monthly base minimum wage was ALL 18.000, up by 7.6% in annual terms, though below the average annual rate of 17.9% posted in the previous year.

II.2.2. EXTERNAL SECTOR OF THE ECONOMY

In the context of slowed domestic demand and tough economic situation globally, the current account deficit narrowed by about 3% in 2009. The external sector structure, which reflects the import-oriented Albanian economy, led to marginal reduction of trade balance deficit, as an outcome of decline in imports. The decline in external demand triggered decline in exports, despite the depreciating exchange rate trend. On the other hand, the negative net income position and the decreased remittances were balanced by increased service account surplus, resulting in a slight decline of current deficit. Capital and financial account surplus decreased sharply to 11.8% of GDP, due to a sharp descent in other net investment.

Table 5 Indicators of the balance of payments

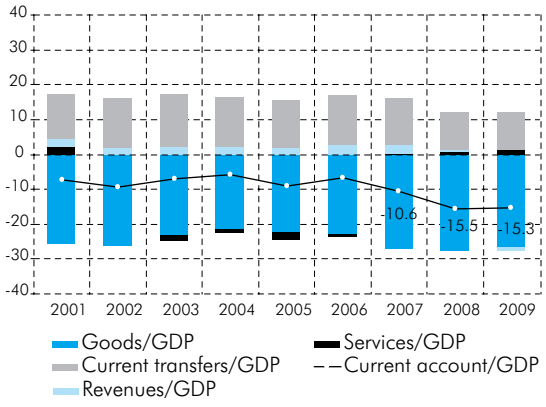
	In millions of Euros			As a share of GDP		
	2007	2008	2009	2007	2008	2009
Current account	-831.0	-1370.3	-1327.0	-10.6	-15.5	-15.3
Trade balance	-2104.0	-2431.5	-2303.7	-26.8	-27.4	-26.6
-Exports	786.0	917.5	750.7	9.9	10.4	8.9
-Imports	-2890.0	-3348.9	-3054.4	-36.8	-37.8	-35.3
Services (net)	12.0	69.4	120.9	0.2	0.8	1.4
Revenues (net)	217.0	54.9	-78.7	2.8	0.6	-0.9
Current transfers (net)	1043.0	936.8	934.5	13.3	10.6	10.8
Capital and financial account	848.4	1580.9	1018.2	10.9	17.8	11.8
Errors and omissions	131.2	-18.7	276.7	1.7	-0.2	3.2
Overall balance	149.0	191.9	-32.0	1.9	2.2	-0.4

Source: Bank of Albania

- *CURRENT ACCOUNT*

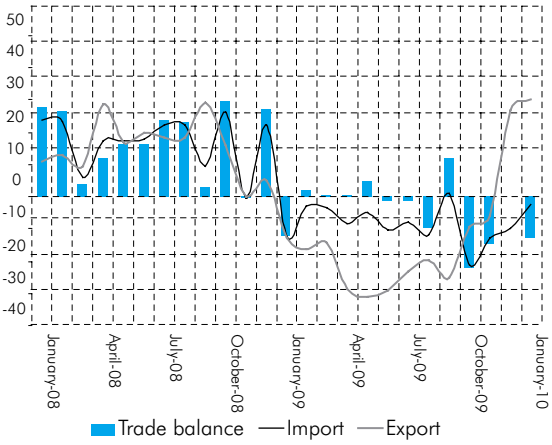
The current account was closed with a deficit of EUR 1.33 billion in 2009. Current transactions decreased by about EUR 460 million, down by about 4.9% compared with 2008. Expenditures were focused mainly on purchasing goods and services, while foreign currency inflows were mainly in the form of services and current transfers[37]. The decline in current transactions is attributed to decline in the trade flows in goods and current transfers.

Chart 24 Main contributions to current account (net flows in Euro mln, as a share of GDP*)



* GDP from INSTAT and MoF estimates for 2009.
Source: Bank of Albania

Chart 25 Slight trade balance narrowing (annual change, %)



Source: Bank of Albania

The deficit of net exports for 2009 recorded contraction by about 7.6% compared to the previous year. Improvement of trade balance deficit made a significant contribution, whereas increased financial inflows from services made a moderate contribution to this performance.

- *EXTERNAL TRADE IN GOODS*

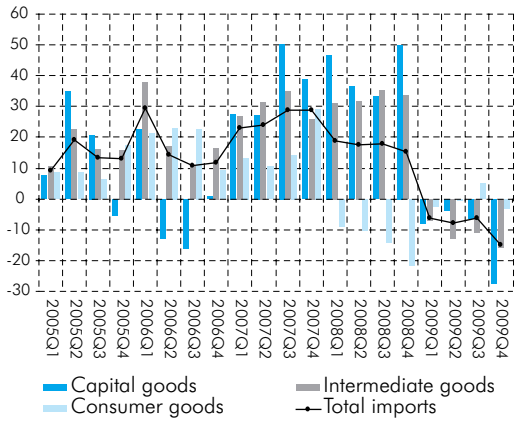
Year 2009 was characterized by a reduction in external trade activity of Albania, supported by the deteriorating economic indicators of the main trading partners, and the slowdown of demand in the country. The degree of economy openness was estimated at 46.2% of GDP, roughly 4.5 percentage points less than in the previous year. However, this indicator settled above the historical average of last six years. During the year, a narrowing of the annual trade deficit by about 5.9% was recorded, mainly due to decreased imports. The relative ratio of covering imports by exports was 23%, i.e., 2.6 percentage points lower compared with the coverage ratio recorded in the previous year.

Although the world economy showed signs of recovery during the second half of 2009, the economy of the main trading partners, Greece and Italy[38] did not develop in the same direction. The concentration of our country's exports to these countries provides a negative impact on exports for 2009. The national currency's depreciating trend against the common European currency has slightly boosted exports against the backdrop of contraction in external demand. The value of merchandise exports denominated in euro decreased by about 18% in annual terms relative to 2008. The reduced external demand weighs more on the industrial output. The main categories of exports that contributed to this decline were "Minerals and unprocessed materials", "Processed goods "and "Goods, not elsewhere classified" whose combined share accounted for about 76% of total exports for 2009. Export volume analysis indicates that they have decreased by 7.2% on an annual basis.

The total value of merchandise imports in 2009 posted a decline of about 9% compared with 2008. The low price level in the countries of origin during 2009, along with the slowdown in the domestic demand, balanced the exchange rate depreciation, impacting on the downward side of the import value. The decline in imports on an annual basis during 2009 is attributed to the "Capital goods" and "Intermediate goods"[39] items. Imports of these items decreased respectively by 12.7 and 12% on an annual basis. Besides

the statistical effect of comparison with the high base in 2008, the annual decline of these goods signals shrinking investments in the country. Imports of "Consumer goods" remained almost unchanged (annual decline of 0.5%) compared to the previous year. Although the share of this item to total imports increased by 2.4 percentage points relative to the previous year, it has reflected a downward trend since 2004[40].

Chart 26 Annual decline in import of capital and intermediate goods and steadiness in import of consumer goods (%)



Source: Bank of Albania

Trade activity of Albania continues to be concentrated on EU countries, with which trade exchanges account for 67% of the total. Although there is recorded a growth of imports from Romania, Poland, Czech Republic and U.S., still the main countries of import origin are Italy and Greece. In the context of weakening economic activity in the main destination of domestic exports, i.e., in Italy, during 2009 there was registered an increase of exports to the U.S., China, Switzerland and Germany.

- SERVICES, REVENUES AND CURRENT TRANSFERS

In 2009 the net financial inflows from services, income and current transfers dropped by about 8%, relative to the previous year. The global crisis was reflected even in the decline of revenues from investments and remittances, which were two key factors determining this performance. The combined value of these items[41] funded about 67% of the current account deficit, around 3 percentage points less than the financial ratio of the previous year.

Net services balance for 2009 registered an expansion of about EUR 51.5 million compared with 2008, continuing the upward trend for the fourth consecutive year. Expanded revenues from private services, mainly from tourism, triggered this growth. The high level of imports at home influenced the increased spending on transport and insurance services, which recorded a negative balance for 2009.

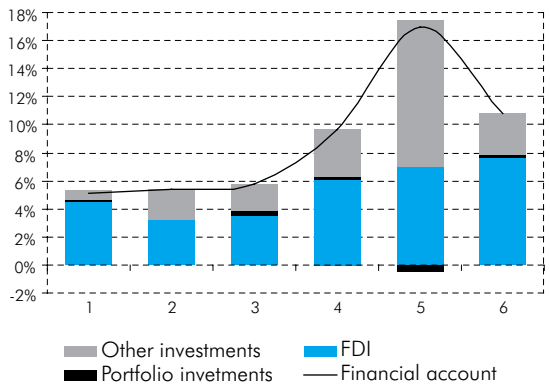
The income account marked a negative balance of "Income from investments" item, which managed to eclipse foreign currency inflows from remittances.

Net current transfers recorded contraction of their surplus for the third consecutive year. By 2007, these transfers fully financed the current account deficit, while over the past two years they managed to partially cover it. The ongoing downward trend of remittances, as a result of deterioration of economies in the resident countries since the second half of 2008 played a key role in this development. Remittances recorded an annual decline of 6.5% in 2009. Their ratio to GDP was 9%, while the level of trade deficit financing from remittances was about twice lower than in 2004[42].

- *CAPITAL AND FINANCIAL ACCOUNT*

During 2009 the capital and financial account resulted in reduced surplus relative to the previous year, primarily due to decline in other investments, including borrowing and foreign direct investments. The net flow in capital and financial account yielded EUR 1.02 billion, about EUR 562.7 less than in the previous year. About EUR 84.9 million entered the country in the form of capital transfers and about EUR 933.4 million in the form of net financial inflows. Capital and financial account balance covered only 76.7% of the current deficit, compared with 102.0% and 115.4% in 2007 and 2008.

Chart 27 Main contribution to financial account (net flows in EUR million, % to GDP*)



* GDP from INSTAT and MoF estimates for 2009.
Source: Bank of Albania

On the liability side, the largest volatility was noted in the decline of banks' positions on short-term foreign loans, which fell to EUR 201 million for 2009. On the other hand, net borrowing flow in 2009 accounted for EUR 366.1 million, about 8.5% lower than in 2008, due to decline in private lending. Foreign direct investments (inflows) marked EUR 698.1 million, recording a moderate increase of 3.4% compared with the double-digit annual increase by 40.4% in 2008. The ratio of net foreign direct investments to GDP for 2009 is estimated at 8.1%, about 0.4 percentage point higher than in 2008. The proceeds from privatization played an important role in increasing foreign investments; during 2009 their value was around EUR 220 million.

Public borrowing (withdrawals) was around EUR 396 million, about 4.5% higher than in the previous year. Private borrowing recorded around EUR 39 million or about 53.6% lower than in the previous year.

On financial asset side, the account that recorded a pronounced volatility was that of residents' deposits, mainly of resident banks abroad, which registered a decline, except in the third quarter of 2009. For 2009 this amount was EUR 129.7 million, about 41.9% less compared with the previous year. Meanwhile, the portfolio investments, which fell sharply in 2008 (70 million) did not undergo any major volatility in positions. Year 2009 was closed with EUR 1.5 million less in the portfolio investment position. On the other hand, a highlight noted during the second half of 2009 is the increase of short-term loan positions, which have contributed by EUR 61 million to the growth of our cross-border assets. Consequently, the financial asset account for 2009 was closed with an inflow of EUR 42 million, about 56.0% lower compared to 2008.

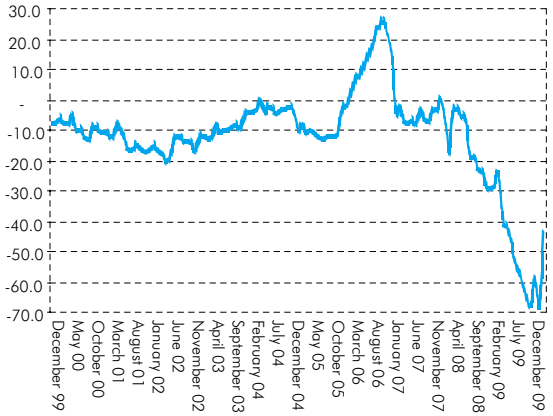
The overall balance of payments position turned negative in 2009, leading to a decrease of EUR 32.0 million in the foreign reserves held by the monetary authority. As a result, their level at the end of 2009 reached EUR 1.66 billion, sufficient enough to cover 4.2 months of imports of goods and services.

II.2.3. FISCAL INDICATORS

During 2009, developments in the public sector witnessed a kind of expansionary fiscal policy, which, in addition to monetary stimulus, has supported the economy to generate positive growth rates. Budget revenues and public spending resulted respectively All 299 billion and ALL 379 billion, accounting for 26.2% and 33.2% to GDP, respectively. Budget deficit expanded largely, particularly after the first quarter, reaching about 7% of GDP at year-end. The main sources of deficit financing were the proceeds from privatizations and the syndicated loan.

Primary deficit expanded considerably compared to the previous years. Its expansion reflects the nature of expansionary fiscal policy pursued during 2009, thus contributing to the pick-up in public debt stock.

Chart 28 Moving average of the primary deficit for 12 months, 1999 - 2009



Source: Ministry of Finance estimates

- *BUDGET REVENUE*

Fiscal policy priorities oriented to budget revenues remain the same as those of 2008 and have been translated into quantitative indicators in the 2009-2011 Fiscal Macroeconomic Framework. Effective fiscal package was the same as that of the previous year, with the exception of some amendments to the Law "On Excise Duty", which reviewed some benchmarks applied for imported goods subject to excise duty[43].

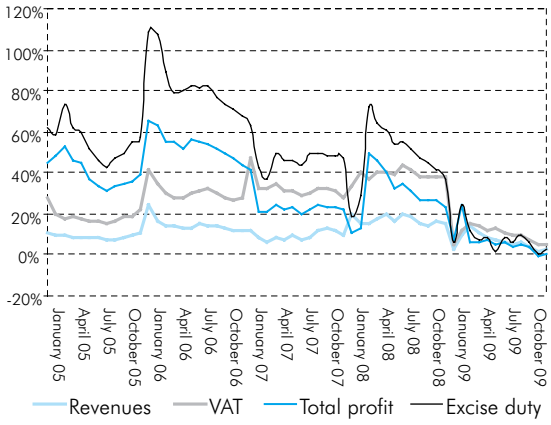
Table 6 Budget revenues by main items, in billions of leks, as a share of GDP, 2008-2009 (%)

	Nominal, in ALL billion							As a share of GDP (%)	
	Average '05-'08	2008	Q1	Q2	Q3	Q4	2009	2008	2009
Total Revenues	244.1	291.2	72.3	73.0	76.0	78.0	299.2	26.8	26.2
Grants	4.9	4.2	0.2	1.0	0.9	1.9	4.0	0.4	0.4
Tax and Customs Duties	168.2	205.3	48.3	52.5	56.2	51.9	208.9	18.9	18.3
- VAT	83.4	107.1	24.4	27.7	29.1	28.9	110.1	9.8	9.6
- Profit Tax	20.2	18.1	5.5	3.6	3.6	4.4	17.1	1.7	1.5
- Excise duty	25.7	32.5	6.9	7.5	11.6	7.6	33.5	3.0	2.9
- Personal Income Tax	13.8	24.5	6.1	7.6	6.6	6.6	26.8	2.3	2.3
Local Government	11.0	11.3	3.0	3.9	2.6	2.6	12.1	1.0	1.1
Independent Budgets	41.3	47.8	13.0	12.5	11.9	12.5	50.0	4.4	4.4
Non-Tax	18.7	22.6	7.7	3.2	4.4	9.0	24.3	2.1	2.1

Source: Ministry of Finance estimates

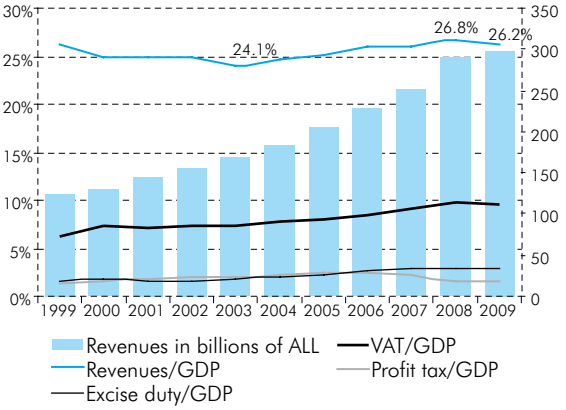
Revenues grew by 2.7% in 2009, the record low level over the last decade. This behaviour was mainly attributed to slow increase of tax revenues. Revenues from VAT[44] and Excise Duty for 2009 increased respectively by 3%, a rather low rate compared with the average annual increase for the period of 2005 to 2008, respectively by 14% and 20%. Revenues from VAT contributed by 1 percentage point to revenues growth, while this item's contribution to total

Chart 29 Annual change of revenues by main items, January '05-December '09



Source: Ministry of Finance estimates

Chart 30 Budget revenues by main items (taxes and customs duties) as a share of GDP (in %) (left) and nominal revenues in ALL billion (right), 1999-2009



Source: Ministry of Finance, BoA estimates

revenues growth averaged about 4.1 percentage points over the period of 2005-2008.

Budget revenues increased slowly after the first quarter of 2009. This behaviour was noted in almost all tax items.

During the first half of 2009 budget revenues reflected difference as compared to the projection. The lowest rates of their accumulation during the first half of the year led to budget review for 2009, respectively in September and December 2009. Referring to latest changes to the 2009 budget law[45], revenues declined by ALL 14.9 billion and expenditures increased by ALL 16.7 billion compared to the initial projection.

Budget revenues realised about 94% of the projection approved for year-end 2009. The largest share of difference compared to the projection was occupied by revenues from local government, excise duties, personal income and VAT.

- *BUDGET EXPENDITURE*

Government objectives and priorities related to public goods and services, obtained from the Macroeconomic and Fiscal Framework for 2009-2011, have determined mainly the expansionary nature of fiscal policy during 2009. Public investments, likewise in the previous year, have made a substantial contribution to aggregate demand.

For year 2009, budget expenditure recorded an annual growth of about 8%, where current and capital expenditures contributed respectively by 6 and 2 percentage points. Current expenditure increased by about 13% in annual terms and social security outlays, as well as personnel costs and interest expenditure[46] made a substantial contribution in this regard. Capital spending resulted around ALL 96 billion, 40% of which went for financing the Durrës - Kukës road. In annual terms, investment expenditure increased by 3%.

Table 7 Budget expenditure by main items, in ALL billion and as a share of GDP (%)

	Nominal in ALL billion							As a share of GDP, %	
	Average '05-'08	2008	Q1 '09	Q2 '09	Q3 '09	Q4 '09	2009	2008	2009
Total expenditure	282.08	351.5	76.0	102.2	92.1	108.8	379.1	32.3	33.2
Current expenditure	217.3	250.3	57.8	71.8	70.2	83.2	282.9	23.0	24.7
- Personnel cost	59.0	66.6	14.1	15.5	15.8	16.9	62.4	6.1	5.5
- Interest	27.0	31.3	8.4	9.0	8.2	10.7	36.3	2.9	3.2
- Operations	25.3	28.8	5.3	8.6	7.2	10.7	31.8	2.7	2.8
- Subsidies	3.4	2.6	0.5	0.7	0.4	0.5	2.0	0.2	0.2
- Social security expenditure	65.5	76.2	21.0	23.9	25.7	26.1	96.7	7.0	8.5
- Local budget	22.8	27.1	5.3	9.8	8.5	9.2	32.8	2.5	2.9
- Aids and compensations	14.0	17.8	3.2	4.2	3.8	7.9	19.1	1.6	1.7
Capital spending	60.0	93.6	18.2	30.4	22.0	25.6	96.1	8.6	8.4
Other*	6.1	7.6	-	0.1	-	-	0.1	0.7	0.0

Source: Ministry of Finance

** Reconstruction of Gërdec + Capital Transfer + Lending to KESH (Albanian Power Utility) + Support to electric power.*

Though public spending expanded at higher growth rates than the budget revenue, it slowed down after the first quarter of 2009. This trend is explained by the fact that the comparable base (since 2008) expanded precisely after the first quarter, as a result of increased capital spending. The distribution of expenditures along the quarters of 2009 was somewhat more uniform, without reflecting any high concentration over the last quarter of the year. This behaviour coincides with that of 2005, when budget spending peaked in the second and the last quarter of the year[47].

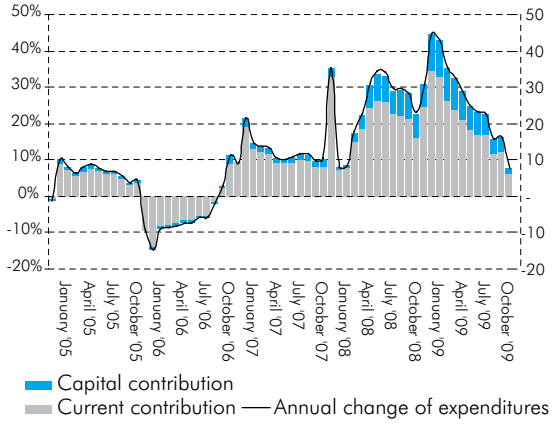
Public expenditures were realized at about 94% of the projection. In late 2009, current and capital expenditures were respectively 96 and 92% of the level projected at the latest budget review.

As a share of GDP, budget spending accounted for about 33.2%, or 1 percentage point higher than in 2008. Short-term spending recorded 24.7% of GDP, about 1.7 percentage point higher than in the previous year. Capital expenditure accounted for about 8.4% of GDP, from 8.6% in 2008.

- *BUDGET DEFICIT AND ITS FINANCING*

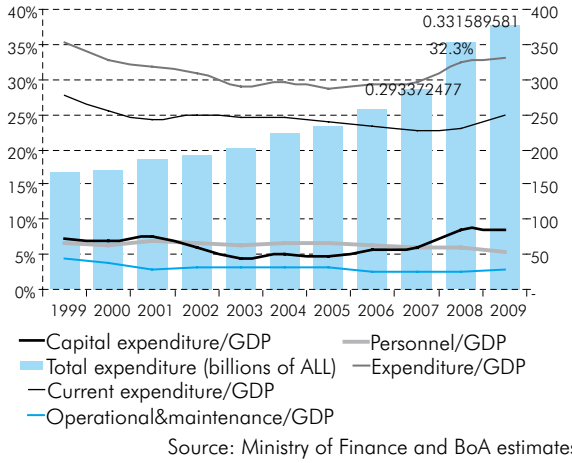
Expansionary fiscal policy is reflected in a considerable expansion of budget deficit, especially after the first quarter of the year[48]. The end of 2009 posted an ALL 80 billion budget deficit, up by 33% from the previous year.

Chart 31 Annual change of total expenditure and the upward contribution of current and capital expenditures, January '05-December '09



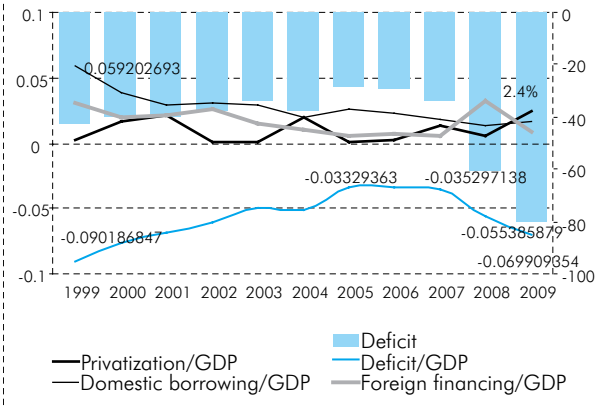
Source: Ministry of Finance, BoA estimates

Chart 32 Expenditure by main items, as a share of GDP (%) (left), and nominal expenditure in ALL billion (right), 1999-2009



Source: Ministry of Finance and BoA estimates

Chart 33 Budget balance and its financing instruments as a share of GDP (left) and budget balance in ALL billion (right), 1999-2009



Source: Ministry of Finance and BoA estimates

Budget deficit expansion, estimated at about 7% of GDP, has led to more intensive use of instruments for financing it. Proceeds from privatization, one of the main deficit financing sources, funded about 35% of the budget deficit. Privatization of state-owned enterprises, as one of the economic reforms that fulfils the criteria stipulated in the National Strategy for Development and Integration, was carried out at a relatively high level compared with the preceding years. Their value accounts for about 2.4% of GDP, or about ALL 28 billion[49].

Apart from the widely used instruments to finance the budget deficit, during 2009 an "unconventional" instrument, i.e., the syndicated loan[50] was made use of. This item covered about 31% of the budget deficit for 2009. About 75% of the syndicated loan was made by non-resident banks and the rest represents lending by resident banks and other institutions in Albania.

Table 8 Budget deficit and instruments used for its financing in ALL billion, 2006-2009

	2006	2007	2008	2009
Revenues	229.4	251.6	291.2	299.2
Expenditures	258.8	285.7	351.5	379.1
Budget balance	-29.4	-34.1	-60.3	-79.9
Financing	29.4	34.1	60.3	79.9
Domestic financing	23.6	28.8	24.4	51.4
Domestic borrowing	20.7	17.0	15.0	18.7
Privatization proceeds	2.0	13.2	5.5	27.6
Other[51]	0.9	-1.5	3.9	-1.1
Syndicated loan from residents	0.0	0.0	0.0	6.2
Foreign financing	5.7	5.3	35.8	28.5
Foreign financed projects	5.7	5.3	35.8	10.1
Syndicated loan from non-residents	0.0	0.0	0.0	18.4

Source: Ministry of Finance, Bank of Albania

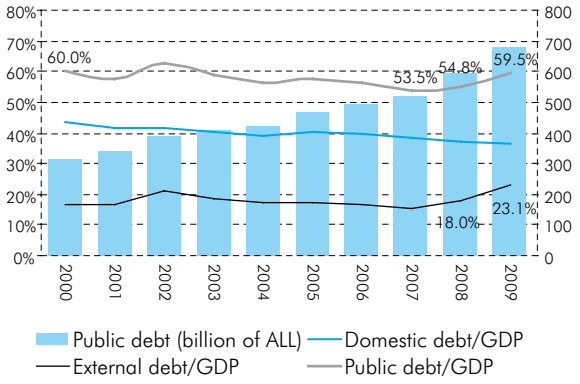
Domestic borrowing has funded, through securities issuance, about 23% of deficit. By the end of the third quarter 2009, government borrowing policy was mainly oriented towards extending the debt maturity term, to indirectly influence the reduction of its refinancing risk. Consequently, long-term debt instruments (mostly 5-year bonds) accounted for a substantial share of total securities issued until the end of this period. In the last quarter of 2009, the Ministry of Finance shifted its focus to shorter-term instruments, particularly to T-bills of 12-month maturity term. The reverse in the borrowing side was triggered by the preferences of key actors in the government security market, tending towards cutting the lending horizon as compared with the previous years.

- *PUBLIC DEBT*

Against a backdrop of improved public debt management and administration, as stated in Public Debt Strategy for 2009-2011, the efforts of

the Ministry of Finance consisted in extending the maturity term of domestic debt and in improving the security issuance infrastructure. Thus, in 2008 the borrowing policy was mostly oriented towards issuing long-term debt instruments and the days to maturity for the domestic debt resulted 401 versus 346 days in the previous year. At the end of 2009, the days to maturity for the domestic debt resulted 406, a moderate increase compared to the previous year, due to the primary market developments over the last quarter of the year. Positive highlights in improving the security market infrastructure are the reduction of frequency of less-than-one year security auctions, and the increase of the amount percentage (from 30 to 50%) available to households.

Chart 34 Domestic, external and public debt to GDP (%) (left) and public debt stock in All billion (right), 2000-2009



Source: Ministry of Finance and BoA estimates

The expected level of total public debt[52] for 2009 is estimated at about ALL 680 billion, or 59.5% of GDP. Domestic debt accounts for about 61% of the public debt stock and external debt stock[53] accounts for the rest. Relative to 2008, a pick-up in the external debt share to total public debt is noted, mainly as a consequence of syndicated loan made by banks and non-resident institutions in Albania. External debt stock at the end of 2009 was estimated at about 23.1%, up by about 2.5 percentage points from 2008.

ENDNOTES

[1] Excluded from this behaviour is the first quarter, when annual inflation rate fell slightly below the lower limit of the target.
[2] Headline inflation resulted 4% on average for the first six-month period of 2008, mainly as a consequence of high oil and raw materials price rise in the international markets.
[3] Istrefi K., Semi V., (2007). "Exchange rate pass-through in Albania: Evidence from autoregressive vectors". Discussion paper, Bank of Albania.
[4] This is an indicator for the resource utilization rate in the economy. It is measured as the difference between actual GDP and potential GDP.
[5] For more information, see the aggregate demand analysis.
[6] Estimated as a standard deviation for 2000-2009.
[7] The average of two measurements (permanent exclusion and trimmed average). For more details, see: Çeliku and Hoxholli (2008), "Other measurements of core inflation: Their use in forecasts and analysis", Discussion paper, No. 1 (24) 2008, Bank of Albania.
[8] This rate is close to the average of this indicator for 2002-2009 (1.2%).
[9] Approximated by an indicator measured as a weighted average of Consumer Price Index in Italy and Greece.
[10] In absence of direct measures, imported inflation is calculated as an index derived from the product of foreign price indexes and Euro-Lek exchange rate with a three-month lag.
[11] Refer to Istrefi and Semi (2007); Tanku, Vika and Gjermeni (2007).
[12] "Agriculture" is excluded because it is not covered by the short-term statistics index (INSTAT).
[13] Average annual inflation has been 2.7% in the last ten years.
[14] The data on GDP and its real growth for 2001-2007 are those of the INSTAT. The rest consists of data obtained from the Ministry of Finance, IMF, and Bank of Albania estimates. The real GDP growth for 2009 belongs to the first nine-month period of the year.
[15] The table is set up on the basis of reviewed nominal GDP.
[16] Nominal GDP, converted with the average rate of the period.
[17] Data on the employed persons and 2009 unemployment rate belong to the third quarter (period end), INSTAT.
[18] In absence of data published for 2009, we have referred to the data on fiscal indicators in the Fiscal Macroeconomic Framework of 2011-2013 approved by the Council of Minister's decision of 07.01.2010.
[19] Government debt, including government-guaranteed debt. The last exchange rate of the year is used for converting the external debt into lek.
[20] The GDP growth rate for the Q3 of 2009, published by INSTAT, "Quarterly Gross Domestic Product", Publication of the third quarter for 2009, December 2009. GDP growth rates for Q1 of 2009 and Q2 of 2009 may be subject to revision by INSTAT.
[21] Economic tendency indicator, derived from confidence surveys, fell by 5.1 percentage points in the fourth quarter.
[22] It has made the settlement of consumer loan instalments more expensive. Consumer loan is mostly made in foreign currency, leaving less consumer funds from the restricted household budget.
[23] The external sector's structure is import-oriented and they account for a large volume in trade exchanges.
[24] Production sector includes industry, construction and energy sectors.
[25] Annual changes average of first three quarters of each year, in percentage.
[26] The house prices are estimated only for the capital city of Tirana and in its central area.
[27] Agricultural output estimated at 2006 prices. The value on agricultural output of 2010 is a forecast.
[28] This sub-branch includes financial activities, real estates, renting, administration and public protection, mandatory social security, education, medicine, other social and individual activities.
[29] Average annual changes in the first three quarters of each year, either for the value-added or for the turnover volume indicator.
[30] Number of the employed person is obtained from INSTAT, Conjuncture, 2009.
[31] Based on the data from short-term statistics, INSTAT, paid employment index.

[32] During 2008, administrative measures to formalize the labour market were taken, reflected in high rates of employment rise during this period. It is estimated that the performance of this indicator in construction sector has been impacted also by the seasonal employment, in consequence of engineering constructions by public funds during 2008.
[33] The employment supply has not changed a lot, given that the number of persons seeking a job has increased only by 0.9% and there are no strong structural changes in population. In the meantime, the demand for a job – according to surveys – has dropped against the economic slowdown setting.
[34] Wage index in the economy, referred to as "average wage" is measured as a ratio of wages fund index to the number of population index, whose source is the "Short-term Statistics" released by INSTAT, which exclude "Agriculture". The data are quarterly.
[35] Real wage represents the average wage deflated to inflation, which is estimated as a ratio of the average wage index to inflation rate. The data are quarterly.
[36] Budgetary and non-budgetary.
[37] The combined share of current expenditures for goods and services was 90% to total expenditures, while the combined share of current revenues from current transfers and services accounted for 73% of the total.
[38] Exports to Greece and Italy accounted for about 70% of total exports for 2009.
[39] Imports of "Intermediate goods" accounted for about 57% of total imports.
[40] In 2004, the share of imports of "Consumer goods" was 37.4%, whereas in 2009 it was 27.6%.
[41] This value was EUR 890 million, whereas in the previous year it was EUR 970.
[42] In 2004, the emigrant remittances financed about 61% of the trade deficit, while in 2009 they financed only 33% of this deficit.
[43] Amendments to the Law "On Excise Duty" were passed by the Parliament on 28. 09. 2009. Along with the increase of tax scale for several items subject to excise duty (mainly tobacco), they consisted in adding the range of goods subject to excise duty with "Incandescent lamps" group (excluded until 2009).
[44] Revenues from VAT share the main weight (35 %) to total revenues.
[45] Reviewing pursuant to regulatory act.
[46] These items contributed by 3, 3 and 2 percentage points, respectively.
[47] In 2006 – 2008, the ratio of expenditure realized during Q1, Q2, and Q3 to total annual expenditure averaged 16%, 21%, 23% and 40% respectively. In 2009, the same ratios accounted for 20%, 27%, 24% and 29% respectively for each quarter.
[48] The expenditure growth at higher rates than budget revenues along the year, have significantly contributed to budget deficit, particularly after the first quarter of 2009.
[49] This amount includes proceeds from the privatization of OSSH (the Electricity Distribution Company), a share of proceeds from the privatization of ARMO, revenues from the fourth mobile telephony licence, revenues from selling a part of shares of the United Albanian Bank (Banka e Bashkuar e Shqipërisë), and a part of shares of the mobile telephony AMC.
[50] Syndicated loan is a form of loan made by a group of banks and financial institutions, resident and non-resident in the Republic of Albania, to finance the budget deficit.
[51] The item "Other" represents the outstanding amount of government deposits held at the Bank of Albania, Social and Medical Insurance Deposits, Inventory assets as well as sub-loan principal.
[52] In absence of published data, we refer to fiscal indicators from the Fiscal Macroeconomic Framework for 2011 – 2013, approved by the Council of Ministers' decision of 07.01.2010.
[53] In 2008, domestic debt stock accounted for 67% of the total public debt.

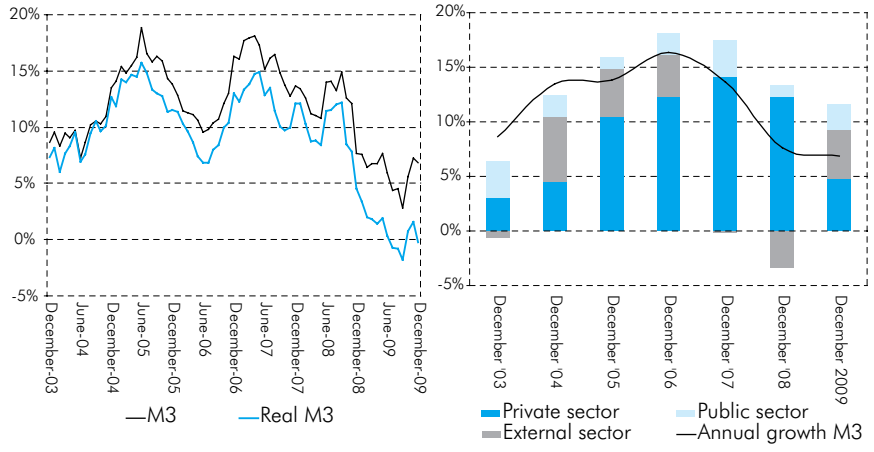
1 lek. Nickel coin, issue of 1930.

CHAPTER III MONETARY AND FINANCIAL MARKET DEVELOPMENTS

III.1 MONETARY DEVELOPMENTS

Financial intermediation activity was affected by the shrinkage of financial resources in 2009. Deposit withdrawals during the first quarter of the year resulted in reduced deposits stock in the banking system, slowing down the expansion of money supply in the economy. The statistical effect of the fall of deposits was reflected in a lower annual money supply rate thanks to non-involvement of foreign currency outside banks into M3 broad money for a period of twelve months. The economic effect of deposit contraction was materialized in the form of slowed lending to the private sector of the economy, especially during the first half of 2009. In the second half of the year the shrinkage of financial intermediation was also accompanied by the slowdown in the economic activity and lower money demand, further reinforcing tightness in lending activity. This contagion process of money supply contraction resulted in slowing down the money supply growth rate on average by 6.0% in 2009 from 12.3% in 2008. With no pass-through to foreign currency deposit stock, the money supply expanded by about 3%.

Chart 1 Annual M3[1] growth and the sectoral contribution of money demand to annual M3 growth (in %)

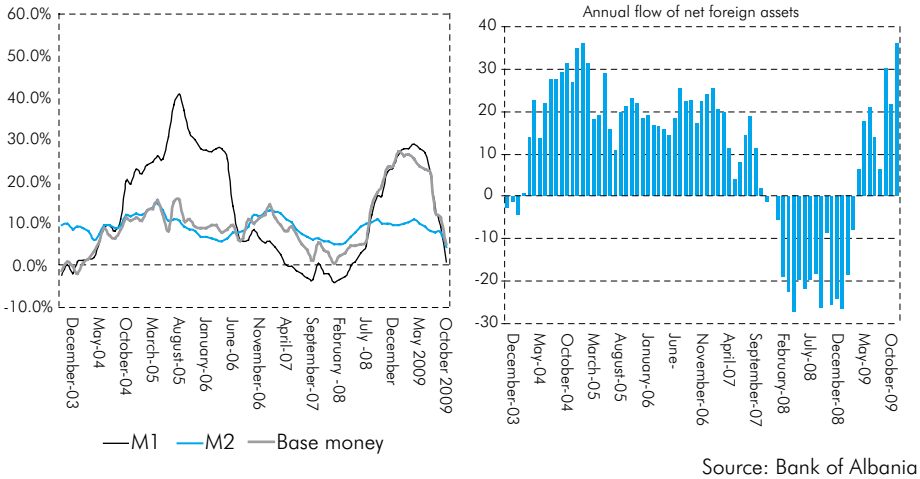


Source: Bank of Albania

The positive M3 growth rate is driven by the positive flows of the balance of payments, against the downward money demand. The slowdown of foreign currency lending to private sector enabled the banking system to accumulate free foreign currency assets, against a reduction of this stock in 2008. During 2009, only 2 percentage points of money supply expansion were materialised thanks to lending to private sector, against the high pace by above 10 percentage points of money creation observed over the preceding years. On

the other hand, the domestic borrowing of the public sector has contributed almost uniformly during the latest years by about 2-3 percentage points to M3.

Chart 2 Average annual monetary aggregate growth rate; annual flow of foreign asset growth in the system (in ALL billion)



Source: Bank of Albania

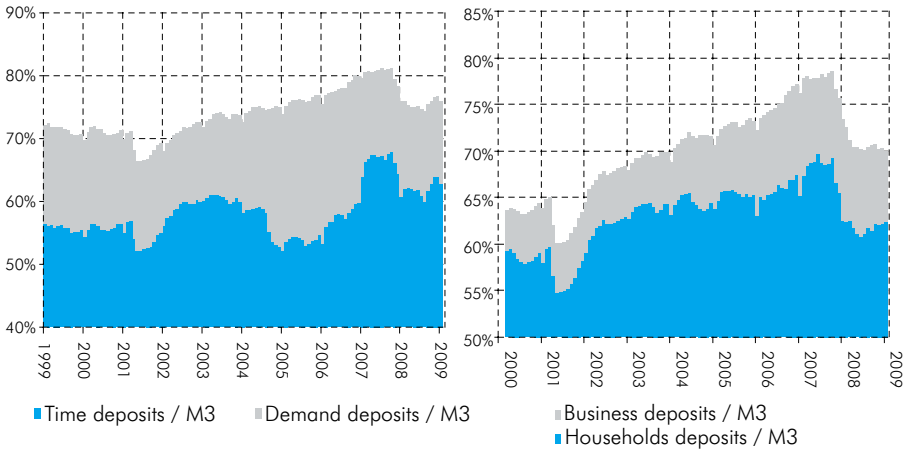
The narrowest monetary aggregates have reflected the growth of liquid money component and the stability of the demand for leks. The money creation in ALL is based on fiscal sector's domestic borrowing and ALL-denominated credit to the private sector. The average annual M2 growth rate in recent years has fluctuated around 8 - 10%. For 2009, the average annual rate is estimated at 8.7%. Liquid money aggregates, M1 and the base money, carry over the effect of deposit withdrawal from the banking system.

Deposit contraction is neutralized by increase of commercial banks' ALL-denominated financial assets through Bank of Albania's liquidity injection into the system. Banks' monetary liabilities in the form of deposits, dropped to 55% of GDP in March 2009, from about 63% in September 2008. Reduction of deposits stock was accompanied by deceleration in lending activity, while the Bank of Albania's refinancing operations encouraged the maintaining of the stock of banks' financial assets at higher levels than the stock of deposits. The decline by 1.00 percentage point of refinancing cost in 2009 enabled the easing of the financial burden of intermediating activity of the system. Also, along with the basic policy rate cut, the easing of the refinancing form by an unlimited amount have prevented contraction of ALL-denominated outstanding credit to the private sector and consequently, of the total monetary assets of the banking system. In the second half of 2009, the total net monetary assets of commercial banks expanded to 66 per cent of GDP, as an outcome of increased domestic lending to the public sector and positive performance of ALL-denominated lending to the private sector.

Short-term developments in the money structure show the term structure shifting towards more liquid component, currency outside banks, as a result

of keeping a share of withdrawn deposits outside the banks. The total deposit stock accounted for 76% of M3 aggregate in December 2009, from 81% in September 2008.

Chart 3 Deposit share by degree of liquidity and by sectors



Source: Bank of Albania

Box 2 Currency multiplier and monetary policy implications

Money supply is defined as the amount of currency outside banks and deposits of the banking system. The banking system carries out the function of collecting deposits and multiplying money created through lending[2]. Money multiplier is the most common mechanism used to measure the amount of money created by a unit of monetary reserve (RM). Reserve (base) money is the main duty of the monetary authority and includes the issued money, which is held by banks at their coffers and outside banks as cash in circulation, as well as deposits of banks and non-banks at the central bank. The central bank controls the money supply in the economy, by checking the amount of injected liquidity and the required reserve ratio for each deposit unit in the banking system.

Money multiplier plays a key role in monetary policy. Theoretically, money multiplier shows that through banking intermediation, money supply is expanded to by a multiple of monetary base. Money multiplier performance is subject to central bank stance, through its decisions on liquidity injection, determining the required reserve ratio and the base interest rate. It is also influenced by commercial banks, their decisions on the amount of lending to the economy and the liquidity held as excess reserve, as well as by the behaviour of economic agents, households and enterprises, through their demand for credit and currency outside banks. If the demand for credit by economic agents is high and banks decide to lend out close to the maximum allowable, money supply approximates money produced by central bank times the multipliers (assuming minimum holding of currency in the form of cash). In this case money multiplier is a strong link between money supply and money base. If banks decide to accumulate excess reserves rather than full utilization of funds to lend out and / or if non-bank public demand for cash increases, money creation by central banks does not fully translate into money creation by banking intermediaries, thus weakening the relationship between money supply and money base. So, money

multiplier does not remain constant over time and every initial liquidity injection by the Bank of Albania to the banking system affects the money supply in different time frames, depending on the performance of the aforementioned factors.

MONEY MULTIPLIER IN ALBANIA'S CASE: A COMPARATIVE ANALYSIS WITH COUNTRIES IN THE REGION

In 2002-2006 money multiplier fluctuated around 3 in Albania, a relatively lower rate as compared with those of the region. After 2006 it increased gradually, mainly due to rapid money creation in the economy triggered by high banking intermediation rate, while at the end of 2008 and on, money multiplier has shown a downward trend.

In general, high demand for liquid monetary assets is a characteristic of countries with a less-developed banking and financial system. In these countries, individuals and other non-bank agents in the economy prefer to hold significant amounts of currency in the form of cash, and banking intermediation is low. Whereas, a high reserve requirement ratio by the central bank requires banks to maintain a higher level of reserves for the same level of deposits, thus reducing the ability of the banking system to create money. The combination of these factors affects on money multiplier decline and money supply slowdown.

Table 1 Money multiplier and the share of currency outside banks to M3 for some countries in the region

	Money multiplier					CoB/M3					Reserve
	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009	requirement ratio
Albania	3.0	3.0	3.3	3.5	3.0	25.3	23.9	21.6	19.8	24.5	10
Macedonia	4.1	4	4.3	4.3	4.2	27.7	24.9	21.6	18.7	16.7	10-13
Hungary	5.0	4.9	5.5	4.7	5.2	14	14.2	14.2	14.1	13.2	6
Croatia	4.1	4.1	4.1	4.3	4.1	9.4	9.4	9.2	9.0	5.9	14
Poland	5.7	5.7	5.5	5.5	5.6	14.5	14.9	15	14.8	14.5	3
Serbia	-	4.6	5.6	3.1	4.3	-	12.1	8.7	9.3	7.6	10-45

Source: Bank of Albania, central banks of countries in the region

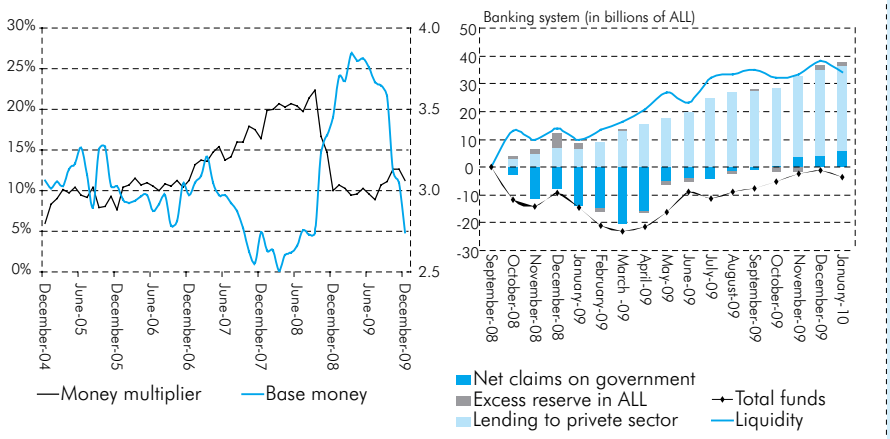
As the table shows, the countries with higher money multipliers are associated with lower currency outside banks to money supply ratios, and lower reserve requirement ratios. Hence, besides Albania, low money multipliers result even in Croatia and Macedonia. In Croatia's case, besides keeping currency outside banks on track, higher reserve requirement ratio might have impacted on comparably lower money multiplier effect. In the case of Poland and Hungary, money multiplier results higher, thus reflecting lower reserve requirement and currency outside banks ratios.

IMPLICATIONS OF THE REDUCTION OF THE MONEY MULTIPLIER FOR THE MONETARY POLICY

Performance of money multiplier during 2009 was mostly affected by the slowed lending to the economy, due to reflection of the global crisis effects on the Albanian economy. The shaking of confidence in the banking system was manifested in increased preference for liquidity in the economy, which in turn has increased the money base and is associated by reduction in the money multiplier rate. Decline of money multiplier to an average of 3 over the year, influenced the decline in monetary policy effectiveness and the slowdown in the transmission of its decisions. The decline of money multiplier is associated with the slowdown of economic activity. Against this backdrop, the central bank pursued an accommodating policy, supplying the system with liquidity through market instruments. A significant part was used to fund

the private sector with national currency, while a part is held by the economy in the form of cash. However, money multiplier improved at the end of 2009. Its return to normal values requires return of liquidity-injecting operations to lower values, in order to attract liquidity into the banking system.

Chart 4 Performance of money multiplier and banking system liquidity

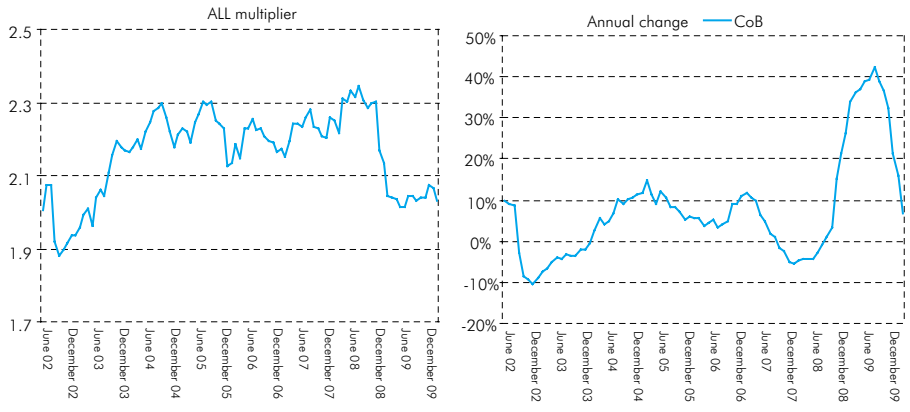


Source: Bank of Albania

- *LEK COMPONENT OF M3 MONETARY AGGREGATE*

Financial system's liquidity position is dominated by the performance of the stock of currency outside banks, in terms of M2, lek monetary aggregate. However, the long-term trend is driven by increased activity of bank intermediation in ALL and positive real interest rates during 2009. At period-end, the stock of currency outside banks resulted only 7% higher versus 2008, while the lek multiplier[3] improved slightly over the second half of the year.

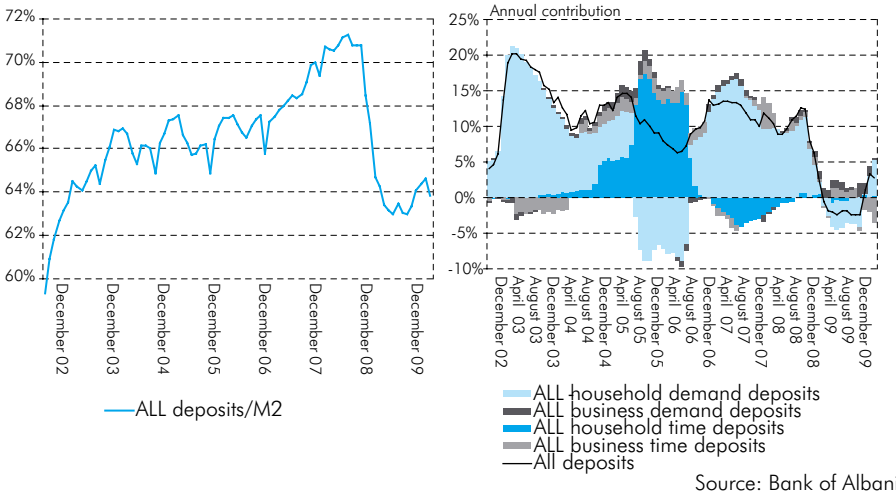
Chart 5 Performance of Lek multiplier and annual change of currency outside banks



Source: Bank of Albania

The stock of lek-denominated deposits increased annually by 2.8 per cent at end 2009. In absolute terms, the deposit stock of ALL 369 billion is at the same level as the one noted prior to deposit withdrawal from the system, in September 2008.

Chart 6 ALL-denominated deposits to M2 (on the left) and the contribution of each group to annual Lek-denominated deposit growth (right, in %)



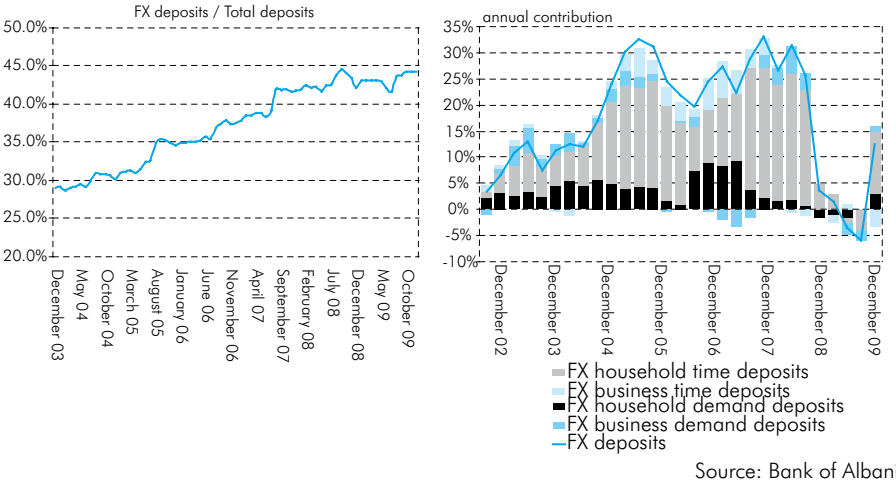
Source: Bank of Albania

Among core deposit instruments, the main shock of withdrawals was reflected in decreased share of household time deposits, by about 7.5 percentage points at the end of 2008. During 2009, though the deposit stock declined slightly in the first quarter, its ratio to M2 recovered gradually up to 48.4% in the second half of the year.

- *FOREIGN CURRENCY COMPONENT OF M3 AGGREGATE*

The formation of foreign assets has slowed, due to deposit withdrawals from the banking system and low lending in foreign currency. In the medium

Chart 7 Foreign-currency deposits to total deposits (left) and contribution of each group to annual foreign-currency deposit growth (right)



Source: Bank of Albania

run, the formation of foreign currency cash flows tends to be affected even by the slowdown in foreign currency inflows from remittances. Thus, the annual growth of foreign-currency deposits resulted 2.8%, while their share to aggregate M3 decreased to 33.7%, from 36.3% in September 2008 and 32% at the end of this year[4].

Box 3 Exposure of economic agents to exchange rate

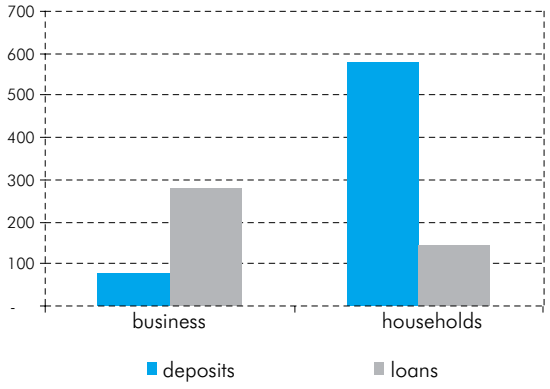
In this box we try to analyze the balance sheet structure of businesses and individuals, particularly in terms of foreign currency composition. For the purpose of studying their behaviour from the macroeconomic viewpoint, we assume an aggregated balance sheet with financial assets and liabilities of businesses and individuals.

From an overview of the aggregated balance of businesses, it is noted that it was characterized by a negative financial gap, which means the lowest value of financial assets against liabilities. High business liabilities to the banking system in the form of loans attest to their investment initiatives and their risk-oriented behaviour. The contrary occurs to individuals, whose balance sheet is characterized by a positive financial gap. Financial assets of individuals in general, which are represented mainly by household deposits with the banking system, exceed their liabilities. Thus, the positive balance sheet of individuals shows their savings-oriented behaviour and their less orientation towards other forms of investments that carry over high risk rates.

A more detailed analysis of the balance sheets on the basis of foreign currency structure confirms the same behaviour of financial gap in foreign currency. The relatively high rate of euroization in the economy is also reflected in the balance sheets of economic agents. A significant part of financial assets and liabilities, as well as transactions related to them are performed in foreign currency[5]. A particularly high rate of euroization is noted on the asset side, more highlighted in relation of households.

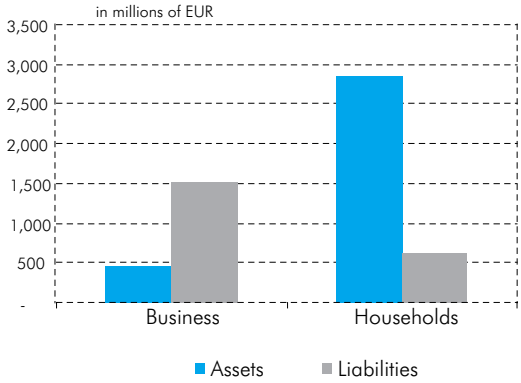
Among the main causes of eurozation, literature highlights the foregoing motive of hedging against high inflation rates of foreign exchange rate volatility. Stabilization of these factors are not generally associated with the opposite de-euroization process. Thus, in Albania's case, in addition to ongoing psychological factors, on the asset side of balance sheets, euroization is favoured mainly by foreign exchange inflows in the form of remittances, foreign direct investments or bank credit lines. However, due to high interest rates on Lek-denominated deposits, a significant part of household ones are held in the national currency. On the liability side, factors in the favour of high business demand for foreign-currency loans are the lower reference foreign currency interest rates versus the

Chart 8 Total credits and deposits of economic agents in the banking system (in ALL billion)



Source: Bank of Albania

Chart 9 Aggregated foreign currency-denominated financial assets and liabilities of businesses and households, in millions of Euros[6]



Source: Bank of Albania

foreign currency one and the source of income in foreign currency. A more prudent behaviour of households related to foreign currency constituents of their portfolio is noted. Besides interest rates, foreign currency quotation of several commodity prices, particularly of real estate ones are factors fuelling the demand of households for foreign currency loans.

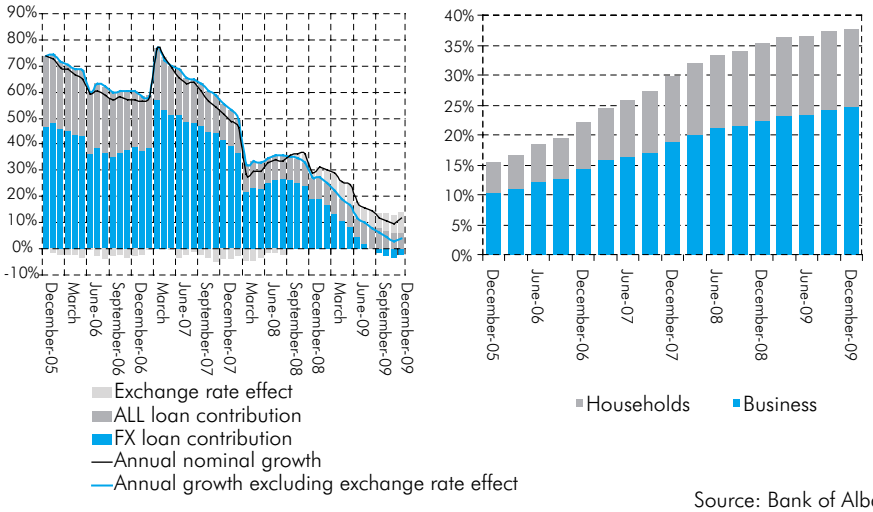
Financial foreign currency-denominated assets and liabilities, and consequently, the financial foreign currency gap carry over a range of financial and macroeconomic implications. One of the main risks is their exposure to exchange rate volatility. Economic agents face operational risks in cases of any mismatches in the balance sheet currency and in monetary flows of their operation. Thus, exchange rate fluctuations are reflected in the total balance amount of economic agents. Also, exchange rate fluctuations are directly transmitted to financial assets, since high foreign currency liabilities in the form of credit, affected the settlement of monthly instalments and other liabilities. Economic agents, whose balance records a positive financial gap, households in this case, may benefit from depreciating exchange rate volatility, as their assets undergo a growth in their nominal value converted into money. Economic agents that are characterized by a negative financial gap, in this case businesses in the role of massive borrowers, upon exchange rate depreciation they undergo a significant loss depending on the degree of their exposure to exchange rate. Although assessment and monitoring of foreign exchange risk is not an easy process, it is vital for hedging economic agents, mainly businesses, against fluctuations that may affect their profit margin and the value of total assets.

Lending in foreign currency carries implications even for the overall financial system. The latter, represented mainly by commercial banks, even in the cases of financing loans on the basis of the principles of consistency as concerns maturity term and currency, are still exposed to some risks. Among the primary ones, we mention the indirect foreign currency transaction risk, which in the case of default payments by borrowers of this currency[7], directly affects the banking system soundness. Exchange rate fluctuations also affect even the value of banks' balance sheets. Meanwhile, businesses, attracted by lower foreign currency interest rates, seem as if they do not consider appropriately the foreign exchange risk. In light of the foregoing, to preserve the macro-financial stability of markets in particular and the economy in general, economic agents must assess the risks and costs arising from the presence of foreign currency in assets and liabilities of their balance sheets and embark on appropriate protective measures.

- *CREDIT TO THE PRIVATE SECTOR*

In 2009 private sector's borrowing was influenced by a conservative stance of banks in lending and by the economic activity slowdown. The impact of these factors has not been uniform throughout the year. In the first months, banks significantly tightened the lending terms, first in response to a difficult and uncertain liquidity position induced by deposit withdrawal and panic in international financial markets at the end of 2008. The ever more conservative stance of banks reflected the concern about ongoing decline in the loan portfolio quality. Lending terms remained tightened in the following months, though at lower rates. In the second half of the year, the tightened lending standards and the economic activity slowdown triggered the decline in credit demand.

Chart 10 Annual growth (left) and credit to private sector as a share of GDP (right)

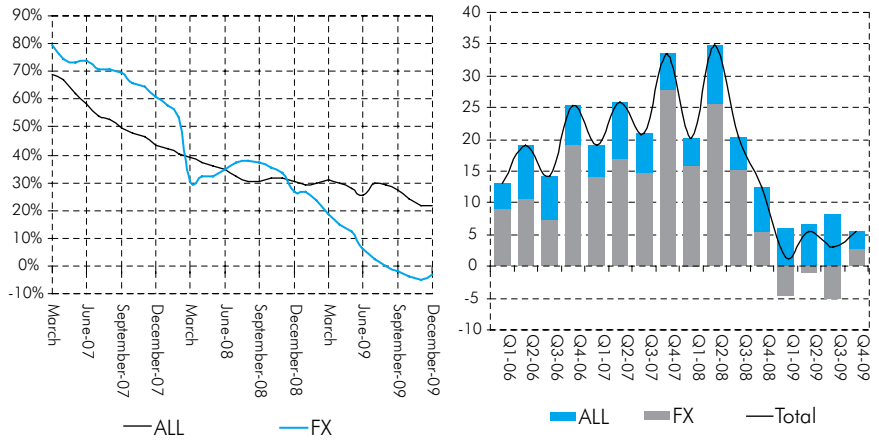


Source: Bank of Albania

Credit to the private sector decreased steadily during 2009. The annual growth rate recorded 12% at the end of the year, from 33% in the previous year. The annual credit growth, seasonally adjusted from the lek's depreciation, which was present throughout the year, was only 4%[8] at the end of 2009. Credit to private sector portfolio rose by 2.2 percentage points as a share of GDP, reaching 37.4%.

The ever lower lending paces in 2009 were driven by rapid slowdown of foreign currency credit and later on by its shrinkage over the last five months. In late 2009, the loan portfolio was 3 percentage points lower than in the previous year. Meanwhile, the expansion of lek-denominated credit maintained the average levels of the previous three years. Lek-denominated loan portfolio increased by an average of 27% in 2009, however, showing

Chart 11 Annual growth (in %, left) and the quarterly net credit flow (in billions of ALL, right) by currencies

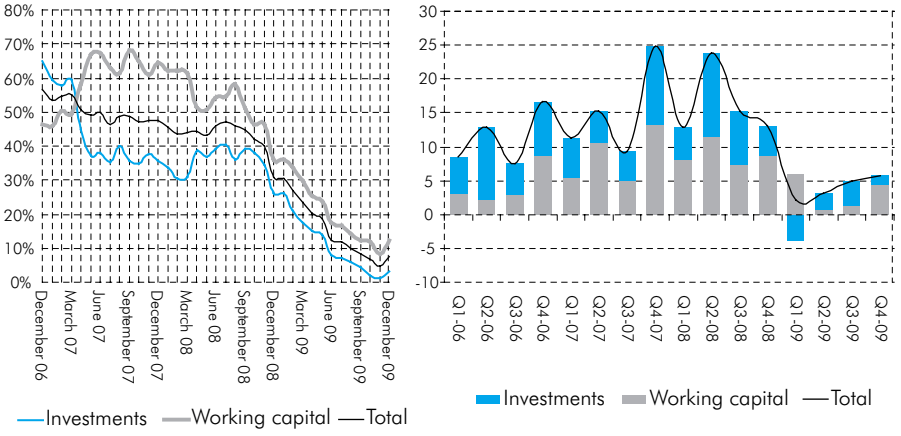


Source: Bank of Albania

signs of slowdown in recent months of the year. Lek-denominated loan portfolio accounts for about 34% of lending to private sector or 5 percentage points higher than in the previous year. Besides liquidity constraints in European currency[9], credit performance has been influenced also by various policies pursued by banks themselves related to different currencies. They were more cautious in granting foreign currency loans relative to those in ALL, taking into account the indirect exchange rate risk on loan portfolio quality. Also, the lek's significant depreciation along the year and the high exchange rate volatility increased customer awareness of the implications of borrowing in foreign currency, affecting the demand for foreign currency denominated loans.

Developments in business credit portfolio in 2009 recorded a sharp slowdown in annual growth rate, averaging 15%, from 43% in 2008. Both investment and working capital loans decelerated steadily throughout the year. During 2009, loan portfolio developments were dominated by short-term working capital loans, mainly denominated in Lek. The annual growth rate for this portfolio dropped to 10% at year-end, from 40% at year-start. Meanwhile, annual growth rate of investment loan dipped to 3% at the end of the year, from 30% in the previous year.

Chart 12 Annual growth (in %, left) and quarterly net flow (billion of ALL, right) of business credit by purpose of use



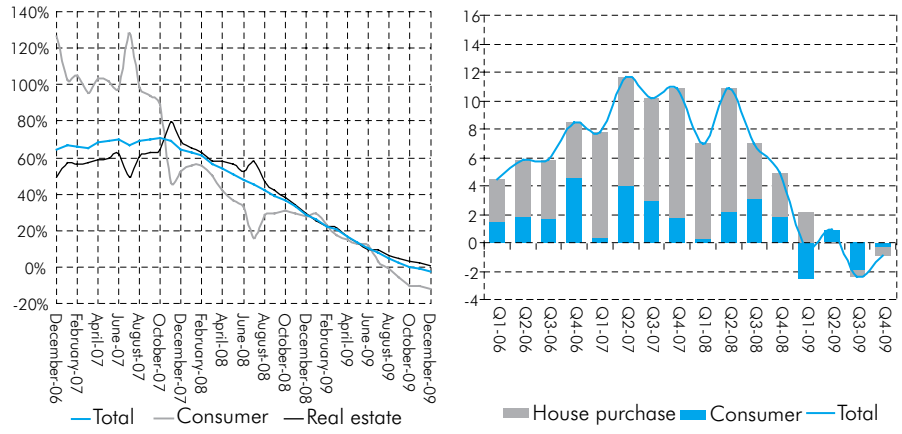
Source: Bank of Albania

Lower paces of business credit were felt in all sectors of the economy. In particular, credit for construction slowed at faster rates, recording a decline in annual terms since September. Credit to transport and telecommunication is the only sector that grew at the same rate as in the previous year. In late 2009, the most credited sectors were trade[10] (38%), construction (20%) and industry (24%).

Curbing of lending to the economy was even more significant in household credit, which at the end of 2009 decreased by about 2 percentage points

compared with the previous year. The banks started to tighten household credit terms, especially the consumer one, starting from the second half of 2008, in response to increased debt level of the latter and growth of non-performing loans. These factors, coupled with liquidity constraints, contributed to keeping tight lending terms to households even during 2009. In December 2009, consumer loan, which began to shrink in the first months of the year, was 12 percentage points lower than in the previous year. After a modest expansion in the first months of the year, the mortgage loan portfolio began to decrease during the second half of the year. At the end of the year, it recorded a positive annual growth of 1 percentage point.

Chart 13 Annual growth (in %, left) and quarterly net flow (in ALL billion, right) of household credit by purpose of use



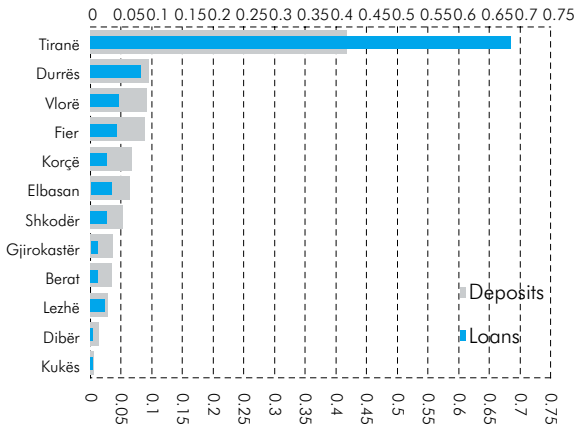
Source: Bank of Albania

Box 4 Geographic distribution of banking intermediation

Geographic distribution of lending and deposit activity is characterized by a high concentration, thus reflecting not only the concentration of population characteristics, but also the socio-economic development of various areas of the country. Concentration appears greater in the credit market than in deposit one. Thus, economic agents residing in Tirana own 42% of deposits, while they have absorbed about 69% of credit. In years, geographic distribution of loans has not shown any significant changes.

Deposit market appears more concentrated in businesses rather than in households. About 90% of business deposits are from districts that have a higher economic activity, such as: Tirana, Durres, Vlora and Fier. Meanwhile, household deposits reflect the geographic distribution of the country's population, influenced by other factors such as poverty and income level, immigration, and

Chart 14 Credit and deposit allocation by districts, as of December 2009

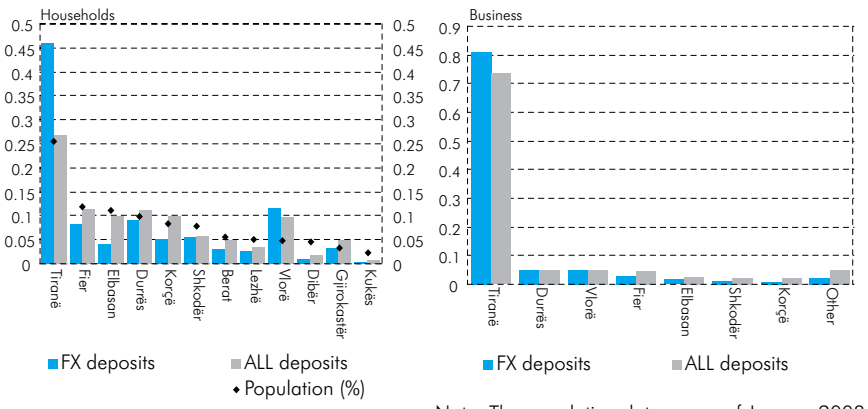


Source: Bank of Albania

savings/consumption trends. Besides Tirana, which has about one third of household deposits, the regions with high emigration, such as the coastal districts and Middle Albania, also have a large share of such deposits. On the other hand, although a large share of remittances goes to mountain areas and the poorest areas[11] of the country, they are primarily used to satisfy the needs for consumption and are not channelled through the banking system.

Business credit in Tirana accounts for about 74%. Though the distribution of business lending activity contains a subjective upward shift[12], the high concentration of business deposits in Tirana, about 78%, may be an indicator that this shifting might not be too large. Moreover, there are operating on average 40% businesses in Tirana and almost half of them have more than 50 employees. In general, distribution of loans, albeit uneven, follows the geographic concentration of businesses in the country. Also, the geographic distribution of loans is in line with district profiling in various sectors of the economy.

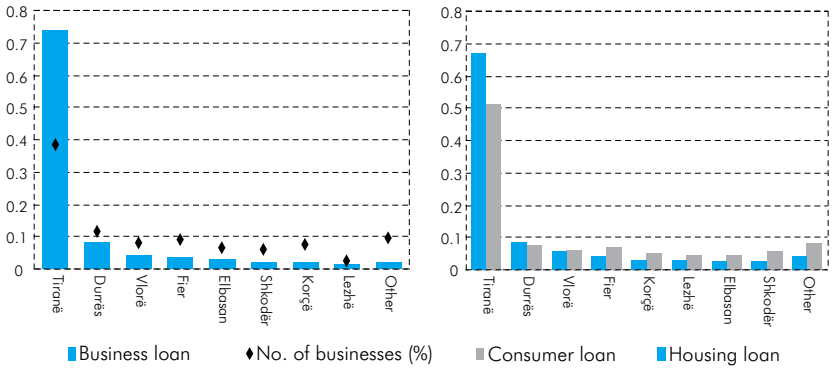
Chart 15 Distribution of household deposits and population (left) and business deposits (right), by currency



Note: The population data are as of January 2008.
Source: Bank of Albania, INSTAT

Disproportionateness in household loan distribution is small compared to business credit. About 59% of household loans are made to residents of Tirana. Out of

Chart 16 Geographic distribution of business credit and number of businesses (left) and of household credit by purpose (right)



Note: Data on the number of businesses are as of 2008.
Source: Bank of Albania, INSTAT

household credit, consumer loan is more uniformly allocated in districts other than the capital. About 85% of mortgage credit is concentrated in Tirana, Durres, Fier and Vlora, reflecting high concentration of construction[13] and real estate market development in these cities. Mortgage credit accounts for the major share of household loan portfolio only in Tirana and Durres, and on average 35% in other districts.

III.2. FINANCIAL MARKET DEVELOPMENTS

The uncertainty induced in the market during the last quarter of 2008 from deposit withdrawals and from the global financial situation fell gradually over the course of 2009. The banking system was supplied with ample and ongoing liquidity, at reduced cost by the Bank of Albania. The latter intervened in the market through open market operations, or verbally, in order to reduce market tensions, promote trade and provide security to economic and financial agents about the financial stability in the country. Once at the year-start and later on at the end of October, the Bank of Albania cut the basic policy rate by 0.50 percentage points. These two moves were immediately transmitted to short-term interest rates in the interbank market, which consequently decreased and had a lower volatility as compared to the previous year. Response to primary market securities was noted only after October. Government security yields rose until October due to relatively high risk premium. In the last quarter, public confidence in the banking system was restored, being reflected in increased deposits. On the other hand, basic policy rate cut and hinting for the pursuit of more prudent fiscal policies were reflected in the reduction of yields over this period.

Deposit interest rates remained at relatively high levels, promoting deposit flows into the system. On the other hand, average intermediation margins increased due to tightening lending terms. The latter were more pronounced related to the European currency, indicating *inter alia*, the correction for the right perception of exchange rate risk. Exchange rate continued to depreciate throughout 2009, due to changed demand/supply ratio in foreign exchange market.

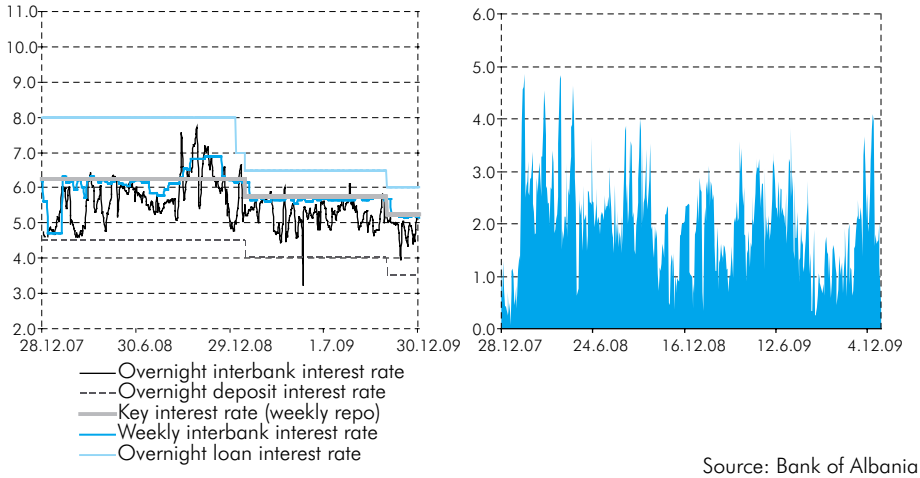
- *INTERBANK MARKET*

Interbank market interest rates underwent moderate reduction and volatility in 2009. Interest rate volatility smoothed down, while the 1.00 percentage point cut of basic policy rate was fully transmitted to the interbank market. Lack of liquidity in the market, carried over from the previous year, was felt in the first half of 2009, which was consequently characterized by relatively high risk premium and the banks' reluctance to be active in the interbank market. Supplying the market with unlimited liquidity by the Bank of Albania, meeting all the requirements of the banking system and embarking on measures to boost lending and reassure market participants, were all reflected in interest

rate performance and the exchanged volume in the interbank market. Interest rates fluctuated at relatively low and steady levels (overnight rate was about 0.40 to 0.50 percentage points below the basic policy rate).

The year-start was characterized by low volumes of exchanges in the interbank market, where interest rates carried over premiums of uncertainty associated mainly with liquidity constraints and complexity of ensuring funds in the deposit market. At the end of January, the Bank of Albania cut the basic policy rate by 0.50 percentage point, in order to promote lending and reduce its overall cost. On the other hand, temporary prohibition of using overnight deposit at the Bank was considered an appropriate measure to revive the money market. These measures, together with those taken in the previous months, were reflected in increasing volume of transactions and declining interest rates in the interbank market. In the second quarter, total borrowing marked ALL 2.3 billion, similar to prior-September 2008 value.

Chart 17 Interbank market interest rates (left) and daily volume in ALL billion (right)



Source: Bank of Albania

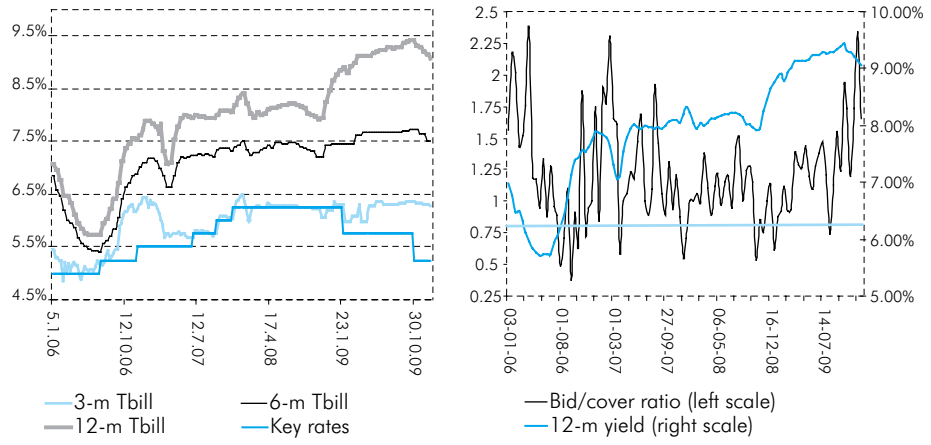
In the second half of the year, the ample liquidity provided by the Bank of Albania, curbing of deposit outflow and the decline in lending activity affected the interbank market performance. Liquidity distribution in the system was uniform, being transmitted to reduced interest rate volatility. Upward pressures in separate cases were mainly associated with frequently non-efficient behaviour of banks, because our financial market continues to be characterized by a low level of development, which also influences the reduction of investment alternatives to economic agents. The improved liquidity position and falling market risk perception were confirmed in increased participation of banks in government security auctions, especially after the first quarter of the year. Further basic policy rate cut by the Bank of Albania at the end of October was transmitted to interbank market rates. On average, the daily interest rate was 4.93 per cent and the weekly one was 5.35% as at the last quarter. During the last months, their downward trend was followed by increased volume of total borrowing, highlighting the increase of one-week maturity loans. Thus, from

November and December, the total volume of transactions carried out in the interbank market was ALL 2.05 billion or almost the same as the average level of the previous year.

- *PRIMARY MARKET AND YIELD PERFORMANCE*

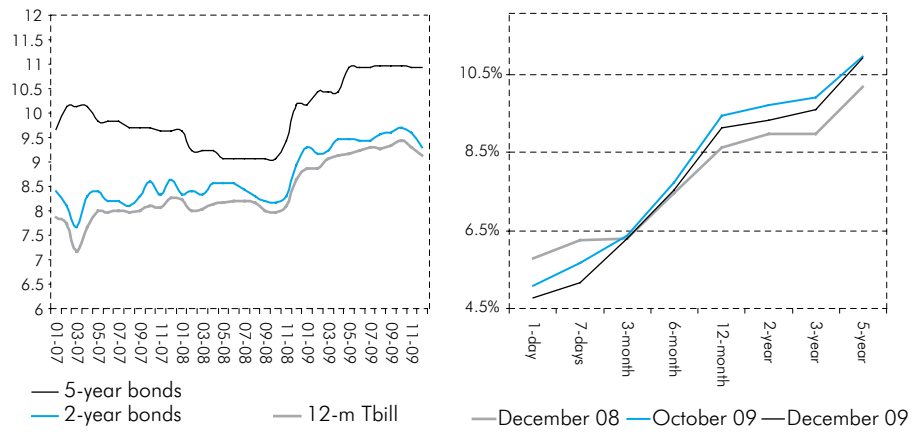
Government security yield performance in the primary market was mostly characterized by an upward trend. Starting from previous year-end, yields of all maturities have increased. In the first months of this year, their performance reflected somewhat low participation of banks in the auctions. It increased significantly in the following months; however, it did not affect the mitigation of upward pressures on yields. High risk perception and the banks' reluctance in a tight financial setting oriented the upward yield performance over the coming months. More pronounced T-bill yield rise was noted for 12-month maturity term, being later on transmitted to bond yields of this parameter. On the other hand, the increased demand for government funding seems that

Chart 18 Government security yield in the primary market (left) and participation in 12-month T-bill auctions (right)



Source: Bank of Albania

Chart 19 Yields in primary bond market (left) and interest rate trend (right)



Source: Bank of Albania

influenced the upward pressures on yield performance. At the end of the first half, 12-month T-bill interest rate reached 9.24% or 0.48 percentage points higher than that of December 2008. Yields spread increased, mainly for those of up to 12-month maturity, while the bonds spread increased at lower paces. This led to further steepening of yield curve and smoothening in its final part.

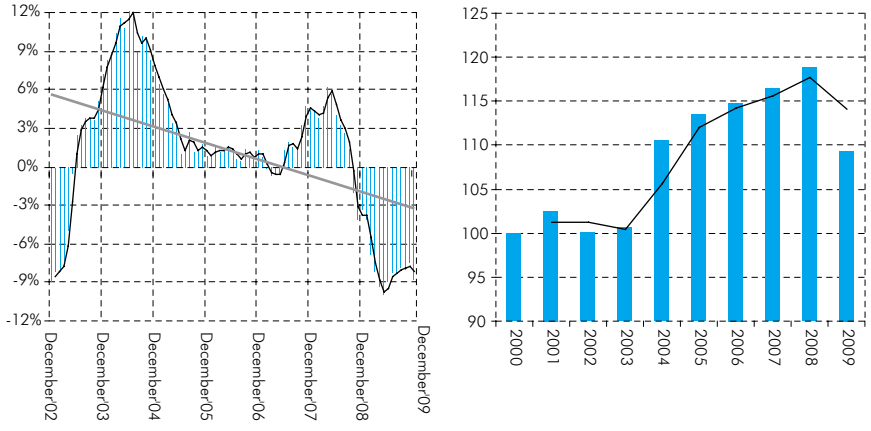
Yield direction changed in the last months of the year, following the Bank of Albania's cut by 50 b.p., due to a more favourable financial setting. In December, the yield on 12-month T-bills dropped to 9.06, followed by a drop in the yields on 3- and 6- month bonds.

Yields in primary bond market evidenced the same upward trend as that of treasury bills. Yield on bonds of all maturities rose, due to rising risk perception by banks. In October, the yield on 2-year and 3-year bonds recorded respectively 9.70 and 9.90%, while that of 5-year bonds (variable interest) recorded 10.97%. These levels show an increase of more than 100 b.p. related to that of the previous year. While increased yields on these instruments reflected chiefly the performance of yield on 12-month bonds, the accepted margin in auctions was smaller. November recorded reverse performance, after the Bank of Albania cut the basic policy rate by 0.50 percentage points for the second time along the year. Since the auctions of this month and onward, the yield on bonds dropped significantly, giving hints for continuation of this performance.

- *FOREIGN EXCHANGE MARKET AND EXCHANGE RATE PERFORMANCE*

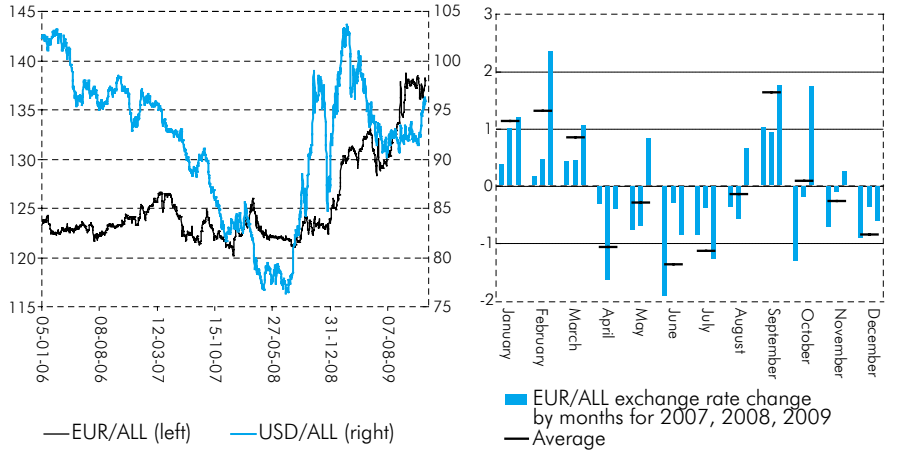
Year 2009 was characterized by the lek's ongoing downward trend in nominal effective terms, more pronounced in the last quarter of 2008. Over the course of this period, the global financial crisis hit the foreign exchange market, due to the shaking of public confidence in the financial system and its instruments. Accelerated downward rates of the NEER index, highlighted almost throughout the first half of the year, peaked to 10.2% in May, followed by a slight reverse in the second half of the year, fluctuating around a narrow

Chart 20 The lek's annual changes in nominal effective exchange rate, NEER[14] (left) and the NEER index performance in average annual terms for 2000-2009, (right)



Source: Bank of Albania

Chart 21 Daily exchange rate performance of Eur/Lek and USD/Lek (left) and Eur/Lek ratio grouped by months for 2007-2009 (right)

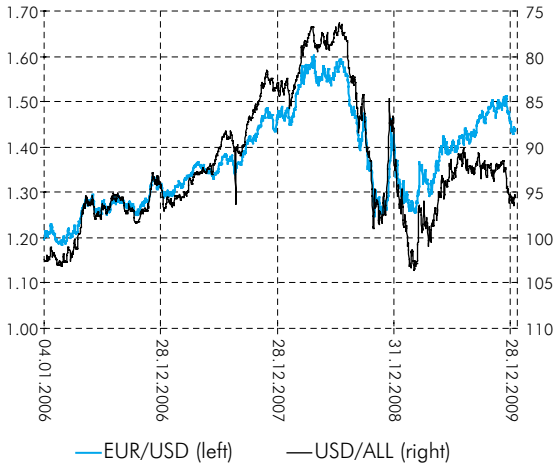


Source: Bank of Albania

range. The lek's stability over this period was due to steadier supply to demand ratios in foreign currency, gradual psychological effect cancellation and trade balance contraction.

In the domestic foreign exchange market, the lek was depreciated against both hard currencies of the basket, the euro and dollar, on average by 7.6% and 13.2% in 2009. The appreciating tendency of the euro was present almost throughout the period, except during the seasonal holidays and summer months. However, it should be noted that the seasonal effect in 2009 was less than in the previous years, while the corrective effect that follows these periods was more sensitive, as a result of volatile demand and supply balances and market agents' uncertainty.

Chart 22 Daily performance of EUR/USD and USD/ALL ratio



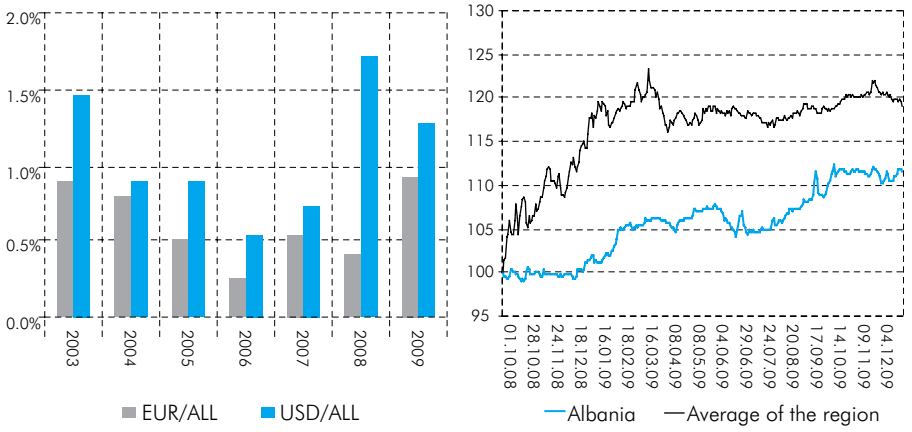
Source: Bank of Albania

On the other hand, the performance of USD/ALL ratio reflects to a great extent the forex performance in international market.

The EUR/ALL and USD/ALL exchange rate was highly volatile during 2009, reflecting the volatile supply to demand ratio and the market agents' uncertainty.

However, compared to the previous year, the USD/ALL exchange rate volatility was somewhat moderate, while the EUR/ALL one reached historical values.

Chart 23 The Lek's exchange rate volatility[15] in average annual terms (left) and daily performance of euro/national currency ratio for countries in the region,[16] as of 1 October 2008 (right)



Source: Bank of Albania

A comparative look between the euro/lek ratio and other currencies of the region shows that the lek showed a higher stability than the currencies of other countries at the global crisis onset. In a second moment, when other economies seem as having assimilated the shock created by the global crisis to foreign exchange market and when respective currencies started to be less volatile, the lek speeded up the depreciating tendency.

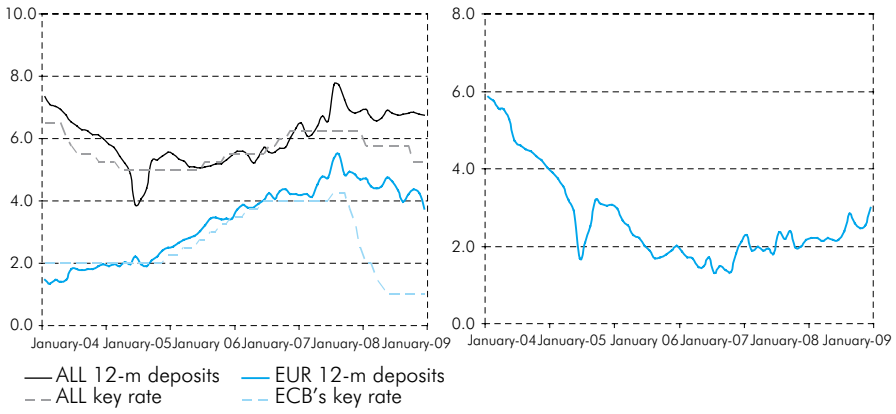
- *DEPOSIT AND CREDIT INTEREST RATE PERFORMANCE*

Year 2009 was characterized by relatively high interest rates on lek- and euro-denominated deposits. Though the basic policy rate for the lek was cut twice, totalling 1.00 percentage point, ALL deposit interest rate did not undergo the same decline. This was due to high competition in the banking system to absorb liquidity and banks' attempt to maintain the relevant market share, in order to recover the deposits lost in the last quarter of 2008. Interest rates on euro-denominated deposits went downward, though they continued to maintain high rates compared with the ECB's basic policy rate, which was decreased by 1.50 percentage point in the first half of 2009.

In 2009, ALL time deposit interest rate averaged 5.46%, i.e. 0.12 percentage points lower than in 2008. The average ALL deposit interest rate fell in the first months, from 5.84% in January to 5.12% in February, as a result of completion of end-2008 bank offers and interruption of deposit withdrawals from the system. During the summer season - June to August - this indicator increased, peaking to 5.94% in August, affected by seasonal offers. Later on, upon restitution of deposits into the system, interest rates decreased and they recorded 5.46% in December. According to maturity terms, the 12-month deposits decreased on average by 0.03 percentage points in 2009.

Euro-denominated time deposit interest rates went downward in 2009.

Chart 24 Performance of 12-month Lek and Euro deposit interest rates (left) and the spread between 12-month Lek and Euro deposit interest rate (right)



Source: Bank of Albania

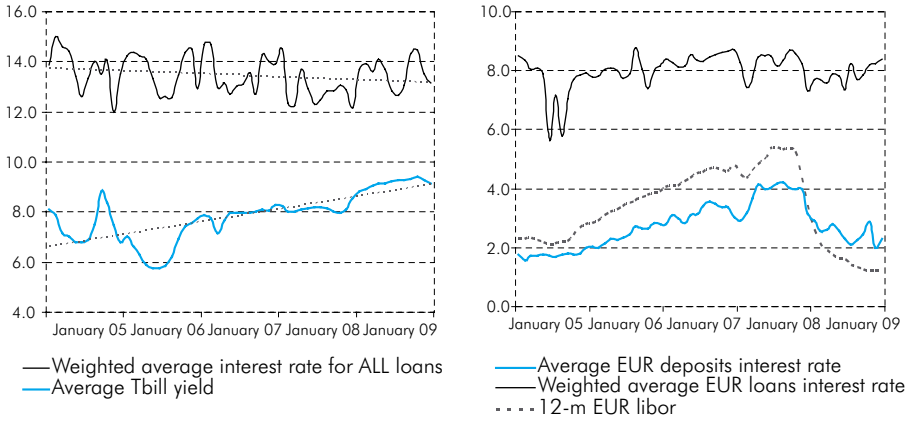
Interest rate cut was recorded for all maturity terms other than the 24-month one. Euro deposit interest rate averaged 2.48 per cent in 2009, a relatively high value compared with the ECB's basic policy rate, which settled at 1.00% throughout the second half of 2009. High interest rates were conditioned by liquidity position and banks' policies oriented to foreign currency deposits. The banks used the deposit interest rates (cost of funds) as a benchmark for euro-denominated loans, a tendency that began at the end of 2008 and continued during 2009. Interest rate cut was oriented by individual banks' inclinations, peaking in April and October, a period that coincides with the seasonal volatility in the economic activity.

Keeping high interest rates on lek-denominated deposits and downward ones on euro-denominated deposits led to a spread of 3.00 percentage points between lek- and euro-denominated deposits[17] at end-2009, or 0.84 percentage point higher than in December 2008. In average terms, this indicator is estimated at 2.41 percentage points for 2009, from 2.07 in the previous year.

Year 2009 was characterized by a high volatility of average interest rates for lek-denominated loans and an upward trend for euro-denominated loans. As an outcome of perceived uncertainty over the first six months of 2009, a tightening lending trend for both hard currencies was recorded. Banks eased the lending terms only in the second half of the year, following the significant improvement at the deposit level, the interest rate cut in the primary market and the Bank of Albania's initiatives to cut the lek-denominated lending cost.

During 2009, the weighted-average interest rate on lek-denominated loans marked 13.59%, from 12.85% in the previous year. New credit was extended mostly for short-term 0-6 month financing (overdrafts to businesses). They are supported even by more favourable interest rates for short-term maturities compared with long-term ones, which carry over the highest uncertainty risk

Chart 25 Weighted average interest rate for lek-denominated loans (left) and euro-denominated loans (right)

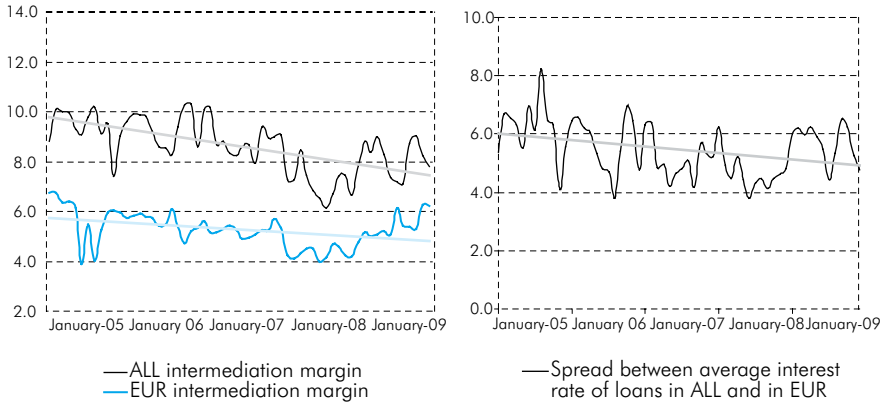


Source: Bank of Albania

perceived about future economic outlook. During the first half of the year, lek-denominated credit interest rate went upward, following the same trend as the interest rate it is indexed to – i.e., 12-month T-bill rate. During the summer they fell, due to some special promotional policies pursued by the banking system, to turn upward again in September-October, due to short-term demand for increasing corporate inventories. In the last two months of 2009, an easing of lek-denominated credit was noted, coinciding with the basic policy rate cut and decline in 12-month T-bill yield. This development reflected the increased assessment of the banking system to finance in national currency, in response to correct perception related to foreign currency credit risk.

In general, the euro-denominated credit deviated from international financial market developments, expanding Euribor margins and the cost of funds. The weighted average interest rate on euro-denominated loans was 7.89% in 2009 compared with 8.19% in 2008. Meanwhile, the Euribor rate

Chart 26 Lek/euro intermediation margin (left) and weighted average interest rate spread on Lek and Euro credit (right)



Source: Bank of Albania

in the international markets fell by 3.16 percentage points during this period. The general perception of uncertainty about investment-projects at home, rigorous monitoring of euro-denominated credit and exchange rate volatility were reflected in price rise by the banks. In the last months of the year, interest rate on euro-denominated loans rose again, as an outcome of increased seasonal demand for working capital by businesses. During 2009, in average terms, a slight interest rate cut for all maturities was noted; however, the tightening of lending terms, particularly on household mortgage loans, remained constant in the system.

Lek and euro intermediation cost (credit to deposit interest rate spread) increased in 2009. Lek intermediation cost averaged 8.13 percentage points, from 7.27 percentage points in the previous year, whereas the euro one averaged 5.41 percentage points, 1.00 percentage point higher than in the previous year. In the lek's case, the growth was affected by average credit growth, while in the euro's case it was influenced by deposit interest rate cut.

Notwithstanding tougher standards and restrictions about lending in euro, the spread between lek and euro credit interest rates averaged 5.7 percentage points in 2009, up from 4.6 percentage points in 2008.

ENDNOTES

[1] *Real M3 indicator represents the series of M3 aggregate deflated from inflation rate and exchange rate moves.*
[2] *Money supply is M3 = mm * RM3, where mm stands for money multiplier.*
[3] *The ratio of M2 aggregate to base money.*
[4] *These indicators do not consider the effect of exchange rate volatility to stock of foreign currency deposits and M3. Their regulation against this effect decreases slightly the annual rate or their ratio to monetary aggregate. The seasonal adjusting of foreign currency deposits from the exchange rate effect decreased their ratio to M3 at the end of 2009, below the level of this ratio at end 2008.*
[5] *Total outstanding credit in foreign currency, mainly in euro, accounts for about 34% of the broad money.*
[6] *In such a simplified case, financial assets of economic agents include currency outside banks held by enterprises and households in the form of cash, as well as their deposits with the banking system, whereas liabilities represent their obligations to the banking system, in the form of credit. The estimation of cash in foreign currency is done on the basis of assumption of maintaining the ratio of lek-denominated cash to lek deposits, similarly as the ratio of foreign currency denominated cash to foreign-currency denominated deposits.*
[7] *Around 70% of foreign currency credit outstanding is extended to businesses.*
[8] *The figures presented in the credit analysis are seasonally adjusted from exchange rate effect. This seasonal adjustment does not reflect loyally the monetary developments in the banking system balance sheets, but it reflects better the effect of credit on the economic activity.*
[9] *They were present mainly in the first months of 2009.*
[10] *The share of each sector to total business loan portfolio is given in brackets.*
[11] *World Bank, "Albania, Urban Growth, Migration and Poverty Reduction" Poverty Assessment, 2007.*
[12] *Due to internal bank procedures to analyze large credit to businesses at the decision-making units in Tirana. A part of loans made to businesses in other districts were evidenced as loans made to businesses in Tirana.*
[13] *Approximately 73% of construction firms are enrolled in these prefectures.*
[14] *NEER – the nominal effective exchange rate, estimated relative to both main currencies, according to the approximate share they occupy in the external trade– the euro (80%) and the USD (20%). A higher NEER coefficient implies the lek's appreciation. January 2001 is the base period of this index.*
[15] *Estimated as an annual average of exchange rate volatility. The exchange rate volatility is measured by the standard deviation indicator.*
[16] *The countries in the region include: Serbia, Turkey and Romania, as countries having the same exchange rate regime as that of our country.*
[17] *Estimated as the spread between the weighted interest rate of 12-month deposits in lek and in euro.*

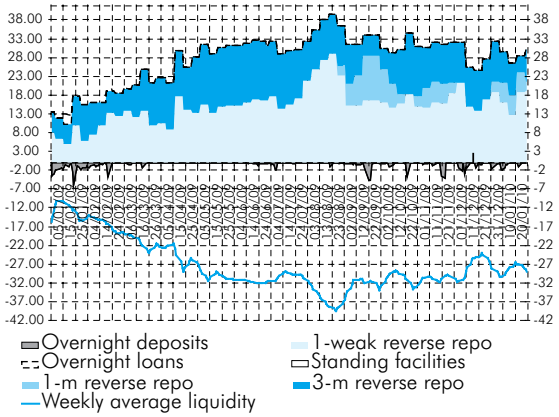
"500th Anniversary of the Statue of David"
50 lekë. Cu-Ni coin, issue of 2001.

CHAPTER IV MONETARY POLICY INSTRUMENTS AND FOREIGN RESERVE MANAGEMENT

IV.1. MONETARY POLICY INSTRUMENTS

Continuing the measures taken in late 2008 to stabilize the liquidity situation in the banking system after the public confidence crisis, during 2009, money market operations were oriented towards supplying the banking system with all the necessary liquidity. The amount of short-term liquidity injected by the Bank of Albania peaked in summer, with ALL 40 billion. Thanks to deposits flowing into the banking system, this amount gradually decreased to about ALL 28 billion at the end of 2009. The number of banks that employed temporary instruments increased relative to the previous years, thus creating a positive premise that liquidity withdrawal by participating in open market operations of the Bank of Albania will not be merely a participation in emergencies, but a common operation. This is a sign of increased importance of these operations, leading to enhancement of their effectiveness.

Chart 1 Open market operations and employment of standing facilities*



*The negative values on the employment of instruments in the chart reflect the operations for withdrawing liquidity, while the positive values correspond to operations for injecting liquidity.
Source: Bank of Albania

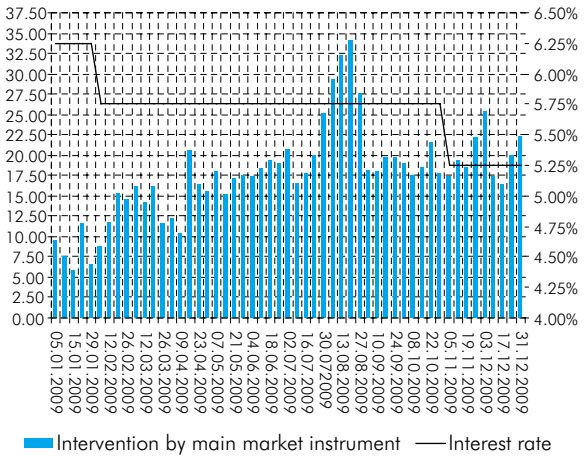
IV.1.1. OPEN MARKET OPERATIONS

Open market operations, which consist of the main operations, fine-tuning operations and structural ones, are core operations for liquidity management by the central bank. During 2009, liquidity injection structure averaged 55% through the main instrument and 45% through fine-tuning instruments of longer than one-week maturity term.

- *MAIN OPEN MARKET OPERATION*

During 2009, reverse repurchase agreement of one-week maturity was used as the main instrument of open market operations. Intervention by using this operation was conducted through fixed-price auction – the base rate of the Bank of Albania. This form of auction was launched in November 2008, as one of the measures taken to mitigate the tension induced in the banking system from deposit withdrawal. During the last quarter of 2009, market conditions were turned to normality and therefore it was decided to turn the main operation into the classic form – variable-price auction. The changed form of auction was decided to become effective in early 2010, but the decision for this change was made transparent to banks of the system at the beginning of the fourth quarter of 2009.

Chart 2 Main open market operation by auction dates (in ALL billion)



Source: Bank of Albania

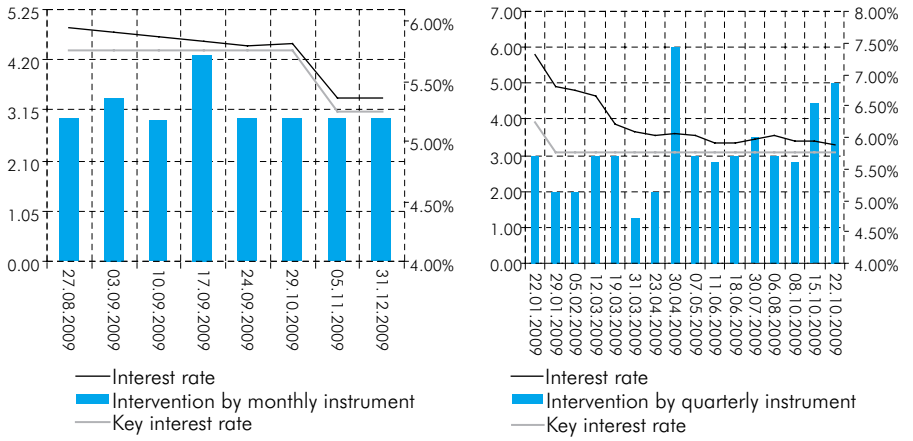
In 2009, the liquidity injected through reverse repurchase agreements of one-week maturity averaged 17.70 billion a week. The number of banks participating in weekly auctions averaged six, down from nine banks in the last quarter of 2008. On the other hand, the number of banks participating in weekly auctions in 2009 increased relative to the first nine-month period of 2008, prior to the tense situation in the banking system (averaging two banks per auction).

The decreased number of participant banks, compared to last quarter of 2008, reflected the relaxed need for liquidity.

- *FINE-TUNING OPERATIONS*

During 2009, fine-tuning operations for injecting liquidity of a longer-than-one-week maturity were used at a higher frequency than in past years. They were used more frequently to minimize the pressures on market interest rates in terms of a need for liquidity at a level never proved before.

Chart 3 Fine-tuning operations by auction dates (in ALL billion)



Source: Bank of Albania

Reverse repurchase agreements of one-month maturity were used eight times, injecting roughly ALL 3.2 billion, while those of three-month maturity were used 16 times, injecting approximately ALL 3.1 billion. Reverse repurchase agreements of one-month maturity were used mainly during the last quarter of the year, when a rise at the level of liquidity was expected, because of cash inflows into the banking system.

The bid to cover ratio of monthly auctions averaged 127%[1], while that of three-month auctions averaged 124%. The number of banks participating

in the auction averaged four banks per auction, which is regarded as satisfactory, taking into consideration the poor history of employment of these instruments.

The tension for liquidity at year-end 2008, which continued even during the first quarter of 2009, was reflected in interest rates of reverse repurchase agreements of three-month maturity. The spread between this interest rate and the base interest rate was 81 b.p. during the first quarter of the year; then it decreased to 22 b.p. during the rest of the year. This spread was narrowing even for one-month reverse agreements, from 20 b.p. in August 2009 to 11 b.p. at year-end.

- *STRUCTURAL OPERATIONS*

Structural operations – outright purchases of T-bills – were employed only once at the end of 2009, at ALL 2.30 billion.

IV.1.2. STANDING FACILITIES

Standing facilities - overnight deposit and overnight loan - are instruments available to commercial banks to manage daily liquidity. However, the Bank of Albania has the right to suspend the use of these instruments when necessary.

From the last quarter 2008 to the first quarter 2009 the interbank market was not operating appropriately. At a time when most of banks borrowed from the central bank through open market instruments, other banks appeared as depositors with the Bank, using overnight deposit instrument. In this light, in March 2009, the Bank of Albania decided to suspend the employment of overnight deposit. The suspension lasted until May 2009.

After re-employment of overnight deposit instrument, there was a better liquidity management, focusing the use of overnight deposit on the last days of the period of required reserve maintenance. The employment of overnight deposit decreased on average by ALL 0.40 billion per day during June-December 2009, compared with ALL 1.30 billion per day during January - February 2009.

Overnight loan was not frequently used during 2009. Specifically, it was used only 10 times.

IV.1.3. ADDITIONAL LIQUIDITY PROVIDING INSTRUMENTS

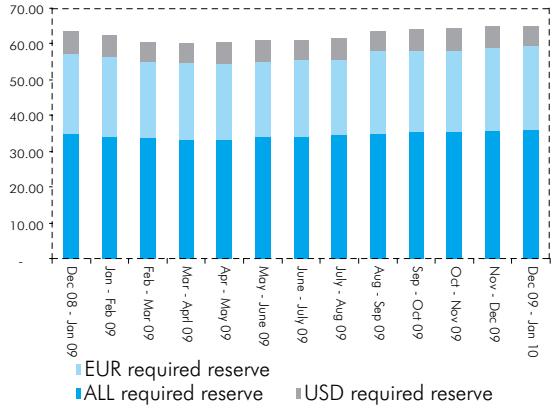
Lombard loan is the last lending instrument of the Bank of Albania used to help banks overcome temporary liquidity shortages, provided they are financially sound. It was not used at all during 2009.

IV.1.4. REQUIRED RESERVE

Required reserve is a monetary policy instrument aimed at adjusting the banking system liquidity and stabilizing the interest rates. The Bank of Albania applies the required reserve for both deposits in lek and in foreign currency. The required reserve ratio is 10% of commercial banks' deposits of up to two years, in the three currencies – the lek, euro and US dollar. Its performance during 2009 reflected that of deposits by respective currencies, with a one-month lag, since the maintenance period of the required reserve starts on the 24th calendar day of each month and corresponds to deposit position of the preceding calendar month.

The required reserve ratio reflected the effect of deposit withdrawal in the first half of the year; and their recovery in the second half of the year. The annual growth of the required reserve resulted 3.15% for the lek, 5.17% for the Euro, and 11.01% for the US dollar.

Chart 4 Required reserve (in ALL billion)*



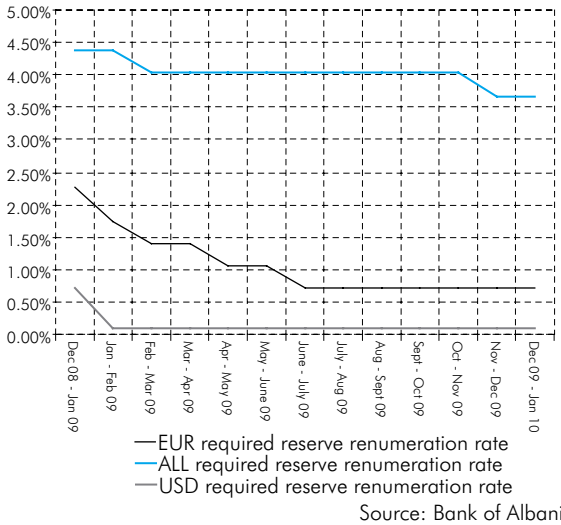
*Foreign required reserve components are converted according to the respective fixed exchange rate announced by the Bank of Albania as at the last day of 2009.

Source: Bank of Albania

In 2009, the average weight of the required reserve component in lek was roughly 55.5%, while in Euro it was 35% and in US dollar it was 9.5%.

The opportunity of averaging the ALL required reserve by using 40% of it was similar to the levels used in the previous year. The deviation of the account position from required reserve ratio at the end of the maintenance period decreased, from a positive average of ALL 0.50 billion in 2008 to a positive average of ALL 0.40 billion. In optimal conditions, the deviation should be positive, close to zero. However, it should be emphasized that the suspension of overnight deposit during March to May reflected a greater commitment of banks to good management of liquidity through good management of the required reserve.

Chart 5 Required reserve remuneration rate



Source: Bank of Albania

Performance of the required reserve remuneration rates has reflected that of interest rates they derive from[2]. In concrete terms, the ALL required reserve remuneration has reflected the basic policy rate cut by the Bank of Albania, in January and October 2009, down from 4.375% at year-start to 3.675 at year-end.

Foreign required reserve remuneration is based on respective central banks' basic policy rates – the European Central Bank and Federal Reserve of the USA. Interest rate cuts applied by these banks triggered decline in remuneration rate, by

respectively 158 b.p. for the euro required reserve and 61 b.p. for the USD one.

IV.2. FOREIGN RESERVE MANAGEMENT

In the aftermath of the international financial crisis of 2008, several changes in foreign reserve management policy were needed to reflect, first of all the investment opportunities in new instruments, and secondly, to make room for realizing income from portfolio investment in the conditions of very low interest rates. Also, during 2009 steps to enhance the functions related to risk assessment were made, paying special attention to credit risk and using new models supportive to risk analysis of counterparty reliability.

Within the assistance program of the World Bank, over the past year, staff training and preparation of infrastructure to start investing in the new financial instrument of future contracts and in variable-income securities was carried out. In the meantime, the term of agreement between the parties related to the Bank of Albania's participation in the assistance program was extended by one year, during which assistance was scheduled to implement a system for assessing and tracking the operational risk as well as for other aspects of the functions performed by the Monetary Operations Department in view of foreign reserve management activity.

• *STATISTICS ON FOREIGN RESERVE PERFORMANCE OVER 2009*

During 2009, gross foreign reserve, estimated and reported in US dollar, increased by about USD 21.4 million, to USD 2,365.56 million as at end-December.

The key factors impacting on gross reserve are presented in the following:

A. Transactions with the Ministry of Finance provided a negative impact, estimated at USD 118.27 million, according to the following items:

- Privatization proceeds, USD 253.55 million;
- Receipts from trade loan, USD 261.80 million;
- Receipts from loans extended by the International Development Agency (IDA) etc., USD 102.55 million;
- Transfers, USD 736.17 million[3].

B. Commercial banks' transactions provided a negative impact, estimated at USD 4.42 million, according to the following items:

- Commercial banks' depositing at the Bank of Albania to fulfil the required reserve and other transactions related to their capital, USD 97.57 million;

- Transfers, USD 101.99 million.

C. The Bank of Albania's transactions provided a positive impact, estimated at USD 89.07 million, according to the following items:

- Inflows from IMF loan disbursing, USD 76.32 million;
- Other receipts are estimated at USD 2.02 million;
- Buying of FX from commercial banks, the Ministry of Finance and other institutions, is estimated at USD 237.92 million, of which:
- 234.46 million USD (Ministry of Finance),
- 3.46 million USD (other institutions).

- Receipts ensured from foreign reserve investment as at end December are estimated at about USD 55.85 million. The portfolio re-evaluation effect, as a result of interest rate volatility, is estimated at a negative value of USD 16.39 million;
- Settlement of Bank of Albania's dues to the IMF is estimated at USD 14.15 million;
- Settlement of external debt payments for the Albanian government is estimated at USD 52.90 million;
- Selling of foreign currency to the Ministry of Finance and commercial banks, is estimated at USD 194.74 million, of which:
- 125.76 USD million (Ministry of Finance);
- 68.98 USD million (banking system).

- Transfers, at about USD 4.86 million.

During 2009, the foreign exchange rate volatility of currencies composing the foreign reserve, positively influenced the gross reserve value, recording an effect of about USD 55.02 million.

ENDNOTES

[1] In this case the bid is the amount announced by the Bank of Albania in the auction of reverse repurchase agreements, whereas the cover corresponds to the banks' request to participate in these auctions.

[2] The required reserve remuneration rates account for 70% of the rates they derive from.

[3] This figure includes the use of foreign currency funds from different projects in the favour of Government.

“Albanian Folk Costumes”
10 lekë. Cu-Ni-Al coin, issue of 2005.

CHAPTER V BANKING SUPERVISION

V.1. REGULATORY FRAMEWORK

The Law "On Banks in the Republic of Albania" and ongoing implementation of medium and long term objectives of the Bank of Albania, consolidated the work for reviewing the regulatory supervisory framework related to compliance with the provisions of the law, combination with the implementation of reviewed principles of the Basle Committee for an effective supervision and new concepts of the New Capital Accord, the European Council directives and best practices in regulation and supervision of financial institutions licensed by the Bank of Albania.

In 2009, the Bank of Albania finalized the drafting of several new regulations and adopted amendments to some other regulations of the banking supervision. The drafting of new regulations and reviewing of the existing ones aimed at preventing vulnerabilities of the system and were frequently triggered by developments in the global financial markets in general and the recent financial crisis in particular. This process took into consideration adapting to best practices in internal audit area; enhancement of banks' transparency to clients and the public at large on the supplied products and services, and presenting promotional campaigns for new products, informing on the real financial position and their risk profile; their responsible and effective management; enhancement of risk management capacity, etc.

New regulations and important amendments to effective acts on banking supervision were adopted during 2009, as follows[1]:

- Regulation "*On consumer loan and mortgage loan to households*", which consistently fulfils and enhances the regulation of transparency to individuals in terms of the lending process by banks and non-bank financial entities, ensuring transparency and comparability of offers by setting rules and requirements about the information disclosed to clients about consumer loans, mortgage ones, particularly about the effective interest rate, defining his rights in the borrowing process.

- Regulation "On licensing and operation of non-bank financial entities" which specifies the terms and conditions for granting a licence to and the financial business of non-bank financial entities and approval of their agents, as well as the licensing of micro-credit financial institutions.

- Regulation "On licensing and operation of banks and branches of foreign banks in the Republic of Albania", which specifies terms and conditions, requirements, documentation and procedure for

licensing banks and foreign bank branch to conduct banking and financial activity in the Republic of Albania, all the requirements of the supervisory authority for bank network extension, bank's legal reorganization (merger, division), granting the initial approval, etc.

- Regulation "On core principles of managing banks and branches of foreign banks and the criteria for approval of their administrators", which defines the rules and basic criteria for a responsible and effective management of banks and branches of foreign banks, the criteria to be met by administrators, and the documentation needed for their approval by the Bank of Albania, as well as the criteria for concluding agreements with third parties to perform the functions and responsibilities of bank administration and management.

- Regulation "On prevention of money laundering and terrorist financing", which specifies the procedures and documentation for client identification, data recording, storing and reporting by subjects of the regulation to the responsible authority in accordance with the requirements of the effective legislation and (40+9) FATF's recommendations.

- Regulation "On liquidity risk management", which sets forth the minimum requirements and standards for effective management of liquidity risk by banks and branches of foreign banks, to prevent systemic risks posed by liquidity risk, as well as to provide a more effective process in carrying out the functions of banking supervision, attaining the objective for ensuring a robust banking system.

- Regulation "On foreign exchange activity", which specifies the rules for carrying out operations in the current and capital account, in the form of payments and transfers from/into the Republic of Albania between residents and non-residents, as well as unilateral transfer of assets. The regulation aims at further liberalizing the capital movements through simplification of procedures, documentation and regulations on capital movement, in accordance with the requirements of effective legislation and European Union legislation.

- Several significant amendments were made to the regulation "On risk management arising from large exposure of banks" and the regulation "On credit risk management", which aim at easing the measures taken by the supervisory authority during the end of 2008 for preventing the Albanian banking system from negative spillovers driven by the global financial systems' vulnerabilities.

V.2. LICENSING

Licensing as part of banking supervision, in 2009, consisted in:

• Changing bank shareholders' structure. Qualitative and quantitative changes of bank shareholders' equity were noted over the past year. Qualitative changes consist in increased share of foreign capital in bank shareholders' equity. Quantitative changes are evidenced in the increased amount of subscribed and paid-in capital of banks. Concretely, during 2009, there was adopted:

- Increase in the qualifying holding of Çalik Holding A.S. Turkey (indirect shareholder), from 25.2% to 45.6% in the shareholders' equity of the National Commercial Bank, Jnt.Stc.

- Increase in the qualifying holding of shareholders' equity of Islamic Bank of Development, from 15% to 55% of the shares, by acquisition of 40% of the shares of the Ministry of Finance in the shareholders' equity of the United Bank of Albania Jnt.Stk.

In all transfers of bank stocks, there is noted an upward trend of the share of foreign capital from the viewpoint of origin. As at end 2009, there are operating 16 banks in Albania, of which 14 are banks and 2 are branches of foreign banks. There was not submitted any new application for a bank licence throughout the past year.

• Adding activity to the Licence Annex. In 2009, there was carried out an adaptation of documents on which the banking and financial activity of banks operating in Albania is based. There was approved updating of existing licence annexes of banks and branches of foreign banks, in accordance with the provisions on banking and/or financial activity under the Law No. 9662, dated 18.12.2006 "On Banks in the Republic of Albania." In this light, banks applied for Bank of Albania's approval for carrying out additional activities, which are being considered. Also, during 2009 there were approved eight new cases of e-banking products, consisting in implementing internet banking, SMS banking, electronic banking cards, ATMs and POSs.

• Expanding the banks' network. The network expansion of bank branches and agencies in the territory of Albania continued in 2009, but at lower rates than in the previous years. Specifically, 17 branches and agencies were opened and commenced activity in 2009, while banks reported closure of activity for four branches. As at end 2009, the total number of branches and agencies amounted to 530, from 517 as at end 2008.

Table 1 Indicators of banks' network extension as at end 2008

No.	Banks	No. of branches inside the country	No. of agencies	No. of branches abroad	No. of agencies
1	Raiffeisen Bank	101			101
2	National Commercial Bank	26	29	2	57
3	United Bank of Albania	4	2		6
4	Banka Veneto (Banca Italiana di Sviluppo)	7			7
5	Tirana Bank	43	4		47
6	National Bank of Greece – Albania Branch	5	25		30
7	International Commercial Bank	8			8
8	Alpha Bank – Albania Branch	48	1		49
9	Intesa Sanpaolo Bank, Albania	18	16	4	38
10	ProCredit Bank	29	13		42
11	Emporiki Bank	10	10		20
12	Credit Bank of Albania	2	1		3
13	Credins Bank	23	6		29
14	Popular Bank (Banka Popullore)	39			39
15	Union Bank	15	16		31
16.	First Investment Bank	6	4		10
	Total	384	127	6	517

Source: Bank of Albania

Table 2 Indicators of banks' network extension as at end 2009

No.	Banks	No. of branches inside the country	No. of agencies	No. of branches abroad	No. of agencies
1	Raiffeisen Bank	102			102
2	National Commercial Bank	27	29	2	58
3	United Bank of Albania	4	2		6
4	Banka Veneto (Banca Italiana di Sviluppo)	8			8
5	Tirana Bank	43	4		47
6	National Bank of Greece – Albania Branch	5	25		30
7	International Commercial Bank	8			8
8	Alpha Bank – Albania Branch	48			48
9	Intesa Sanpaolo Bank, Albania	19	14	4	37
10	ProCredit Bank	30	15		45
11	Emporiki Bank	13	10		23
12	Credit Bank of Albania	2	1		3
13	Credins Bank	27	6		33
14	Popular Bank (Banka Popullore)	42			42
15	Union Bank	15	16		31
16	First Investment Bank	5	4		9
	Total	398	126	6	530

Source: Bank of Albania

- Approving administrators. In 2009, the banks submitted 66 requests for approval of administrators appointed by them, under the requirement of the Law "On Banks in the Republic of Albania". The Bank of Albania granted the initial consent for those requests. They consist in:

- Appointing administrators for the effect of various movements, depending on bank organizational structure, or parallel movements or new appointments;
- Creating new positions for the effect of establishing new structures in banks;
- Making new appointments, as an outcome of new shareholders' representatives to bank management.

Of the approved bank administrators, 10 of them are for members of the Steering Council of the bank, 10 are for Audit Committee members, 4 are for Executive/General Director, 6 are for Deputy Executive Director, 36 cases are for department/division/directorate heads.

- Approving changes in bank statutes. Under Article 24 of the Law "On Banks in the Republic of Albania" the Bank of Albania gave initial approval, *inter alia*, even for changes in banks' statutes. Pursuant to this legal requirement, there are submitted requests for approval of amendments to the statute of 6 banks. The amendments to bank statutes relate to the obligation to implement the requirements of the Law "On Banks in the Republic of Albania", the Law "On traders and trading associations", the Law on the National Registration Centre.
- Establishing non-bank financial institutions. A highlight of 2009 was the increased number of applications submitted to the Bank of Albania by associations seeking to carry out financial activity as non-bank financial institutions. Throughout the year, 7 licences were granted to these institutions. The applications consisted mainly in conducting lending activity, financial leasing, making payment services and money transfer. Also, there were submitted applications by entities seeking to operate as micro-credit financial institutions. In 2009, the licence of one non-bank financial institution was revoked, because of its transformation into a trading association and it was granted a new licence to operate as a non-bank entity.
- Granting/revoking a licence to/from foreign exchange bureaus. During 2009, the Bank of Albania granted a licence to 32 foreign exchange bureaus, while no licence was revoked to any such bureau. Also, due to amendments to the regulation "On licensing, organization, operation and supervision of foreign exchange bureaus" additional activity was approved for 47 foreign exchange bureaus operating as an agent for money transfer for the account of a non-bank entity (Financial Union of Tirana or Ak-Invest). As at end 2009, there were operating 221 foreign exchange bureaus.
- Granting/revoking a licence to/from the savings and loan associations. During 2009, four new savings and loan associations were licensed and two such associations were revoked the licence, thanks to merger with an existing association. The number of savings and loan associations reached 135 and their unions reached two at year-end 2009.
- During 2009, pursuant to the Regulation "On licensing and operation of non-bank financial entities", adopted by Decision No. 11, dated 25.02.2009 of the Supervisory Council of the Bank of Albania, there started the process of approving agents acting on behalf and for the account of a non-bank financial institution licensed by the Bank of Albania. In concrete terms, approval was given for 21 agents to carry out money transfers for the account of the financial entities AK-Invest and Financial Union of Tirana. This process will continue even during 2010 until complete approval of financial agents.

Table 3 List of entities licensed by the Bank of Albania from 2001 to 2009

No.	Entities	2001	2002	2003	2004	2005	2006	2007	2008	2009
1	Banks and branches of foreign banks	13	14	15	16	17	17	18	16	16
2	Non-bank financial entities	4	5	7	7	7	6	6	7	13
3	Foreign exchange bureaus	38	58	58	54	58	60	112	189	221
4	Savings-loan associations		113	131	130	131	125	130	133	135
5	Unions of savings-loan associations		2	2	2	2	2	2	2	2

Source: Bank of Albania

V.3. BANKING SYSTEM DEVELOPMENTS

During 2009, the banking system performance was conditioned by the domestic economic environment, by non-positive developments in the economies of our main partner countries, increased uncertainty, more prudent stance in terms of lending and decreased investments and consumption. Notwithstanding the difficult economic and financial environment, the adjustment of the regulatory capital ratio to risk-weighted assets, mainly credit risk, generally remained balanced, thanks to maintaining levels that are significantly above the minimum capital adequacy ratio.

In late 2009, the banking system presented a more moderate growth of total assets than in the previous year, about twice smaller. It continues to be funded mainly by public deposits and is focused on lending activity, mainly to businesses. System's liabilities and investments from the viewpoint of deposits and loans, increased at lower rates than in the previous years. Deposit growth, an outcome of restored public confidence and stabilized situation, seems to have decreased in the fourth quarter of 2008. Meanwhile, the analysis shows that the lek's depreciation against foreign currencies has provided an important positive impact on the growth of these indicators.

The developments show an increasing exposure of the banking system to credit risk, due to increased share of loan portfolio to total assets, but not only that. Non-performing loans increased rapidly and loan portfolio quality deteriorated further. Consequently, the banking system profitability estimated by return on assets deteriorated, due to marked increase of loan-loss provisioning. The estimated levels and their dynamics are constantly supervised by the Bank of Albania, assessing their implications and preparing the necessary measures.

Table 4 Net profit in ALL billion

Indicators	December '06	December '07	December '08	December '09
Net profit (after tax)	7.45	9.98	7.33	3.54

Source: Bank of Albania

In 2009, the banking system performance related to net profit was significantly weaker than in 2008. Net profit was about 52% smaller, primarily due to provisioning expenses. By contrast, net operating income grew by about 1.9%, indicating that in general banks managed to generate a sustainable net income on core activity, as well as a stable volume of banking activity as an

expression of sustainability of net profit on non-core activities. Therefore, it is assessed that the net profit continued to maintain the same interdependence of net profit on core activities, likewise in the previous year.

Relative to year-end 2008, the level of the NIM (net interest margin) has declined, primarily due to the growth of the component that determines the financing cost of interest-yielding assets. This was mainly due to the strategy of some banks to preserve the market share by paying more, in an effort to avoid further decline of deposits and to potentially recover their lost share. On the other hand, although there dominated a clear downward base interest rate, especially for the foreign currencies that are active in the balance sheets of the banks of the system, there is noted a lack of reflection in interest-yielding assets as long as credit risk perception against the counterparties generally has not changed.

Table 5 Profitability indicators from core activity in percentage (cumulative)

Indicator	December '06	December '07	December '08	December '09
Interest income/average income-bearing-assets (1)	7.05	7.26	8.06	8.1
Interest expenses/average income-bearing assets (2)	2.83	3.17	3.94	4.06
Net interest margin (NIM)[(1) – (2)]	4.22	4.09	4.13	4.04

Source: Bank of Albania

The RoAA indicator as at the end of the first nine-month period of the year was at very low but positive levels. During this period, the indicator was at steady levels, varying from 0.13 to 0.16%, due to high and relatively stable loan-loss provisioning expenses, peaking in the last quarter of the year. Also, it is worthy of note that RoAA never edged up to the 2008 level.

Indicator	December '06	December '07	December '08	December '09
RoAA	1.36	1.48	0.91	0.42
RoE	20.17	20.32	11.35	4.58

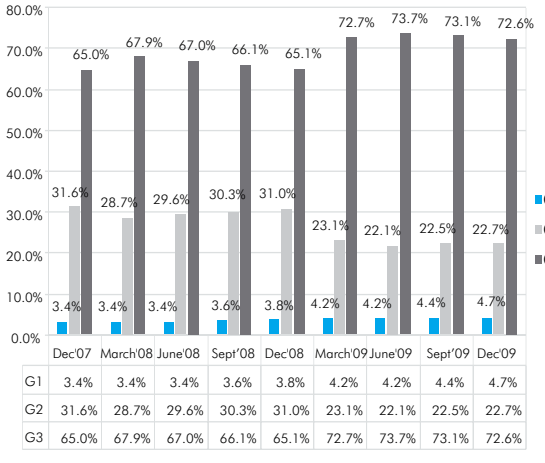
Source: Bank of Albania

Table 6 Core profitability indicators (in percentage)

Efficiency indicator shows almost a similar level to that of the previous period, and of the year-end 2008, due to increased operating expenses compared to operating income. This dynamics shows prudence and a steady increase of the overall banking activity.

In 2009, the banking system total assets grew by about ALL 52.2 billion or 6.25%, indicating a moderate growth rate for 2009, down from ALL 91.8 billion or 12.4% in the previous year. The growth in absolute terms is primarily a result of the changes occurring to major banks (G3), followed by medium banks (G2) and finally by small banks (G1).

Chart 1 Share of peer groups to the system by total assets



	Dec'07	March'08	June'08	Sept'08	Dec'08	March'09	June'09	Sept'09	Dec'09
G1	3.4%	3.4%	3.4%	3.6%	3.8%	4.2%	4.2%	4.4%	4.7%
G2	31.6%	28.7%	29.6%	30.3%	31.0%	23.1%	22.1%	22.5%	22.7%
G3	65.0%	67.9%	67.0%	66.1%	65.1%	72.7%	73.7%	73.1%	72.6%

Source: Bank of Albania

The banking system's intermediation and the lending contribution have increased over years, due to increased total assets and loans[2] to Gross Domestic Product. As at year-end 2009, these indicators are estimated at respectively 77.5% and 39.3%, from 76.7% and 36.5% in the previous year.

Table 7 Share of total assets and loan portfolio of the banking system to GDP

Indicator	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total assets (in ALL billion)	318.5	339.3	373.6	426.4	496.6	624.3	742.9	834.1	886.3
Total assets /GDP (in %)	54.6	54.5	53.8	56.8	60.9	70.8	76.8	76.7	77.5
Total loans / GDP (in %)	4.8	6.3	7.3	9.3	15.7	22.4	30.2	36.5	39.3

Source: Bank of Albania

Herfindahl index of asset, deposit and credit concentration shows steady but still far-from-optimum levels, though approaching them.

Table 8 H (Herfindahl) index of asset, deposit and credit concentration

	2003	2004	2005	2006	2007	2008	2009
H index (assets)	0.30	0.27	0.21	0.18	0.15	0.15	0.14
H index (deposits)	0.35	0.31	0.24	0.20	0.17	0.17	0.16
H index (credit)	0.15	0.11	0.10	0.11	0.11	0.12	0.11

Source: Bank of Albania

Year 2009 continued to post credit growth by All 53.1[3] billion or about 13.4%, against the growth of ALL 104.3 billion or about 35.7% in 2008. In the meantime, the quarterly growth was volatile, and the second quarter hit a low record.

Table 9 Quarterly credit growth for 2009

Quarterly credit growth	Q. I	Q. II	Q. III	Q. IV
In ALL million	20,845.2	4,404.1	15,704.7	12,168.8
In %	5.3	1.1	3.7	2.8

Source: Bank of Albania

As a consequence of several-times-higher growth of non-performing loans to total outstanding loans in 2009, concretely 78.9%[4] versus 13.4%, a rapid exacerbation of loan portfolio quality indicator – non-performing loans to total credit outstanding – was registered, from 6.64% at end-2008 to 10.48% at end-2009. On a net basis, this indicator was 5.4% and in relative terms it was about 70% higher than the 3.9% level recorded at end-2008.

Household and business loan portfolio quality deteriorated during 2009. Business loan portfolio showed rise in non-performing loans to total loans, by 12.3%, from 7.6% in the previous year. Regarding households, this indicator accounted for 8.2%, up from about 5.5% in December 2008. Meanwhile, foreign currency loan portfolio appeared somewhat more concerning than Lek loan portfolio. The quality indicator of these portfolios posted 10.6% and 10.1%, respectively.

During 2009, the increase of paid-in capital in ten banks, coupled with several structural changes in banks' equity ownership led to increased

domination of foreign capital. The total foreign capital of the system increased by ALL 9.28 billion (18.5%), while the Albanian capital increased by ALL 474.6 million (10.5%). The share of foreign capital to capital of the system rose to 92.3%, from 91.8% at the end of 2008. The capital originating from the European Union accounted for the major share in the capital of the system, about 75.5%.

At the end of 2009, the shareholders' equity of the system accounted for ALL 84.9 billion. Its growth is estimated at All 13.4 billion (or 18.7%), from ALL 15.4 billion (or 27.5%) in 2008. Its share to total liabilities increased by 1 percentage point, to 9.6%. The performance of shareholders' equity has been upward in years, while during the past two years its growth rates decelerated compared to the preceding years. In the conditions when the paid-in capital of the system, as the main component of shareholders' equity, has experienced only growth, its deceleration might have been caused by the worsening of the net profit of the system.

The ratio of assets to shareholders' equity of the system, or otherwise referred to as the financial leverage, decreased gradually during 2009. The fall of financial leverage from 11.7 to 10.4 during one year, implies that the system is backed less on debt to finance assets. The banking system leverage in Albania continues to remain low compared to that of EU member states.

Total regulatory capital of the banking system posted ALL 81.3 billion at end-December 2009. Compared to the previous year, it grew by ALL 22.7 billion (or 37.7%). Tier 1 capital continued to dominate on the composition of the regulatory capital of the system, accounting for 94.4%, from 94.6% in the previous year. This indicates a qualitatively good and sustainable regulatory capital.

At end-December 2009, the share of net non-performing loans to regulatory capital of the system was 28.2%, from 21.7% at end-December 2008 and 9.9% at end-December 2007. The annual rise of this indicator is due to a faster growth of net non-performing loans (52.3%), than that of the regulatory capital (37.7%). Therefore, the system's ability to cover possible loan losses with regulatory capital was limited along the year.

Table 10 Performance of capital adequacy ratio for the banking system

Indicators	December '05	December'06	December '07	December '08	December '09
Capital adequacy ratio in %	18.6	18	17.1	17.2	16.2

Source: Bank of Albania

During 2009, the capital adequacy ratio decreased by 1 percentage point, to 16.2%. The adequacy indicator continues to display higher levels in the small banks of G1 peer group. Both other peer groups indicate lower levels.

Table 11 Performance of credit to deposit indicator in percentage

Years	ALL	EUR	USD	All the currencies
2006	17	98	36	38
2007	22	97	34	46
2008	30	112	34	62
2009	36	113	71	65

Source: Bank of Albania

Credit to deposit ratio is another important indicator, which helps displaying a complete view of the banking system's liquidity position. This indicator increased almost 3 percentage points for all currencies (from 62% to 65%). The banks that are significantly financed from parent banks, showed higher values.

Loan to deposit indicator is still low as compared to most countries in the region or in the European Union. Its low rate for Albania is due to the simple asset structure of our banks, where deposits generally dominate, whereas the debt taken by banks at home or abroad is limited.

V.4. ON-SITE SUPERVISION

V.4.1. ACTIVITY OF THE ON-SITE SUPERVISION FUNCTION

On-site inspection office is responsible for assessing the activity of banks and for checking the observance of legal and regulatory framework by banks. The work is based on the objective to ensure the development of a sound financial activity. The work is based on the set-up supervisory practices defined by the operational policy of supervision. As an important link for meeting Bank of Albania's mission, it has exercised its functions by adhering to supervisory principles, clarifying, elaborating and observing them.

During 2009, the activity of licensed entities was subject to a thorough analysis, particularly in terms of the needs for liquidity. This required intensive commitment of human resource. Consequently, in addition to observance of the set-up practices, a constant contact was kept with the banks about supervision-related issues of concern. Measures were taken to timely address such issues, especially in terms of liquidity management and loan portfolio quality.

V.4.2. COOPERATION WITH OTHER AUTHORITIES

Cooperation with various institutions which monitor specific activities of the financial market continued to function efficiently even this year. The Financial Supervision Authority received information and conducted joint inspections, affecting insurance companies and the latter's relations with the supervisory authority.

A close cooperation took place with the General Directorate for the Prevention of Money Laundering. The Supervision Department was present at meetings organized under the twinning project with the German counterparty, financed by the European Community. The role of the Inspection Office was very important, especially in designing the National Financial Crime Investigation Strategy, an important part of which is even the institutional work for preventing money laundering and terrorist financing.

With the initiative of the European Central Bank, there were established colleges of supervisors to coordinate work, exchange information and carry out joint supervision of large European banking and financial institutions with several home-country supervisory authorities of these institutions. In light of this, we have become part of four colleges of supervisors to oversee the institutions, on which there is signed a relevant agreement. Other agreements are in the process of being signed. Despite the signing of agreements, participation has been full since these colleges started to work.

V.4.3. EXAMINATIONS CARRIED OUT DURING 2009

The following table shows the examinations carried out during 2009

Table 12 The examinations carried out during 2009

Type of financial institution	Examinations carried out
Banks	7 full-scope examinations 9 thematic examinations
Non-bank financial institutions	4 full-scope examinations
Savings-loan associations	1 full-scope examination
Physical premises of branches and agencies of banks and foreign exchange bureaus	75 examinations

- *BANKING INSTITUTIONS*

During 2009, the banking system was faced with difficult situations in terms of liquidity shortages and deteriorating loan portfolio quality. At the beginning of the year, the Inspections Office carried out separate analysis on liquidity situation for all banks in the system and also organized meetings with top executives of all banking entities operating in the country. The purpose of these meetings was to obtain all the necessary information on the liquidity situation of the banks, the measures taken by each bank to cope with the situation, as well as to prepare for managing extraordinary situations. During these analyses and meetings, other issues of concern to certain banks were dwelt with. In particular, banks were required to continuously provide backup through lending to the Albanian economy, in order to maintain the credit growth trend of the recent years.

The primary focus was on the method of liquidity management against a setting of customer deposit withdrawals. Also, attention was paid to the analysis of the causes of credit quality deterioration and support of lending activity by banks' structures. Also, subject to examinations was also the level

of capitalization and projections of the need for financial assets against the setting of capital erosion from non-performing loans and expectations for tougher economic conditions at home and in the region.

On-site supervision evidenced vulnerabilities related to risk management. Hence, some institutions of the banking system were faced with the consequences of easier lending standards in recent years. Several cases of weaknesses in internal audit systems were noted in terms of non-observance of credit approval limit and timely monitoring of non-performing loans. Also, internal audit structures, such as Internal Auditor and Audit Committee were required to be more oriented towards controls on riskier activities of the bank. Computer systems of banks were assessed as playing an important role in risk management. Several computer systems were highly operational and in some cases they presented difficulties in providing efficient and timely information, thus carrying over operational risk. In general, it was concluded that there is a real need for new computer systems or modules to support various core activities of banks.

The banking system has generally operated in accordance with the regulatory framework of the Bank of Albania. However, there were identified several deficiencies in credit risk management, internal audits, compliance with the main indicators of Capital Adequacy Ratio, exposure to significant risk, transparency to customers, etc.

More specifically, violations were noted in conjugation with non-observance of:

- The banking law. There are noticed breaking of benchmarks related to banks' exposure to connected parties, as well as exposures to third parties. Also, there are not observed several provisions of the Law as regards the documentation required in loan transaction. There were deficiencies even concerning the procedure for appointment of administrators, and the decrease of the regulatory capital below the licensed minimum initial capital ratio.

- Regulation "On credit risk management". Credit risk is on the focus of inspection groups. From the viewpoint of supervisory authority, the level of credit risk taken in several cases was higher than the level estimated by banks. In this context, ongoing improvements of procedures and internal lending manuals, as well as analysis on portfolio quality and action plans for keeping credit risk on track were required.

- Regulation "On capital adequacy". There were noted several inaccuracies regarding the implementation of regulatory requirements, defining of risks for certain asset groups, but of trifle importance. Pursuant to the regulation, there was proposed the increase of the minimal threshold of capital adequacy, if necessary.

- Regulation "On foreign exchange operations". Remarks on the

implementation of this regulation arise mainly related to transfers and additional documentation.

- Regulation "On Money Laundering Prevention". Recommendations relate to prevention of suspicious transactions, staff training, making a database on clients and execution of the new Law which came into force in 2008.

- Regulation "On using the communication and information technology at entities licensed by the Bank of Albania". Pursuant to this regulation, there are required improvements in terms of assessing the systems, recording operations, making a disaster recovery plan. Also, going control over communication and information technology by specialized companies was recommended.

- Regulation "On transparency of banking and financial products and services" and the Regulation "On consumer and mortgage loans to households". The breaking of this regulation related to information disclosure to clients prior to making a loan, notifying clients of any changes related to products, publication of real effective interest rate, and completeness of summarised information in the contract.

- *NON-BANK FINANCIAL INSTITUTIONS AND FOREIGN EXCHANGE BUREAUS*

This group incorporates two types of entities, non-bank financial institutions and savings and loan associations. While the first may not collect deposits from the public, the latter may collect deposits as stipulated under the respective law.

During 2009, in light of post-crisis situation created over the last quarter of 2008, the supervisory focus and the involved resources were directed mainly to bank examinations, either full-scope or partial ones, because of the share and importance they have in the financial system. However, non-bank financial institutions were in no way overlooked. No inspection was conducted on foreign exchange bureaus. Among the most frequent concerns noted during the examinations are:

- Inaccurate calculation and non-observance of prudential standards specified under relevant regulations. These prudential rates related mainly to risk levels.
- Needs to improve internal audit system and the work of internal audit unit.
- Pending processes regarding the reporting of accurate information at the Credit Registry Office.
- Functioning of all structures on the basis of internal regulatory framework.
- Investment in information technology systems and observance of the requirements under the regulations on communication and information technology, creating the necessary security for the smooth operation of activity.

ENDNOTES

[1] *The numerical references for each regulation are listed in Chapter VI.7 "Amendments to Banking Legislation in 2009".*

[2] *Total assets refers to total portfolio, including also the credit to state-owned enterprises and non-resident loans.*

[3] *Lending indicator refers to the performance of total loan portfolio of banks according to balance sheets reported in ALL, including the exchange rate effect.*

[4] *Growth of non-performing loans during 2009 was ALL 20.8 billion.*

½ lek. Nickel coin, issue of 1926.

CHAPTER VI OTHER ACTIVITIES OF THE BANK OF ALBANIA

VI.1. PAYMENT SYSTEM DEVELOPMENTS

Clearing and payments settlement through banks, in the national currency, is carried out through two payment systems in the Republic of Albania: "The real time gross settlement system – AIPS" and "The automated electronic clearing house system – AECH". During 2009, the payment systems reflected security and efficiency, features needed for their smooth functioning, and among Bank of Albania's principal objectives. Currently, all the banks licensed by the Bank of Albania are direct participants in the AIPS system, of which 15 banks are direct participants even in the AECH system.

- *REAL TIME GROSS SETTLEMENT SYSTEM - AIPS*

A total of 55,701 payment transactions were settled in the AIPS system during 2009, with an average value per settled transaction by ALL 85 million. Relative to 2008, the payments volume settled during 2009 decreased by 2%, while the settled transactions decreased by 8%.

AIPS system	2007	2008	2009
Transactions	45,480	56,717	55,701
Transactions value (ALL billion)	3,745	5,146	4,718
Average value per transaction (ALL million)	82	91	85

Source: Bank of Albania

Table 1 Performance of transactions in AIPS for 2007-2009

The greatest number of settled transactions was concentrated in the second quarter of the year, while the largest circulation of liquidity occurred in the third quarter of 2009. On average, 225 transactions per day were processed and settled through the AIPS, with an average daily value of ALL 19 billion. Total value of liquidity settled through the AIPS during 2009 is about 4.3 times higher than the Gross Domestic Product for the year.[1]

	Quarter				Total
AIPS system	I	II	III	IV	2009
Number of transactions	13,303	14,479	14,036	13,883	55,701
Value of transactions (ALL billion)	1,118	1,131	1,255	1,214	4,718
Average value/transaction (ALL mln)	84	78	89	87	85

Source: Bank of Albania

Table 2 Distribution of transactions through the AIPS by quarters of 2009

In more details, the types of transactions processed and settled through the AIPS during 2009 and their relative share to the total are presented in the following table. Of total transactions processed and settled through the AIPS during 2009, it is noted that customer payments the banks settled among

themselves account for about 53% to the total transactions, including here the payments the banks post daily to the government budget account, for the account of their clients.

Table 3 Types of transactions through the AIPS

Type of transaction through AIPS	Volume		Value (ALL billion)	
	Number of transactions	Relative share	Absolute value	Relative share
BoA financing transactions/instruments	3,406	6.1%	2,702.3	57.3%
Cash transfers to/from the issue	9,151	16.4%	249.2	5.3%
Interbank payments (MT202)	7,903	14.2%	768.7	16.3%
Customer payments (MT103)	29,456	52.9%	449.7	9.5%
Net settlement for clearing systems	5,785	10.4%	548.4	11.6%
Total	55,701	100%	4,718	100%

Source: Bank of Albania

Regarding the value of transactions settled through the AIPS, transactions initiated by the Bank of Albania for meeting its legal targets account for the highest circulation of liquidity, above 57% to the total. The section "net settlements for clearing systems" contains net settlement transactions resulting from the clearing systems, such as: clearing of low value payments in AECH system; clearing of banking and personal cheques in ALL; net settlements of government securities; and net settlements of ALL payments via VISA cards, about which the Bank of Albania plays the settlement agent's role.

The concentration indicator reflects the share occupied by 3 and 5 more active banks in the AIPS system, to the total activity in this system. As shown by the following table, 5 banks (including the Bank of Albania) initiated during 2009 about 61% in number and 86% in value of transactions, to the total activity in the AIPS.

Table 4 Concentration indicators for the AIPS system

	Volume of transactions	Value of transactions
AIPS system	Share/Total	Share/total
3 banks	48%	73%
5 banks	61%	86%
Total (absolute value in ALL billion)	55,701	4,718

Source: Bank of Albania

During 2009, intraday loan facility (ILF), which is a collateralized interest-free credit that the Bank of Albania makes to participant banks through the AIPS, decreased markedly in comparison to 2008, respectively by 64% in number and 46% in value. The decline is attributed to changed policy of the Bank of Albania, increasing the daily use of the Lek required reserve from 20% to 40%, for liquidity needs during the day, in order to ensure the smooth operation of the system.

Table 5 Intraday loan facility to AIPS participants

Intraday loan facility (ILF)	2007	2008	2009
Number of transactions	675	579	207
Value of transactions (ALL billion)	218	221	121
Average value of transactions (ALL million)	322	382	582

Source: Bank of Albania

- *AUTOMATED ELECTRONIC CLEARING HOUSE SYSTEM - AECH*

A total of 102,304 payment transactions were cleared through the AECH system during 2009, averaging ALL 150 thousand per settled transaction. Relative to 2008, the volume of cleared payments decreased by 10%, while the value of cleared transactions decreased by 12%.

AECH system	2007	2008	2009
Number of transactions	71,857	113,682	102,304
Value of transactions (ALL billion)	12.01	17.61	15.46
Average value per transaction (ALL million)	0.17	0.15	0.15

Source: Bank of Albania

Table 6 Performance of payments in AECH over 2007-2009

The AECH system processes and clears low value customer payments of below ALL 1 million. On average, 413 payments per day were processed in the AECH system, with an average daily value of ALL 62.33 million. The largest volume and value of payments processed in the AECH system is noted during the fourth quarter of 2009.

	Quarter				Year
AECH system	I	II	III	IV	2009
Number of transactions	22,318	27,478	23,506	29,002	102,304
Value of transactions (ALL billion)	3.50	4.03	3.63	4.30	15.46
Average value/transaction (ALL million)	0.16	0.15	0.15	0.15	0.15

Source: Bank of Albania

Table 7 Distribution of payments in the AECH by quarters of 2009

Payments cleared through the AECH system are processed in two sessions (Session I - 09:00 to 11:00 o'clock; and Session II – 12:00 to 14:30) during the business day and they are settled for the net result through the AIPS at the end of each session. It is noted that, during 2009, the largest volume and value of payments initiated in this system were cleared during the first session.

	Session		Year
AECH system	I	II	2009
Number of transactions	63,868	38,436	102,304
Value of transactions (ALL billion)	10.06	5.39	15.46
Average value per transaction (ALL million)	0.16	0.14	0.15

Source: Bank of Albania

Table 8 Distribution of payments through the AECH system according to clearing sessions during 2009

The concentration indicators for the AECH system reflect the share occupied by 3 and 5 more active banks in the AECH system, to total activity in the system. As shown by the following table, 5 banks initiated about 61% in number and 67% in value of transactions, to total activity in AECH.

	Volume of transactions	Value of transactions
AECH system	Share/Total	Share/Total
3 banks	43%	46%
5 banks	61%	67%
Total (absolute value in ALL billion)	102,304	15,457

Source: Bank of Albania

Table 9 Concentration indicators for the AECH system

- *PAYMENT INSTRUMENTS*

As at end 2009, there are operating 16 banks in the Republic of Albania, which provide payment services at 530 bank branches/agencies throughout the country, of which 14 banks are licensed even as card issuers, providing the service of cash withdrawal from ATMs. Of card-issuing banks, only eight banks are also licensed as card-accepting ones, providing for the service of accepting payments via cards through POSs situated at stores and shopping centres. During 2009, the number of ATMs and POSs for using cards increased by 15 and 48%, respectively, versus the end of 2008.

Table 10 Number of ATMs and POSs as at 31 December 2009, relative to end-2008

Description	2008	2009
Automated Teller Machines	642	741
Of which:		
1 – ATMs for cash withdrawal	642	741
2 – ATMs for transfer orders	59	66
3 – ATMs for depositing cash	73	74
Point of Sale Terminals	2,953	4,370
Of which:		
1- POS terminals for cash withdrawal	907	1,290
2- EFTPOS payment terminals	2,915	4,320
Terminals for using e-money	-	-

Source: Banks' reporting according to the "Methodology on payment instrument reporting"

Of banks' reporting, it results that at the end of 2009, the total number of customer bank accounts, valid to perform payments in ALL and in foreign currency, increased 33%, compared to the end of 2008. Of the total number of opened payments accounts as at 31 December 2009, about 93% of them are individual accounts and over 99% to the total are residents' accounts.

Table 11 Number of banking customer accounts for making payments

	Total customer accounts		Receivable from Internet	
Account description	December 2008	December 2009	2008	2009
Customer accounts (1+2)	1,573,830	2,086,143	11,108	15,034
1- resident account (a+b)	1,564,084	2,074,715	10,751	14,622
a - individuals	1,429,294	1,918,907	6,958	9,598
b - company	134,790	155,808	3,793	5,024
2- non-resident account (a+b)	9,746	11,428	357	412
a - individuals	9,311	10,799	314	328
b - company	435	629	43	84

Source: Banks' reporting according to the "Methodology on payment instrument reporting"

Of the total customer accounts, only 15 thousand payment accounts are accessible from the Internet (home banking), to provide online payment service or to check account balance, of which about 66% belong to individual accounts. Referring to the same period, only 27% of total customer accounts may be accessed from the distance, by using a debit or credit card. Provision of the service of payments or cash withdrawal from other accounts, necessarily requires the physical presence of the customer at bank counters.

Cards are payment instruments that are used in Albania, though at lower level than in other countries of the region. It is noted that as at 31 December

2009, the number of cards in circulation increased by 11%, compared to that of end-2008. The increased share of credit cards issued over the year, by 50% compared to end-2008, contributed to this growth.

Number of cards by function	31 December 2008	31 December 2009
Cards with the cash function	512,232	566,985
Cards with the payment function	498,003	566,985
Of which:		
1- debit cards	482,072	543,141
2- credit cards	15,931	23,844
Cards with the e-money function	-	-
Total number of cards in circulation	512,232	566,985
Of which:		
- cards with more than one function	498,003	566,985

Source: Banks' reporting according to "Methodology on payment instrument reporting"

Table 12 Number of banking cards in circulation as at 31 December 2009 compared to end-2008

The following table reflects the kinds of transactions conducted via bank cards (debit/credit), in volume and value, compared with the previous year. During 2009, a total of over nine million card transactions were processed, with a total annual circulation of ALL 102 billion. Of total transactions, cash withdrawals from ATMs account for about 96%, an indicator of an economy with a large use of cash.

Transactions through cards by transaction type	Volume		Value (ALL million)	
	2008	2009	2008	2009
1- ATMs for cash withdrawal	7,910,609	8,717,982	89,067.43	96,117.27
2- ATMs for depositing	133	91	2.10	2.97
3- Transfer orders through ATMs	271	366	9.37	10.02
4- Cash withdrawals at POS terminals	2,999	2,647	451.51	453.86
5- Card payments at POS terminals	291,131	403,214	4,196.19	5,321.72
Of which:				
- payments through debit cards	187,720	252,780	2,013.71	2,565.67
- payments through credit cards	103,411	150,434	2,182.39	2,756.05
Total card transactions	8,205,143	9,124,300	93,726.60	101,905.3

Source: Banks' reporting according to "Methodology on payment instrument reporting"

Table 13 Transactions made through banking cards during 2009, compared to 2008

During 2009, 10 banks provided home banking service, compared to 6 banks at the end of 2008. E-banking service implies the provision of necessary infrastructure to the customer, enabling access of the bank account from home, through an internet line, telephone or software the bank makes available to the customer.

Home Banking	2007	2008	2009
Number of transactions	42,447	88,261	136,482
Value of transactions (ALL billion)	48.49	63.42	78.16

Source: Banks' reporting according to the "Methodology on payment instrument reporting"

Table 14 Performance of home banking transactions for 2007 – 2009

- *BANK OF ALBANIA'S ROLE AS OVERSEER AND REFORMER OF THE NATIONAL PAYMENTS SYSTEM*

The Bank's role in reforming and overseeing payment systems is assuming an ever greater importance against the setting of international financial market

crisis. In light of this, the Bank of Albania is working to set up a national safe and efficient payments system, to support financial market development in the country, and also aiming at avoiding risks that development brings about. During 2009, the focus is on:

(i) Strengthening the legal framework in view of the overseeing role on payment system

The draft-law "On the Payment Systems in the Republic of Albania" is at its final stage. It aims at establishing a sound and efficient legal framework for the national payment systems, the role and tasks of the Bank of Albania regarding the development and oversight of payment and settlement systems in the Republic of Albania. The draft-law is based on two important directives of the European Community:

- Directive 98/26/EEC on settlement finality in payment and securities settlement systems; and
- Directive 2002/47/EC on financial collateral arrangements.

Important issues regulated by this draft-law are:

- Regulation and oversight of systems, aiming at clearly defining the overseeing role of the Bank of Albania on payment and securities settlement systems, regardless of whether the systems are operated within the Bank of Albania, or outside the Bank by private operators, the licensing of subjects operating payment and settlement systems in the Republic of Albania and the inspecting and decision-making powers of the Bank of Albania in terms of its commitment to this role, etc.;
- Protection of systems, aiming at regulating issues related to protection of systems from participants' insolvency, and the final character and irrevocability of orders entering the system, determining the moment of opening the procedures for insolvency of a participant in the system, etc.;
- Protection of financial collateral arrangements, regulating such concepts as validity and enforcement of financial collateral arrangements in payment and settlement systems, financial collateral settlement pledged and other legal concepts, whose regulation is necessary for the smooth functioning of payment and settlement systems, through reduction of risk in these systems, but in more general terms, contribute to the stability of the system and of the financial markets in the country.

(ii) Improving and promoting changes in national payment system in view of the reforming role of payment systems

The project for implementing IBAN in Albania, pursuant to the Regulation adopted by the Supervisory Council of the Bank of Albania with decision No. 42, dated 16.07.2008 "On the Structure and Use of the International Bank Account Number (IBAN)" for standardising account numbers used for making

payments in the Republic of Albania, was carried out in two stages: (a) all the banks have completed the standardization of customer account numbers in the IBAN format, as well as notification of customers, within 1 June 2009; (b) starting from January 5, 2010, all the banks use and check the accuracy of the IBAN numbers for national and cross-border payments.

Further to the project for automatic transfer of Treasury transactions from the Ministry of Finance to payment systems, efforts were made in 2009 to provide the necessary technical and regulatory infrastructure for the project implementation. The agreement "On electronic communication between the Treasury system and the AECH and AIPS payments systems" was signed between the Bank of Albania and the Ministry of Finance in early 2010, enabling the automation of Treasury payments and the live starting of the project as of 1 March 2010.

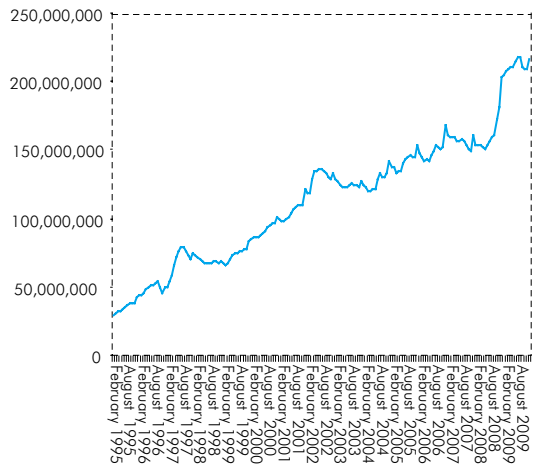
The Bank of Albania has constantly contributed to curtailing cash payments in the economy, lately through participation in the "SPI Project on Reducing Cash Transactions. The project, initiated by the SPI Albania, concluded with a detailed analysis of the financial effects on the banking system, by reducing cash payments in the economy. The conclusions and analysis of the working group, led by Raiffeisen Bank and the Bank of Albania, after approved by the Committee (SPI Committee), in November 2009 they were presented in the form of a package of recommendations for approval and implementation by the banking system and public administration institutions.

VI.2. MONEY ISSUE

- *CURRENCY IN CIRCULATION*

Currency in circulation amounted to ALL 216,739,238 thousand at the end of 2009, compared to ALL 203,713,429 thousand at the end of 2008. The largest growth was noted in the fourth quarter.

Chart 1 Currency in circulation (in 000 leks)



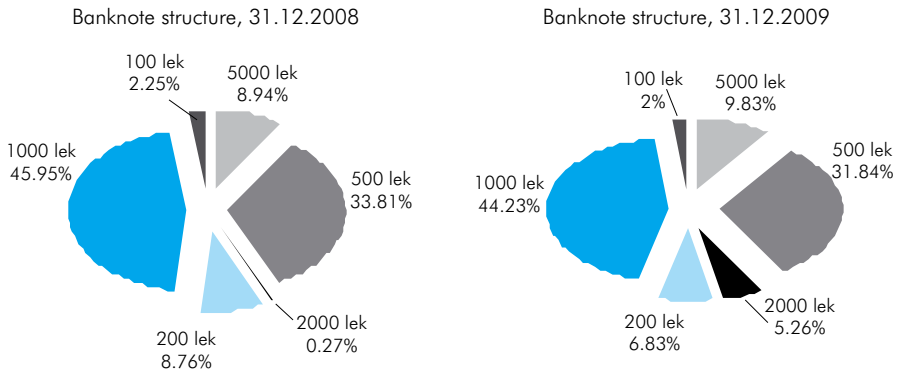
Source: Bank of Albania

- *STRUCTURE OF CURRENCY IN CIRCULATION*

Banknote

The structure of banknote in circulation was characterized by a rise in the share of high denominations (1000, 2000 and 5000 Lek), mainly dictated by the demand of second tier banks, for facing the flow of upward payments and filling of ATMs with the above-mentioned denominations. During 2009, there was noted a significant increase in the circulation of the 2000 lek note.

Chart 2 Banknote structure

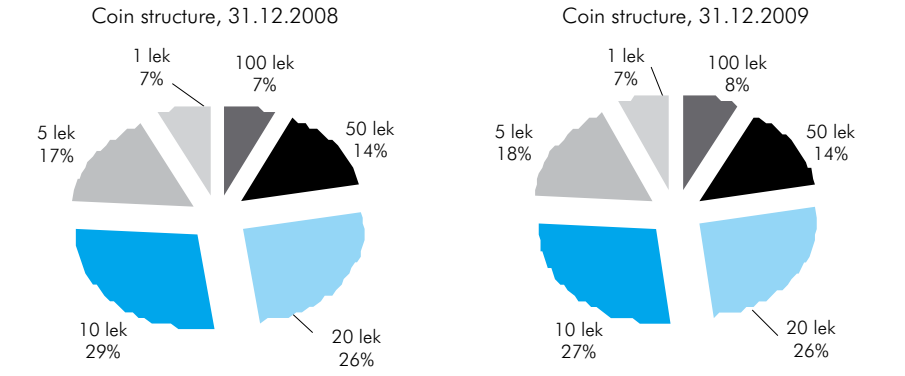


Source: Bank of Albania

COIN

During 2009, the coin structure continued to be oriented towards an increase in the share of large denominations (50 and 100 lek coin). One of the main factors impacting on this rise was the use of those coins to substitute the 100 lek note that ceased to be legal tender on December 31, 2008 and will be removed from circulation on 31 December 2010.

Chart 3 Coin structure



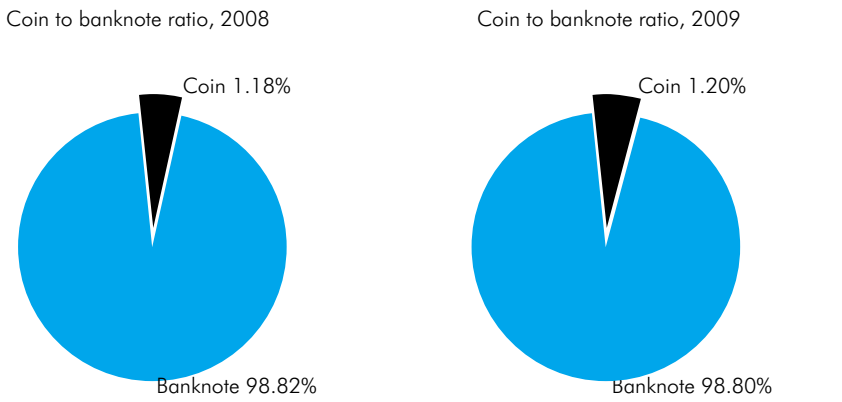
Source: Bank of Albania

COIN VERSUS BANKNOTE

At the end of 2009, the overall value of banknote to coin ratio resulted higher than in the previous year. The gradual replacing of 100 lek note with coins, and the demand for coins from retail traders and mainly from new

supermarkets and hypermarkets were key factors contributing to the upward trend of this ratio, regardless of the obvious increase in banknotes.

Chart 4 Coin to banknote ratio



Source: Bank of Albania

- *CURRENCY IN CIRCULATION INDICATORS*

Average value of a banknote in circulation

At the end of 2009, the average value of a banknote in circulation was estimated at 1,163 lek, from 1,065 lek at the end of 2008.

Quality of currency in circulation

Pursuant to contemporary standards and rapid increase in the number of ATMs at the second-tier banks, even in 2009, the Bank of Albania withdrew from circulation about 24.111 million useless banknotes, replacing them with useful banknotes. A substantial quantity withdrawn consisted in issues of earlier than 1996. As at end 2009, the issues in circulation during this period accounted for 4.57 of the average banknote in circulation. New banknotes put into circulation in 2009 accounted for 24.75% of the total average of banknotes in circulation.

VI.3 RESEARCH AT THE BANK OF ALBANIA

Some key areas on focus of the Research Department in 2009 were: forecasting and development of econometric models, monetary policy issues, external sector, financial stability, economic growth, etc..

Putting into practice the knowledge and multi-year research on the Albanian economy, the Research Department has contributed to debates on compilation and implementation of monetary policy through *the macro-econometric model*, MEAM. This macro-model is used for the first time to

project the performance of the Albanian economy in the next four quarters. These projections have enabled analyses on the expected performance of aggregate demand and its components as well as on inflationary pressures in the country. Also, through the MEAM, there are analysed the impact of various "shocks" (scenarios) on the Albanian economy, the exchange rate risk and the effects of global financial crisis. MEAM was continuously enriched with new transmission channels. During 2009, the MEAM model was also used to the fiscal sector, related to the impact of various fiscal policies on the real economy on the one hand, and the impact of various shocks of the real economy on the government budget, on the other.

In the field of *monetary policy*, in Albania's case, the relative share of real interest rates and real exchange rate are estimated, in order to calculate the Monetary Conditions Index, as an indicator that provides information on the situation of monetary conditions. Another research aimed at measuring the credibility of economic policies, focusing on developments in the demand for money and volatility in the informal foreign exchange markets, reflected in the black market premium.

Regarding foreign reserve, the primary focus was on identifying its main determinants and its optimal level. Assessment of this level serves for defining a clear strategy based on a real target for foreign reserve, in line with the monetary policy and the exchange rate.

Regarding the *exchange rate*, research was focused on two main aspects: first, identifying a real Euro/Lek exchange rate equilibrium in the medium run, and secondly, assessing the effectiveness of central bank intervention to stabilize the short-term exchange rate volatility, reducing the unwanted volatility in the market.

In the context of preserving *financial stability*, a detailed analysis was made on the constituent elements of risk and return, and the use of an index to measure the overall risk of the banking system was suggested. In the same line, there were created new models of indirect credit risk measurement, at the system level and for groups of banks or for exposures to different customers.

Another issue addressed by the research is also the causality between financial development and *economic growth* in Albania's case, taking into consideration the key economic variables for monetary policy analysis. Since the data on quarterly GDP are published with a 12-week lag in Albania, it is necessary to forecast the performance of this indicator ahead of its publication. For this purpose, efforts were made to set up models for short-term forecasting of GDP in the current quarter. This will contribute to a well-informed decision making and assessment of current economic situation.

- *PUBLICATIONS*

Most of research works and discussion papers are published on the Bank's official website, under the category "Publications/Research and Discussion

Papers", a series that has included research papers from 1999 to 2009. Often, the works are presented in a summarized form in the Quarterly Economic Bulletin. In 2009, the Research Department began to publish the six-month periodical "Scientific news at the Bank of Albania", which is addressed to all research experts within and outside the Bank, as well as to those that are interested in this field in their daily work. This periodical makes a summary of the Bank's research work and activities that are completed or in process.

- *ACTIVITIES*

In November 2009, the 3rd South-Eastern European Economic Research Workshop was organised in Athens, jointly by the Research Department of the Bank of Albania and the Bank of Greece. It has already become a tradition for the Research Department of the Bank of Albania to collect every year in an activity of its own, experts and representatives of central banks from the region and beyond. This tradition aims to further improve the economic research in the region and to expand knowledge of the central bank in the region on the characteristics and economic developments of respective countries. Also, this activity contributes to enhancing the integration and institutional cooperation between the central banks in the region and beyond.

Further to the work started several years earlier, even during 2009, the Research Department continued to conduct the "*Series of Friday Seminars*", where 18 works were presented throughout the year, either by foreign or domestic authors, by employees of the Bank of Albania or any other institution. This activity serves as a good opportunity from banking areas, academic and scientific one, to present and discuss their empirical and theoretical materials.

VI.4 STATISTICAL ACTICITIES OF THE BANK OF ALBANIA

Similarly to many other central banks, the Bank of Albania plays an important role in the national statistical system, as the responsible institution for producing and disseminating data on the financial sector and the external sector. The role of the Bank of Albania as a statistical agency, authorized to collect information from statistical units, as well as to produce and publish official statistics derives from the Law "On Official Statistics"[2], the Law "On the Bank of Albania"[3] and the "Programme of Official Statistics, 2007-2011"[4]. In performing its statistical functions, the Bank of Albania is governed by the basic principles of official statistics in the Republic of Albania, which are: impartiality, reliability, relevance, professional independence, cost-effectiveness, statistical confidentiality and transparency. During 2009, the Bank of Albania continued to compile and disseminate monetary statistics and external sector statistics, taking care to improve statistical services in all its dimensions. All units involved in the statistics production process, according to the respective function, aim at achieving the approximation of the methodology with the recommendations and best international practices, data quality enhancement by improving and computing the auditing processes, increasing the number of published

indicators and detailing the composite indicators, reducing publication lags, standardizing tables and preparing explanatory materials in order to enhance transparency of materials that accompany statistical publications. Frequent requests for information and guidelines made to the statistical unit of the Bank of Albania by Albanian and foreign users show their evaluation and confidence in statistics produced by the Bank of Albania.

VI.4.1. COVERAGE AND METHODOLOGY

- *MONETARY STATISTICS*

During December 2008 and early 2009 was carried out the detachment from the previous format of publication of monetary indicators and shifting to the new format, in line with the "Monetary and Financial Statistics Methodology", Bank of Albania, July 2003[5]. The methodology was based on the "Monetary and Financial Statistics Manual", International Monetary Fund, 2000. The data compiled in line with the standards of this manual start from December 2002[6], with a 30-day lag and are published by the end of each month, according to the Statistical Release Calendar of the Bank of Albania.

The application of standards of the new manual brings about significant improvements in comparison with the application of standards of the previous manual. One of the most significant improvements is the expansion of institutional coverage. This coverage is already extended to all deposit-money institutions operating in Albania. These institutions are the Bank of Albania, the second tier banks and savings and loan associations. According to previous practice, the latter were not included in the compilation of monetary statistics.

Another difference is related to sectorisation and classification of financial instruments, which is in line with the 1993 System of National Accounts (SNA). The data produced according to new standards provide a more detailed breakdown of economic sectors and resident financial instruments. Improvements were made in terms of terminology used, which is geared to the recommendations of international standards. For example, the name "shares and other equity" has replaced the term "capital account", or the term "public nonfinancial corporations" has replaced the term "public sector".

The indicators presented in new tables are in line with the format specified by the methodology, containing data on depository corporations' liabilities and assets; money and its counterparties. For each class of subjects or depository corporations, the sectoral balance is compiled and published. In addition to detailed tables and sectoral balance sheets presented, improvements are made in terms of adding new indicators and tables and detailing existing tables. Publication of monetary indicators according to 2003 Methodology is accompanied by explanatory information, published in the relevant section on the Bank of Albania web site.

During 2009 the work aimed at improving the quality of published indicators, which is achieved by realizing the extension back in time series,

the checking of accuracy of the published figures and calculation of indicators for periods uncovered with information until that time. This processing has affected mainly the monthly deposit and loan and interest rate series. Over the year, another group of tables of main exchange rates, presenting average monthly exchange rate and the end-of-month exchange rate, was added to the set of tables published in the "Time series". In parallel with the improvement of publication, there was also worked for compiling and preparing new tables for publication, which show the state at the end of the period and loan and deposit flows in terms of maturity, institutional sectors and economy sectors, purpose of use, main currencies and main district of the country. These tables will be published during the first half of 2010.

Also, in the context of joint initiative of the South-East Europe to build statistical series of previous historical periods, a number of researches have been made in old archive documents. Until now, there is completed the collection and construction of several time series, related to data on monetary, government finance, and external sector, which belong to the period of 1920 -1950. These historical statistics will soon become part of the statistical publications of the Bank of Albania and will be offered to users, along with current statistics and relevant guidelines on their usage.

- *EXTERNAL SECTOR STATISTICS*

The external sector statistics encompass indicators on: the balance of payments, statements of international reserves and foreign currency liquidity, merchandise import and export, international investment position, exchange rates and external debt. Even though the Law "On the Bank of Albania" stipulates the Bank of Albania as the responsible authority for compiling the balance of payments of Albania, the close conceptual and methodological relationship between the balance of payments statistics and other statistics of the external sector as well as practice followed by many other central banks have made the Bank of Albania to undertake for several years from now, the collection, compilation and publication of statistics on external debt and international investment position[7]. Until the end of 2009, these statements, together with the appropriate methodologies, were published on the National Summary Data Page (NSDP)[8], which the Bank of Albania updates in line with the requirements of Special Data Distribution Standard of the IMF (SDDS). Starting from the first quarter of 2010, the statements on the international investment position and external debt will be part of regular statistical publications of the Bank of Albania.

BALANCE OF PAYMENTS

During 2009, the work focused on both methodological improvements and enhancement of statistical analyses that accompany the disclosure of the balance of payments statistics: press releases and the annual bulletin of the balance of payments. A constant work was done for recognizing the New Balance of Payments Manual (Sixth Edition) and for identifying the main deficiencies. The balance of payments statistics were produced in accordance

with the Methodology[9] and published according to Statistics Release Calendar of the Bank of Albania.

At the methodological plane, there is reviewed and put into practice a new survey questionnaire on foreign-owned enterprises, in accordance with the methodology applied by the United Nations. During the year, the Bank of Albania was included in the "central group for collecting and creating the database and statistics on foreign direct investments, activities of transnational companies and for drafting the annual report of foreign investment". In close cooperation with the Institute of Statistics, Ministry of Economy, Transport and Energy, the National Registration Centre, Albinvest and other institutions, the Bank of Albania has established an improved database of foreign-owned enterprises that operate in Albania, and has contributed to a full analysis of this population in the "Annual Report on Foreign Investment".

During the year there was prepared the annual analysis of data from household survey related to remittances. The publication of 2009 contains an extensive analysis in comparison with previous publications, and it also includes a methodological appendix with recommendations for improving the survey outcome.

INTERNATIONAL INVESTMENT POSITION

Since 2007, the Bank of Albania compiles and publishes on the website of the Research Department the statement on international investment position[10] of Albania with a three-month lag. The first publication of the preliminary statement of international investment position for 2008 was conducted in September 2009. The data collected from foreign-owned enterprises during the 2009 survey were used for both increasing the coverage of information on transactions, and improving the data on the stock of foreign investments in the country. Reconciliation of transactions value in the balance of payments and transactions and stock positions in the international investment position is another methodological achievement for improving the coverage and quality of external sector statistics. At the same time we worked for preparing the publication format of this statement, in pursuance of the publication format of international statistical agencies.

EXTERNAL DEBT

Since 2007, the Bank of Albania compiles and publishes on the NSDP the Albania's external debt statement[11] at a quarterly frequency and with a three-month lag. The compilation of qualitative and coherent statistics of the external debt requires ongoing methodological improvements for increasing the degree of coverage, as well as for frequent reviewing of time series, in order to reflect changes deriving from settlements, rescheduling, and debt forgiveness. These reviews are conducted using the latest and complete information obtained from the Ministry of Finance, the banking system and non-financial private sector.

VI.4.2. DATA DISSEMINATION

The Bank of Albania pays special attention to data publication dates, as well as expansion and improvement of network and ways of publication of statistical information, being prudent about observance of the core principle of simultaneous and equal data release to all users outside the institution. The data are published in accordance with the periodicity and announced dates in the Statistics Release Calendar at the beginning of each six-month period, on the Bank of Albania's website at Statistics/Time Series. Also, Bank of Albania's data are published in the Monthly Statistical Report and in other periodic publications of the Bank of Albania. The first publication date of statistics is the one presented in the Statistics Release Calendar and the place of first publication is the Bank of Albania's website.

During 2009, the production time of statistical indicators was shortened, aiming at approximating publication deadlines according to international statistical standards. Good examples are external trade statistics and balance of payments statistics, while the monetary statistics are published in line with the terms recommended by international standards.

Regarding forms of statistics dissemination, a special attention was paid to quality improvement and enrichment of the statistics section on the Bank of Albania's website. The work aimed at restructuring and enriching the database for internal and external use, while there continues the work for establishing a new publication program, which will facilitate research and use of data for external users.

Table 15 Catalogue of tables published on Bank of Albania's website

	MONETARY STATISTICS	Number of indicators	Release date
	Periodicity: monthly		
	Lag: 1 month		
1	Average rate of monthly deposits in ALL for the banking system	14	August 1995
2	Quantity of new monthly ALL deposits for the banking system	14	August 1995
3	Average monthly USD deposit rate for the banking system	13	December 2000
4	Quantity of new monthly USD deposits for the banking system	13	December 2000
5	Average monthly Euro deposit rate for the banking system	9	December 2000
6	Quantity of new monthly Euro deposits for the banking system	9	December 2000
7	Quantity of new monthly ALL credit for the banking system	5	August 1995
8	Average monthly ALL credit for the banking system	5	August 1995
9	Average monthly USD credit for the banking system	5	December 2000
10	Quantity of new monthly USD credit for the banking system	5	December 2000
11	Quantity of new monthly Euro credit for the banking system	5	December 2000
12	Average monthly Euro credit for the banking system	5	December 2000
13	Sectoral balance sheet of other depository corporations	115	December 2006
14	Sectoral balance sheet of the central bank	90	December 2006
15	Central bank data	60	December 2002
16	Sectoral balance sheet of deposit money bank	114	December 2006
17	Depositary corporations survey	89	December 2006
18	Other depositary corporations survey	83	December 2006
19	Deposit money bank data	83	December 2006
20	Credit to economy	16	December 2006
21	Deposits included in the broad money	39	December 2006
22	Monetary aggregates	5	December 2006

	BANKING STATISTICS	Number of indicators	Release date
	Periodicity: quarterly		
	Lag: 1 month		
23	Assets – Banking sector structure	57	Q4-1998
24	Liabilities - Banking sector structure	54	Q4-1998
25	Shareholders' equity structure in relative terms	7	Q4-1998
26	Income and expenditure of banking system	15	Q4-1998
27	Income and expenditure structure	37	Q4-1998
28	Indicators of capital and asset quality	17	Q4-1998
29	Indicators of banking activity concentration	13	Q4-1998
	EXTERNAL SECTOR STATISTICS		
	Balance of Payments	Number of indicators	Release date
	Periodicity: quarterly; Disclosure: Monthly format		
	Lag: 2 months and 10 days		
30	Balance of payments USD	7	January 1993
31	Balance of payments Euro	7	January 2004
32	Current account USD	40	January 1993
33	Current account Euro	40	January 2004
34	Financial account USD	9	January 1993
35	Financial account Euro	9	January 2004
	Merchandise Trade	Number of indicators	Release date
	Periodicity: monthly		
	Lag: 1 month		
36	Exports by countries USD	30	January 1993
37	Imports by countries USD	30	January 1993
38	Exports by countries Euro	30	January 2004
39	Imports by countries Euro	30	January 2004
40	Exports by SITC USD	10	January 1993
41	Import by SITC USD	10	January 1993
42	Exports by SITC Euro	10	January 2004
43	Imports by SITC Euro	10	January 2004
	Exchange rate	Number of indicators	Release date
	Periodicity: monthly		
	Lag:		
44	Average exchange rate for 1994 – 2001	26	January 1994 - December 2001
45	End-of-month exchange rate for the period of 1994-2001	26	January 1994 - December 2001
46	Average exchange rate since 2002	13	January 2002
47	End-of-month exchange rate since 2002	13	January 2002
	MONETARY STATISTICS - ARCHIVE	Number of indicators	Release date
1	Money supply	10	December 1993
2	Monetary survey assets	7	July 1994
3	Net foreign assets of Bank of Albania	3	July 1994
4	Total foreign liabilities (Bank of Albania)	10	November 1994
5	Deposit money banks net foreign assets	9	December 2000
6	Demand deposits of residents	6	December 1992
7	Time deposits	6	December 1992
8	Foreign currency deposits of residents	6	December 1992
9	Credit to economy	7	September 1998
10	Credit in lek	7	September 1998
11	Credit in foreign currency	7	September 1998
12	Monetary authority assets	3	July 1994
13	Deposit money banks assets	7	December 1994
14	Deposit money banks liabilities	8	December 1994
15	Monetary authority liabilities	6	July 1994
16	Foreign total assets (Bank of Albania)	10	November 1994
17	Monetary survey	14	July 1994

**All the tables are shown under the section: Statistics/Time series at the link: http://www.bankofalbania.org/web/Statistika_Hyrje_230_1.php*

IV.4.3. COOPERATION WITH NATIONAL STATISTICAL AGENCIES

Albania has made significant steps towards subscription from the IMF's Genera Data Dissemination System (GDDS) to the IMF's Special Data Dissemination Standard (SDDS). The Bank of Albania has operated as country coordinator for Albania's participation in the GDDS and for preparation for subscription to SDDS. Therefore, INSTAT and the Ministry of Finance report periodically to the Bank of Albania on metadata information as required by the GDDS, and on periodic data to fill in NSDP, which is published on Bank of Albania's website.

The INSTAT carries out several statistical surveys on behalf of the Bank of Albania and in turn, the Bank of Albania provides INSTAT with banking system information on a quarterly basis. Both institutions have signed a memorandum of understanding and apply the practice of signing an annual contract under which reciprocal services are carried out. Future cooperation between both institutions will be extended towards the harmonization of methodologies, coordination for meeting the obligations to subscribe to the SDDS, assignment of duties for collecting and processing the balance of payments statistics in order to avoid repeated reporting and parallel processing of statistical indicators, reviewing the legislation and national statistical infrastructure, construction of a Business Register to compile direct investment statistics and FATS, inclusion in the respective bases of the institution reporting requirements of the counterpart institution and cooperation for compiling the financial accounts.

The Bank of Albania's cooperation with the Ministry of Finance in terms of producing statistics lies mainly in the exchange of information for compiling balance of payments and external debt statistics. The reporting by the Ministry of Finance is regular and the data quality, thanks to the deployment of automated data processing systems, has increased in recent years. The future cooperation with the Ministry of Finance aims at increasing the efficiency of statistical production and improving qualitative and quantitative indicators of external sector by expanding the database.

VI.5 PUBLIC RELATIONS

The Bank of Albania is already aware that the way of achieving the objectives passes through public perception, which it is addressed to and is in service of. The monetary policy decisions taken by the Supervisory Council of the Bank of Albania are more effective if they are duly and timely transmitted to the economy. To this end, not only should the decisions be made in due time, but there also should exist channels of communication that facilitate the transmission of information. In other words, the existence of an efficient communication is essential.

On the other hand, awareness of the public, i.e., of individuals, who with their daily decisions on household economy create the overall effect

on the country's economy, is another tool that helps increase the monetary policy transmission efficiency. The higher the public understanding on central bank's decisions, the more rational the operations in the market are and the greater the help to transmit monetary policy decisions is. In this way, creating an environment that understands the central bank's activity is a factor that contributes to achieving its tasks, improving the Bank's image and increasing its accountability.

- *BANK OF ALBANIA PUBLICATIONS*

Bank of Albania's publications provide the public with information about recent developments in domestic and global economy, developments in the banking and financial systems, the financial stability of the currency, changes in banking legislation and enrichment of its regulatory framework, as well as other issues of interest, turning for a long time from now into an accurate and reliable source of information.

Publications completed during 2009, similarly to previous years, consist in periodic and non-periodic publications, amounting to over 4500 pages of analyse, statistics and studies in Albanian and English. Over the past year, in addition to periodic reports and bulletins (seven titles), VII Conference Book of the Bank of Albania ("Monetary Policy Strategies for Small Economies" – editor Ardian Fullani), discussion papers (9 titles), 2008 Publications Catalogue, educational brochures (4 titles), the magazine "Scientific news at the Bank of Albania" published for the first time. This publication targets mainly researchers, inside and outside the Bank, as well as everyone interested in this area, getting acquainted with the research conducted at the Bank of Albania and its usefulness in decision making of the Bank and beyond.

Distribution of Central Bank publications in 2009 helped intensify the relations with research, economic and financial institutions and interested persons, thus fulfilling the Bank's obligation to publish, inform and explain its policies, procedures, objectives and opinions.

- *RELATIONS WITH THE MEDIA*

An important function as regards communication is keeping and developing ongoing contacts with the media, informing and making it aware of issues on the Bank in particular and the banking system in general. Conferences and press releases, meetings with journalists and different interviews, help inform the public on the Bank of Albania and its activity, on monetary and financial news, as well as guarantee the right for information to the broad public.

In the context of the critical year, charged with the consequences of the past global financial crisis, the Bank of Albania has paid special attention to media relations and public information. During 2009, transparency of the Bank of Albania underwent a substantial change. After every meeting of the Supervisory Council on monetary policy decisions, the Governor holds a press conference attended by media representatives, explaining and informing the public

about economic and financial reasons supporting the Supervisory Council's decision. These monthly press conferences[12] constitute the mediatic backbone of the economic area, making the media devote more and more attention. This change constitutes another important step towards approximating the Bank of Albania with the European Central Bank's standards. During 2009, training activities for journalists continued, according to a tradition set forth in the previous years.

- *FINANCIAL EDUCATION OF THE PUBLIC*

The aspiration to become a modern central bank in terms of the objectives, functions and role in society, has in the last three years brought on focus of the Bank of Albania's (*hereinafter* BoA) commitments the public economic and financial education. The Bank of Albania, under the auspices of the Governor, has designed and implemented the educational programme "*Central Bank in Everyday Life*". This programme promotes the establishment of financial culture in the Albanian society and since its inception in 2007 it has enriched with new initiatives and expanded to include a much broader public.

Box 5 The competition "Central Bank in Everyday Life"

In 2009, after the Tirana and Vlora regions, the educational programme expanded for the first time to the regions of Shkodra, Korça and Gjirokastra. All high schools in these regions were invited to take part in the activities envisaged in our educational programme.

With the support of the respective Regional Educational Directories and the commitment of the BoA staff, the following training seminars were held with high school teachers of Economics:

Training seminars for high school teachers

Date	Description of the seminar
10 – 13 February 2009	Training seminar in the field of finance, economy and banking for high school teachers of Economics of Korça.
23 – 27 February 2009	The third cycle of training seminars for high school teachers of Economics of Tirana.
10 – 13 March 2009	Training seminar in the field of finance, economy and banking for high school teachers of Economics of Shkodra.
24 – 27 March 2009	Training seminar in the field of finance, economy and banking for high school teachers of Economics of Gjirokastra.
23 – 29 September 2009	Training seminar for high school teachers and social workers of Elbasani.

These training seminars provided the audience with a very good opportunity to know the central bank and to further develop the teachers' professional background. The further enhancement of teaching quality will also serve to push the education of the new generation. During these seminars, the teachers were acquainted also with the Bank of Albania's work on financial education of the public, and were oriented to use information obtained from seminars and educational brochures as a complementary part of classes.

Preceded by consulting meetings and numerous contacts with high school students, the BoA organized the competition "The Real Value of Money" for the academic year 2008-2009 in five regions in Albania: Vlora, Shkodra, Korça, Gjirokastra and Tirana. The competition "The Real Value of Money" is a challenge between high school teams on their knowledge on the Bank of Albania, its monetary policy, the instruments it makes use of as well as the impact of central bank decisions on the country's economy. The jury addresses a number of questions to high school teams, consisting by three third-year students. The jury consists of Bank of Albania directors and the assessment is made not only on their knowledge, but also on their analytical ability to support their answers and on the group work.

74 high schools, represented by 222 students, competed against each-other in this competition for 2008 – 2009, wherein 75 students were awarded with certificates. The competition was attended by around 2000 students, teachers and representatives of the Regional Educational Directories. The following table shows some details on competitions organised during this academic year.

The Competition "The Real Value of Money"

District	Date	Venue	No. of participant high schools	Winning high school
Vlora	11-19 December '08	Petro Marko Theatre	15	"Ali Demi"
Shkodra	9 April '09	Migjeni Theatre	16	"28 Nëntori"
Korça	24 April '09	A.Z.Çajupi Theatre	11	"Themistokli Gërmenji"
Gjirokastra	8 May '09	Zihni Sako Theatre	7	"Siri Shapllo"
Tirana	25-26 May '09	BoA Hall	25	"Tirana Jonë"
National final	13 December '09	Academy of Arts	5	"Themistokli Gërmenji"

In order to further accentuate the importance that financial education should particularly have for the new generation, the Governor of the Bank of Albania, Ardian Fullani, held a number of meetings with high school students and teachers under the slogan "*To Educate Costs but it Has no Price*". These meetings were held in the form of free discussions with the participants on the responsibilities and primary objectives of the Bank of Albania, but also on general issues related to the current economic and financial situation, at home and abroad.

Bank of Albania's educational leaflets, which total 35 titles, are of special importance in all these educational activities. Over the course of the year 2009, the previous leaflets were revised and improved and new leaflets were issued. As well as distributing flyers during January to May 2009, at 40 high schools in Tirana, a mass distribution of brochures (about 19,200 pieces of leaflets) was conducted, targeting high school students.

Upon the launch of the new BoA website, a new column dedicated to the public education was designed. The *electronic column "Economic and*

financial education" provides information on the BoA educational activities (training seminars, competitions, meetings), leaflets, as well as a new interactive node entitled "Calculating instruments". The latter has been designed in the form of a simple calculator, which helps the users calculate their savings, deposits, savings plans or the monthly loan instalment simply by using the BoA website.

Box 6 Educational activity with university students

The Governor of the Bank of Albania has been also engaged in a number of activities addressed to the university students. Activities such as "The Bank Day", "The Governor's Award for the Best Diploma Thesis" and the Governor's lectures in various university auditoriums in and out of Albania have now become a tradition at the BoA.

During 2009, the BoA Governor's lectures focused on BoA's monetary policy-related issues, the economic developments in Albania over the recent years and the challenges of the Albanian economy, Albania's economic and institutional convergence with the European future, the global financial crisis, the future outlook, etc. These lectures were followed by questions addressed to the Governor by students and professors on the topics discussed and also "hot" ones. Over the course of 2009, the Governor held the following lectures:

- *Governor's lecture at the conference "Global financial crisis and future developments" organized by "Our Lady of Good Counsel" University and Bologna University, 27 March 2009;*
- *Governor's lecture at the University of Pristine "The Albanian economy facing the recent challenges and the European perspective", 29 October 2009;*
- *Governor's lecture at the Agriculture University of Tirana entitled "The Albanian economy facing the recent challenges and the European perspective" (followed by the educational activity "Bank Day"), 16 November 2009.*

- *NEW BANK OF ALBANIA WEBSITE*

In addition to the means of communication intermediated by the media or other stakeholders, who, due to their profession, transmit information to a large number of people (teachers, social workers), the BoA communicates directly with the public also via its website, publications, press releases and other data disclosed on it. Launched first in 1999 and then in 2004 (the new version), in February 2009 the new BoA website was launched.

The new BoA website was redesigned and rearranged in order to be more user-friendly, provide a clear graphics that is pleasant to the eye and appropriate for a modern central bank.

VI.6 INTEGRATION AND COOPERATION

- *EUROPEAN INTEGRATION*

Stabilisation and Association Agreement (SAA), following its ratification by all EU Member States, entered into force on 1 April 2009, thus charting the path towards Albania's application for the candidate status in the European Union. Application for EU membership was submitted on 28 April 2009 and based on the procedures set forth in the European Union Treaty, the European Commission should prepare its opinion on Albania's readiness to fulfil EU membership obligations.

Box 7 Bank of Albania's commitment to fulfilment of EC questionnaire

On 16 December 2009, the Head of the EU Delegation in Albania, Mr. Helmut Lohan, handed over the questionnaire necessary to prepare the European Commission's Opinion on the country's readiness to fulfil EU membership obligations to Prime Minister Sali Berisha. The questionnaire contains 2280 questions, which relate with all the segments of the European legal framework and the Copenhagen criteria for EU membership. Completion of this questionnaire by the Albanian authorities will help the European Commission understand and assess the current situation of Albania in terms of fulfilment of obligations in certain areas and the prospects of Albania in meeting membership standards.

The Bank of Albania, in accordance with the organizational structure for coordinating the process of drafting the replies to the Questionnaire, is engaged in fulfilling the questionnaire according to division of questions for each institution. The Bank of Albania is the coordinating institution for replies to questions of Chapter 4 - Free movement of capital and Chapter 17 - Economic and monetary policies. However, it is worth mentioning that the Bank of Albania will make its contribution even in other chapters of the Questionnaire, such as Chapter 9 - Financial services and Chapter on economic criteria.

In this context, the work for preparation and submission of the questionnaire will continue in the first quarter of 2010 and the Bank of Albania will constantly attend the good management of this process, in line with the objective of its successful completion. The obligations stemming from the SAA on the Bank of Albania are related with the fulfilment of the Copenhagen economic criterion for EU membership, guaranteeing the right of establishment and the freedom to provide financial services to European Community banks and other financial institutions, liberalization of capital flows and payments between Albania and the European Union, and the approximation of Albanian legislation to the EU acquis communautaire.

In accordance with the process of implementation of the SAA, the Bank of Albania has contributed to the reviewing of the National Plan for the Implementation of the SAA (NPISAA) for 2009 to 2014, identifying and updating priorities and measures taken in the areas of macroeconomic stability, free capital flows, freedom of establishment and freedom to provide financial services, providing legal incentives, applicable activities, necessary technical assistance and expected costs during the process of approximating the legislation to the EU *acquis communautaire*.

The Bank of Albania has kept regular contacts with the Ministry of European Integration and has posted there its monthly progress reports, which state the progress achieved in terms of legal measures and applicable activities, in line with the terms specified under the NPISAA as well as a description of the degree of compliance of legal acts adopted by the Bank of Albania to the *acquis communautaire*.

On 14 October 2009, the European Commission published the 2009 Progress Report on Albania, together with the 2009-2010 EU Enlargement Strategy. Both these documents describe the progress made by Albania and the challenges it is faced with, while also setting out the approach of the European Commission to guide and support our country in the future. The report[13] assessed the progress made by Albania over the period of 1 October 2008 – 30 September 2009 in the fulfilment of the Copenhagen criteria.

The Bank of Albania took part regularly in the periodic meetings between the Republic of Albania and the European Union in 2009, such as in the First Meeting following entry into force of the SAA, the Subcommittee on Domestic Market and Competition, and the First Subcommittee on Financial and Economic Affairs and Statistics, where the Bank of Albania presented the main highlights on monetary policy, exchange rate, external sector and the banking system.

The Stabilisation and Association Council[14] between the European Union and Albania held its first meeting on 18 May 2009, following entry into force on 1 April 2009 of the Stabilisation and Association Agreement. Related to the economic criteria, the SA Council took note of the counter-cyclical measures by the Bank of Albania in early 2009 with the aim to strengthen confidence of market participants and the public at large and to maintain overall financial stability. The EU noted the Albanian authorities' wish for a closer cooperation with foreign-owned banks' home country regulatory authorities.

Regarding the twinning project of the Bank of Albania with one or two ESCB member central banks, financed by the EU Instrument for Pre-Accession Assistance (IPA) 2008, which aims at strengthening the institutional capacity of the Bank of Albania particularly in the areas of banking supervision, statistics, payment systems and the implementation of monetary policy, the Bank of Albania has kept contacts with the European Commission Delegation in Tirana for selecting the banks interested in this project. In this context, the project in question was distributed to 27 European Union member states and their central banks. As a result, twinning banks are expected to be identified in the first quarter of 2010.

In view of the European Commission's dialogue with the Bank of Albania, the Governor of the Bank of Albania was invited and had a discussion at the conference "The Western Balkans: Overcoming the economic crisis - from regional cooperation to EU membership", organized by the European Commission's DG Enlargement and the Swedish Presidency of the EU on 9 December 2009 in Brussels.

- *INTERNATIONAL COOPERATION*

(i) Relations with the International Monetary Fund (IMF)

The Republic of Albania joined the International Monetary Fund in October 1991. Its quota in 2009 remained unchanged, at SDR 48.7 million, as did its votes (737 votes or 0.03% of the total votes of all IMF members). Albania is at the same constituency as Italy, Greece, Portugal, Malta, San Marino and East Timor. This constituency is entitled to a total of 90,968 votes (or about 4.1% of total votes of all IMF members) and is led by the Italian representative, Mr. Arrigo Sadun, an Executive Director of the constituency.

On 8 January 2009, the Albanian authorities represented by the Prime Minister, the Governor of the Bank of Albania and the Minister of Finance officially submitted to the IMF the Memorandum of Understanding. On the basis of this document and assessments of the IMF review mission that visited Albania in October - November 2008, the IMF Executive Board carried out the sixth and the last review on 28 January 2009, on Albania's progress as per the implementation of the three-year PRGF/EFF arrangement, adopted on 27 January 2006. This review enabled the disbursement of the sum total of SDR 2.435 million for Albania, bringing the sum total disbursed since the approval of the agreement to SDR 17.045 million.

Also, Albania paid about SDR 9.4 million to the IMF in 2009, in view of paying off its dues (payments of principal, interests, periodic expenses, etc.), inherited from the past PRGF agreements and the existing PRGF/EFF one.

At the same time, the Governor of the Bank of Albania has regularly represented the Republic of Albania in the decision-making of the Board of Governors, which is the highest body of the IMF. Of importance in the relations with the IMF during 2009, were the spring and annual meetings of the IMF and the World Bank, held respectively in April and October. At these meetings, the Bank of Albania delegation, headed by the Governor, met with senior representatives of the IMF, discussing recent macroeconomic developments and matters pertained to the monetary and financial stability, making an overview of the macroeconomic situation and the banking and financial system in Albania. These meetings highlighted very good relations between the IMF and the Albanian authorities, and commended the work done by the Bank of Albania. IMF senior representatives have expressed their willingness to continue the technical assistance projects for the Bank of Albania.

In 2009, the IMF continued providing technical assistance to the Bank of Albania relative to its staff training, giving advice in the field of monetary policy and banking supervision.

(ii) Relations with the World Bank group

Albania is a member of the World Bank Group since 1991 and has benefited from this institution a total of USD 1.1 billion fund for 68 projects. The 2006-

2009 assistance strategy of the World Bank for Albania, which focused on promoting economic growth by supporting private sector development and improving public services, was over in June.

During 2009, the Bank of Albania's cooperation with the World Bank Group continued under the Agreement "Reserve Advisory and Management Program", signed in September 2005. Thus, the World Bank Group has provided technical assistance to the Bank of Albania through the RAMP (Reserve Advisory Management Program), in the framework of Sovereign Partnerships Investments (SPI). This advice and technical assistance was made concrete through visits of World Bank Treasury experts and through participation of Bank of Albania's experts in seminars organized by the World Bank abroad.

Also, the World Bank has provided technical assistance in view of the project for contingency plans and simulations of financial crisis situations. In 2009, the World Bank Mission held extensive meetings and discussions not only with BoA staff, but also with representatives of other institutions, such as the Ministry of Finance, the Financial Supervisory Authority and the Deposit Insurance Agency.

In meetings of the Bank of Albania's delegation with senior representatives of the World Bank Group in view of spring and annual meetings of the IMF and the World Bank, the Albania's economic developments and the measures taken by the Bank of Albania for maintaining macroeconomic stability were presented.

(iii) Relations with other international financial institutions

During 2009, the Bank of Albania continued to keep constant contacts with the European Bank for Reconstruction and Development (EBRD), mainly in terms of providing information and statistics on developments in the Albanian economy in general and the financial sector in particular. In the Transition Report 2008, the EBRD positively assessed the monetary policy stance of the Bank of Albania in terms of keeping inflation within the target and strengthening the banking supervision through the Law "On Banks".

In May, the Governor of the Bank of Albania attended the 18th annual meeting of the Board of Governors and the Business Forum of the European Bank for Reconstruction and Development. This event, which was focused on the impact of the global financial crisis, gathered in a joint roundtable the shareholders of EBRD together with 1000 high-level representatives of governments, businesses, civil organisations and media coming from various countries, where EBRD carries out its investments.

It is worth mentioning also the contribution and assistance provided by the Bank of Albania to the World Trade Organization Secretariat in view of preparing the final report on the Trade Policy Review for Albania. In this context, there was coordinated the work for preparing comments and suggestions regarding the draft-report of the WTO Secretariat in the area of monetary policy, exchange rate and banking sector developments.

(iv) Relations with central banks and the technical cooperation

Following the intensification of bilateral relations with other central banks, in 2009, at the invitation of the Governor of the Bank of Albania, the Governor of Central Bank of Luxembourg and the Governor of Central Bank of the Republic of Turkey paid official visits to Tirana, and the Governor of the Bank of Albania paid an official visit to the central Bank of Greece. Also, the Governor of the Bank of Albania participated in many international conferences or regional seminars. These meetings, visits and conferences helped further consolidate and develop the technical cooperation between the Bank of Albania and counterpart institutions.

In the regional plan, it is worth mentioning the participation in the Governors' Club Meetings of the Black Sea, Central Asia and the Balkan countries, which aim at strengthening relationships among central banks in the region and promoting regional cooperation through best experience-sharing and addressing current issues, bringing together governors and experts.

In October, on the occasion of the 10th anniversary of the Central Bank of the Republic of Kosovo, the Governor of the Bank of Albania paid an official visit to and held a speech at the conference organized on this occasion. In the meetings, there were commended not only the excellent cooperating relations between both institutions, but also there was expressed the willingness to further continue this technical cooperation.

During 2009, the Bank of Italy, the National Bank of Czech Republic, the National Bank of Poland and the National Bank of Austria, the Bank of France, and the Center of Excellence in Finance (CEF) were the largest providers of technical assistance to the Bank of Albania, mainly by organizing seminars and workshops, as well as official visits of foreign experts to the Bank of Albania.

The Bank of Albania, in cooperation with the Center of Excellence in Finance, with support from the European Commission's TAIEX instrument in Tirana organised the workshop on "Building Capacities for policy design and implementation". This workshop addressed the main challenges associated with policy design and policy anchoring with particular focus on building individual and institutional capacities in this very important area. The workshop brought together representatives of central banks and of ministries of finance from Southeast Europe, and representatives from the International Monetary Fund, the European Central Bank and the European Commission.

At the same time, there are intensified technical cooperation relations with central banks in the region. It is worth mentioning the signing of the Protocol of Cooperation with the National Bank of Serbia, which aims at establishing bilateral relations to promote staff expertise, which will be carried out through study visits, bilateral meetings and implementation of joint projects.

In 2009, likewise in the preceding years, in light of cooperation and technical assistance, the Bank of Albania provided technical assistance to

the Central Bank of the Republic of Kosovo (CBRK). In this regard, several official visits of delegations of the CBRK to the Bank of Albania and vice versa were conducted, focusing on internal audit, payment systems, management, etc. On the occasion of the 10th Anniversary of the CBRK, several meetings were held, addressing issues related to foreign relations, human resources, relations with the media and protocol services. Related to this event, it is worth mentioning the cooperation and experience shared by the Bank of Albania in organizing this very important activity of the CBRK.

VI.7 AMENDMENTS TO BANKING LEGISLATION IN 2009

- *LEGAL ACTS RELATED TO BANKING SYSTEM STABILITY*

The Supervisory Council of the Bank of Albania, by its Decision No. 09, dated 02.11. 2009, on the draft-law "On some amendments and alterations to the Law No. 8873, dated 03.29.2002 "On deposit insurance"", proposed to the Ministry of Finance the draft-law "On some amendments and alterations to the Law No. 8873, dated 03.29.2002 "On deposit insurance"". The draft-law was adopted by the Assembly of the Republic of Albania, passing the Law No. 10106, dated 03.30.2009 "On some amendments and alterations to the Law No. 8873, dated 03.29.2002 "On deposit Insurance"".

In their totality, additions and changes to the deposit insurance law brought the following innovations:

- The maximum amount that serves as a criterion for determining the insured deposits rose up to the amount of ALL 2.500.000 (two million five hundred thousand), from ALL 700.000 (seven hundred thousand);
- The state deposit insurance increased to 100% coverage of deposits of up to ALL 2.500.000 (two million five hundred thousand), in contrast to the previous deposit insurance law, which was escalated to levels, in line with the amount of insured deposit;
- There were specified and better defined the terms for launching and conducting the deposit compensation process;
- There was removed the requirement for co-insurance of insured deposits;
- There was added the power of the Governing Council of the Agency, providing the latter with the right to issue secondary acts, unlike the previous deposit insurance law that reserved this right only to the Supervisory Authority;
- There was made a better definition of the Agency's financial assets regarding the use of state budget assets through borrowing, when the amount required to compensate the insured deposits during the compensation process is greater than the financial assets owned by Agency, determining the form and procedure of borrowing from the state budget, and the criteria on whose basis the loan amount will be determined;
- There was increased the legal protection of members of the Governing

Council of the Agency and its staff, in light of their responsibilities and legal duties.

• *IMPROVING THE LEGAL FRAMEWORK RELATED TO PAYMENT SYSTEMS*

In light of safe and efficient payment systems, in 2009, the Bank of Albania started the work for compiling the draft-law "On the payment system in the Republic of Albania", which is expected to pass to parliamentary procedures in 2010. This draft-law is in line with the basic principles of EU Directives in the field of payment systems (in particular with Directive 98/26/EEC on settlement finality in payment and securities settlement systems, Directive 2002/47/EC on financial collateral arrangements and core principles of the Basel Committee on systemically important Payment Systems).

• *IMPROVING THE REGULATORY FRAMEWORK FOR SUPERVISING BANKS AND NON-BANKING FINANCIAL INSTITUTIONS*

In 2009, the Supervisory Council of the Bank of Albania adopted the following new regulatory acts:

1. Regulation No. 05, dated 11.02.2009 "On consumer and mortgage loans to households". It regulates for the first time specifically the consumer loan in view of consumer protection, and sets forth the requirements on the content and manner of providing pre-contract and contract information to the borrower, prior to making and during the execution of consumer and mortgage loans to households.

2. Regulation No. 14, dated 03.11.2009 "On licensing and operation of banks and branches of foreign banks in the Republic of Albania". It replaces the previous regulation on granting a license to conduct banking activities in the Republic of Albania" approved by the decision of the Supervisory Council of the Bank of Albania, No. 71, dated 09.11.2002, as amended by decision No. 2003, dated 26.1.2005, amended by decision No. 80, dated 25.10.2006. This regulation provides the following innovations:

- Granting approval for banks' network extension within and outside the territory of the Republic of Albania.

- Granting initial approval for activity of banks and the foreign bank branches, in accordance with the provisions of the Law No. 9662, dated 18.12.2006 "On Banks in the Republic of Albania". Consequently, the regulations defined the documentation needed for granting initial approval in the event of opening a representative office by a foreign bank in the territory of the Republic of Albania, significant ownership interests change, name alteration, statute change, statute changes in the event of capital increase by non-liquid assets, capital reduction,

capital distribution, repurchase of shares of persons connected directly or indirectly, by extending credit or issuing collateral.

- The obligation to notify the Bank of Albania pursuant to the provisions of the Law No. 9662, dated 18.12.2006 "On Banks in the Republic of Albania". The regulation specifies the documents that banks and branches of foreign banks should submit to the Bank of Albania in the case of Capital Increase with liquid assets, changes in capital structure, changes in the central directorate headquarters and country/address where the branches or agencies carry out their activity.

- Bank reorganization (mergers and acquisitions). The regulation specifies the documentation to be submitted by a bank in the event of any mergers or acquisitions. It should be noted that the bank can conduct registration of the process of reorganization through merger or acquisition at the National Registration Centre, only after having received approval from the Bank of Albania.

3. Regulation No. 11, dated 25.02.2009 "On licensing and operation of non-bank financial entities". It replaced the previous regulation on licensing non-bank entities", approved by the Supervisory Council's decision No. 96, dated 26.11.2003 and amended by the Supervisory Council's decision No. 88, dated 16.11.2005. In addition to documents and requirements needed for licensing non-bank financial entities, this regulation included for the first time the licensing of microcredit financial institutions, as a separate category, specifying the requirements for granting a licence to these institutions. In pursuance of the Law No. 9662, dated 18.12.2006 "On Banks in the Republic of Albania", there are also defined the criteria for granting initial approval of the activity of non-bank financial entities and micro-credit institutions; the obligations to report to the Bank of Albania on the activity of non-bank financial institutions and micro-credit ones, as well as the criteria for approving the agent of non-bank financial entities, when the latter exercise their financial operations through an agent.

4. Regulation No. 40, dated 05.27.2009 "On basic principles of management of banks and branches of foreign banks and the criteria for approval of their administrators", which replaces the regulation "On managers of banks and branches of foreign banks" adopted by the Supervisory Council's decision No. 120, dated 30.12.2003 and amended by the Supervisory Council decision no. 69, dated 13.09.2006. Specific provisions of this regulation define the responsibilities of bank managing structures, such as the Steering Council, directorate and its executive managers, in view of managing the bank in accordance with the objectives, strategies, policies adopted, and to its best interest. The regulation also stipulates the manner of communication and interaction of these structures.

5. Regulation No. 44, dated 10.06.2009 "On prevention of money laundering and terrorist financing", which replaces the regulation "On prevention of money laundering", approved by the Supervisory Council's decision No. 10, dated 25.02.2004. This regulation was designed to harmonize the regulatory requirements with the Law No. 9917, dated 19.05.2008 "On prevention of money laundering and terrorist financing".

6. Regulation No. 45, dated 10.06.2009 "On reporting to the Bank of Albania under the unified reporting system", whose purpose is to define the rules, conditions and terms of reporting to the Bank of Albania by banks and branches of foreign banks, in order to obtain standardized information from reporting entities, as well as their processing in view of banking supervision and preparation of monetary and financial statistics.

7. Regulation No. 70, dated 30.09.2009 "On foreign exchange activity" repealed the regulation "On foreign exchange activity", approved by the Supervisory Council's decision No. 64, dated 07.03.2003. This Regulation harmonises the regulatory framework on foreign exchange activity with:

- New legal requirements on banks, adopted after the entry into force of the existing regulation "On foreign exchange operations", approved by Decision No. 64, dated 30.07.2003 of the Supervisory Council of the Bank of Albania, as amended;

- New legal requirements and obligations arising from the process of implementation of the SAA, which, inter alia, provides for the gradual approximation of Albanian legislation with the acquis communautaire;
- As well as other international commitments of the Republic of Albania in terms of liberalization of free capital movement and payments.

8. Regulation no. 71, dated 14.10.2009 "On liquidity risk management", which abrogates the Guideline "On liquidity of banks", approved by decision No. 04, dated 19.1.2000, amended by decision No. 08, dated 12.02.2003 of the Supervisory Council of the Bank of Albania.

ENDNOTES

[1] *Source: International Monetary Fund, World Economic Outlook Database, October 2009.*
[2] *The Law "On Official Statistics", No. 9180, dated 05.02.2004.*
[3] *The Law "On the Bank of Albania", No. 8269, dated 23.12.1997.*
[4] *"The program of Official Statistics, 2007 – 2011" passed by the Assembly of the Republic of Albania with decision No. 153, dated 31.01.2008.*
[5] *Until starting the application of recommendations of this manual, monetary statistics were compiled pursuant to the "Methodology in presenting the monetary position", approved by decision of the Supervisory Council of the Bank of Albania, No.11, dated 21.09.1994, in accordance with recommendations of the "Guideline on monetary and banking statistics in international financial statistics", IMF, 1984.*
[6] *The data in line with the new standard since December 2002 have been disseminated for internal use, while their publication according to both standards is extended over the period of December 2006 – December 2008.*
[7] *The recommendation for the compilation of the statement of international investment position and external debt along with the balance of payments statement, is reflected also in re-designing the IMF's balance of payments manual (Fifth Edition), which extends the coverage scope from "The Balance of Payments Manual" (Fifth Edition 1993) to "The Balance of Payments Manual and International Investment Position" (Sixth Edition, January 2010).*
[8] *The link on Bank of Albania website : http://www.bankofalbania.org/web/SDDS_330_1.php*
[9] *Balance of Payments Methodology, Bank of Albania, December 2006.*
[10] *International investment position is drafted in compliance with the "Balance of Payments Manual" (Fifth Edition, IMF, 1993) "International Investment Position – A Guideline on Information Sources" (IMF, 2000) and "Methodological Notes of Compilation of PIN of Albania", Bank of Albania.*
[11] *Albania's external debt is compiled in pursuance of the "Balance of Payments Manual" (Fifth Edition, IMF 1993), "External Debt Statistics: Guideline for compilers and users" (IMF, 2003) and "Methodological Notes for compiling Albania's external debt", Bank of Albania.*
[12] *Since July 2009, following the meetings of the Supervisory Council on monetary policy decision-making, 6 press conferences have taken place regularly.*
[13] *The Report has been released by the Ministry of European Integration, www.mie.gov.al.*
[14] *Upon the entry into force of the Stabilization and Association Agreement on 1 April 2009, the Stabilization and Association (SA) Council was established between the European Union and Albania. This Council convenes at least once a year and is attended by high level participants (ministers). It is co-chaired by an Albanian representative and a representative of the European Union Council, on behalf of the Community and its member states. The SA Council is assisted in its work to evaluate the reforms and progress over a year by the SA Committee and other sub-committees (7).*

"2600th Anniversary of the City of Durrës"
50 lekë. Silver coin, issue of 1987.

CHAPTER VII INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

KPMG Albania Sh.p.k.
"Dëshmorët e Kombit" Blvd.
Twin Towers Buildings,
Building 1, 13th floor
Tirana, Albania
NIPTJ91619001D

Telephone +355 4 2274 524
+355 4 2274 534
Telefax +355 4 2235 534
E-mail al-office@kpmg.com
internet www.kpmg.al

INDEPENDENT AUDITORS' REPORT

To the Supervisory Council of Bank of Albania
Tirana, 24 March 2010

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Bank of Albania ("the Bank"), which comprise the statement of financial position as at 31 December 2009, the separate income statement, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting policies adopted by the Supervisory Council of the Bank of Albania as disclosed in Note 2 (a) to the financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International

KPMG Albania Sh.p.k., an Albanian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ('KPMG International'), a Swiss entity.

Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with the accounting policies adopted by the Supervisory Council of the Bank of Albania as disclosed in Note 2 (a) to the financial statements.

KPMG Albania Shp.k.

KPMG Albania sh.p.k.
"Dëshmorët e Kombit" Blvd.
Twin Towers Buildings,
Building 1, 13th floor
Tirana, Albania

KPMG Bulgaria OOD

KPMG Bulgaria OOD
45A, Bulgaria Boulevard
Sofia 1404
Bulgaria

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009
(amounts in Lek million, unless otherwise stated)

	Notes	31 December 2009	31 December 2008
ASSETS			
Assets denominated in foreign currencies			
Gold and precious metals	5	7,324	5,265
Accounts with the International Monetary Fund	6	14,737	6,910
Deposits with non resident banks	7	47,113	58,824
Available for sale investments	8.1	154,488	132,339
Held for trading investments	8.2	11,365	10,614
Other foreign assets	9	1,196	1,577
Total assets denominated in foreign currencies		236,223	215,529
Domestic assets			
Gold and precious metals	5	3,477	2,462
Transit credits	10.1	46	69
Loan to Albanian Government	10.2	-	3,000
Loans to resident banks	10.3	32,326	20,072
Available for sale investments	11	76,589	74,594
Other domestic assets	12	4,927	4,547
Total domestic assets		117,365	104,744
Total Assets		353,588	320,273
LIABILITIES			
Liabilities denominated in foreign currencies			
Due to the International Monetary Fund	13	20,452	12,869
Due to non-resident financial institutions	14	1,279	1,178
Other foreign liabilities		-	261
Total liabilities denominated in foreign currencies		21,731	14,308
Domestic liabilities			
Currency in circulation	15	216,739	203,713
Due to resident banks	16	68,075	67,803
Due to the Government	17	13,355	21,096
Other domestic liabilities	18	1,140	1,480
Total domestic liabilities		299,309	294,092
CAPITAL AND RESERVES			
Capital		2,500	2,500
Legal reserve	19	9,994	7,515
Revaluation reserve	20	2,399	(15,837)
Property revaluation surplus		1,907	1,947
Other reserves	21	15,748	15,748
Total capital and reserves		32,548	11,873
Total liabilities, capital and reserves		353,588	320,273

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 152 to 188.

SEPARATE INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

(amounts in Lek million, unless otherwise stated)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Operations with non-residents			
Interest and commission income	22	5,169	6,503
Interest and commission expense	23	(1,792)	(607)
Operations with non-residents, net		3,377	5,896
Operations with residents			
Interest and commission income	24	7,134	4,972
Interest and commission expense	25	(1,713)	(2,751)
Operations with residents, net		5,421	2,221
Other operating income, net	26	2,848	1,891
Net trading income	27	138	673
Profit/ (Loss) from exchange rate		20,668	4,670
Total income from Banking activities		32,452	15,351
Other administrative expenses			
Personnel expenses	28	(893)	(769)
Depreciation	12	(159)	(135)
Amortization	12	(279)	(84)
General and administrative expenses		(500)	(375)
Total other administrative expenses		(1,831)	(1,363)
Net income from Banking activities		30,621	13,988

Profit distribution as of 31 December 2009:

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Net income from Banking activities		30,621	13,988
Transfer (to)/ from revaluation reserve		(20,668)	(4,670)
Profit before distribution		9,953	9,318
Provisions	18	(78)	(20)
Net profit before allocation		9,875	9,298
Allocation of profit			
Reversal of property revaluation surplus		40	38
Distribution of profit to Legal Reserve		(2,479)	(2,334)
Distribution of profit to Albanian Government		(7,436)	(6,941)
Interest receivable from Government securities for covering temporary capital deficit		-	(61)
Total		9,875	9,298

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 152 to 188.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

(amounts in Lek million, unless otherwise stated)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Net income from Banking activities		30,621	13,988
Other comprehensive income:			
Property revaluations		(40)	192
Available for sale financial assets		(2,270)	2,169
Other comprehensive income for the year		(2,310)	2,361
Total comprehensive income for the year		28,311	16,349

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 152 to 188.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

(amounts in Lek million, unless otherwise stated)

	Capital	Legal reserve	Revaluation reserve	Property revaluation surplus	Other reserves	Retained earnings	Net profit	Total
As at 1 January 2008	2,500	5,181	(22,759)	1,755	14,614	-	-	1,291
Transactions driven by law and with the Albanian Government recorded directly in equity								
Transfer to/ from revaluation reserves	-	-	4,670	-	-	-	(4,670)	-
Other revaluations	-	-	83	-	-	-	-	83
Gold and precious metals Reserves	-	-	-	-	7,042	-	-	7,042
Government funds for covering temporary capital deficit	-	-	-	-	(5,908)	-	(61)	(5,969)
Reduction for provision (Note 18)	-	-	-	-	-	-	(20)	(20)
Profit distribution (Note 19)	-	2,334	-	-	-	(38)	(9,237)	(6,941)
Total contributions by and distributions to the Albanian Government	-	2,334	4,753	-	1,134	(38)	(13,988)	(5,805)
Transfer of revaluation surplus to retained earnings	-	-	-	-	-	38	-	38
Total comprehensive income for the year								
Net income from Banking activity	-	-	-	-	-	-	13,988	13,988
Other comprehensive income								
Securities revaluation	-	-	2,169	-	-	-	-	2,169
Property revaluation 2008 (Printing House, Note 12)	-	-	-	230	-	-	-	230
Release of tangible fixed asset revaluation surplus	-	-	-	(38)	-	-	-	(38)
Total other comprehensive income	-	-	2,169	192	-	-	-	2,361
Total comprehensive income for the year	-	-	2,169	192	-	-	13,988	16,349
As at 31 December 2008	2,500	7,515	(15,837)	1,947	15,748	-	-	11,873

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

(amounts in Lek million, unless otherwise stated)

	Capital	Legal reserve	Revaluation reserve	Property revaluation surplus	Other reserves	Retained earnings	Net profit	Total
As at 1 January 2009	2,500	7,515	(15,837)	1,947	15,748	-	-	11,873
Transactions driven by law and with the Albanian Government recorded directly in equity								
Transfer to/ from revaluation reserves	-	-	20,668	-	-	-	(20,668)	-
Other revaluations	-	-	(162)	-	-	-	-	(162)
Reduction for Provisions (Note 18)	-	-	-	-	-	-	(78)	(78)
Profit distribution (Note 19)	-	2,479	-	-	-	(40)	(9,875)	(7,436)
Total contributions by and distributions to the Albanian Government	-	2,479	20,506	-	-	(40)	(30,621)	(7,676)
Transfer of revaluation surplus to retained earnings	-	-	-	-	-	40	-	40
Total comprehensive income for the year								
Net income from Banking activity	-	-	-	-	-	-	30,621	30,621
Other comprehensive income								
Securities revaluation	-	-	(2,270)	-	-	-	-	(2,270)
Release of tangible fixed asset revaluation surplus	-	-	-	(40)	-	-	-	(40)
Total other comprehensive income	-	-	(2,270)	(40)	-	-	-	(2,310)
Total comprehensive income for the year	-	-	(2,270)	(40)	-	-	30,621	28,311
As at 31 December 2009	2,500	9,994	2,399	1,907	15,748	-	-	32,548

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 152 to 188.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2009

(amounts in Lek million unless otherwise stated)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Cash flows from operating activities			
Net profit before allocation		9,875	9,298
Non-cash items in the statement of operation			
Interest and commission income (non-residents)		(5,169)	(6,503)
Interest and commission expense (non-residents)		1,792	607
Interest and commission income (residents)		(7,134)	(4,972)
Interest and commission expense (residents)		1,713	2,751
Net trading securities income		(138)	(673)
(Profit) /Loss from sale of available for sale investments		(2,771)	(1,881)
Gain from forward foreign exchange contracts and futures contracts		(3)	-
Grant amortization (deferred income)		-	(3)
Provision for doubtful loans		80	18
Depreciation and amortization		438	219
Cash flow before the movement of working capital		(1,317)	(1,139)
Changes in working capital			
(Increase) / Decrease in accounts with the IMF		(7,826)	121
(Increase) / Decrease in other foreign assets		(14)	238
Decrease in transit loans		23	26
(Increase) / Decrease in Government Loan		3,000	(3,000)
Increase in other domestic assets		(205)	(491)
Increase/ (Decrease) in due to the IMF		7,581	(992)
Increase/ (Decrease) in due to financial institutions		101	(6)
Increase/ (Decrease) in other foreign liabilities		(261)	10
Increase in due to resident Banks		283	756
Increase/ (Decrease) in due to the Government		(8,436)	5,042
Increase/ (Decrease) in other domestic liabilities		(417)	554
Purchase of held for trading securities (in foreign currency)		(41,811)	(17,708)
Sale of held for trading securities (in foreign currency)		41,889	16,670
Cash flows (used in) /generated from operations		(6,093)	1,220
Interest received		6,514	7,003
Interest paid		(1,789)	(2,834)
Net cash (used in) /generated from operating activities		(2,685)	4,250

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2009 (CONTINUED)

(amounts in Lek million, unless otherwise stated)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Cash flows from investing activities			
Purchase of property and equipment		(221)	(283)
Purchase of intangible assets		(395)	(278)
Purchase of available for sale investments (in foreign currency)		(376,526)	(338,361)
Purchase of available for sale investments (domestic assets)		(192,884)	(180,678)
Sale and maturity of available for sale investments (in foreign currency)		367,921	337,258
Sale and maturity of available for sale investments (domestic assets)		196,278	177,137
Increase in repurchase agreements		(12,191)	(18,496)
Adjustment for effect of foreign exchange		5,405	883
Net cash used in investing activities		(12,613)	(22,818)
Cash flows from financing activities			
Gold and precious metals reserve		-	7,042
Increase in money in circulation emissions		16,000	45,500
Release of government funds for covering temporary capital deficit		-	(61)
Profit distribution		(6,741)	(5,200)
Net cash generated from financing activities		9,259	47,281
(Decrease) /Increase in cash during the year		(6,039)	28,713
Cash and cash equivalents at the beginning of the year	29	81,882	53,169
Cash and cash equivalents at the end of the year	29	75,843	81,882

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 152 to 188.

The financial statements were authorised by the Supervisory Council on 24 March 2010 and signed on its behalf by:

Ardian Fullani

Governor of the Bank

Artan Toro

Director of Accounting and Finance Department

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

(amounts in Lek million, unless otherwise stated)

1. GENERAL

The Bank of Albania (the 'Bank') is the Central Bank of the Republic of Albania and was established according to the Law No. 8269, dated 23 December 1997 'On the Bank of Albania'.

Under the terms of its charter the Bank's main responsibilities are:

- formulating, adopting and executing the monetary policy of Albania, which shall be consistent with its primary objective;
- formulating, adopting and executing the foreign exchange arrangement and the exchange rate policy of Albania;
- issuing or revoking of licenses and supervising banks that engage in the banking business in order to secure the stability of the banking system;
- holding and managing its official foreign reserves;
- acting as banker and adviser to, and as fiscal agent of, the Government of the Republic of Albania;
- promoting an effective operation of payments system.

The Bank is subject to the regulatory requirements of the Parliament of the Republic of Albania and the Law 'On the Bank of Albania'.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with the accounting policies adopted in the Bank's Accounting Manual approved from the order No.50 of the Council of Ministers, dated 26 January 2001 and other policies approved by the Supervisory Council of the Bank of Albania.

These accounting policies are broadly in line with International Financial Reporting Standards ('IFRS') approved by the International Accounting Standards Board ('IASB').

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss are measured at fair value

- available-for-sale financial assets are measured at fair value
- gold is measured at fair value
- buildings are measured at revalued amount.

(c) Functional and presentation currency

These financial statements are presented in Albanian Lek ('LEK'), which is the Bank's functional currency. Except as indicated, financial information presented in LEK has been rounded to the nearest million.

(d) Use of estimates and judgments

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in Note 4.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. The most significant exception from IFRS is explained below:

IAS 39 'Financial Instruments: Recognition and Measurement'

Interest income and expenses on financial assets and liabilities are recognized in profit or loss on an accrual basis, calculated on the straight line method (see Note 3.a). This method is not in accordance with IAS 39, which requires the calculation on an effective interest basis. Additionally, borrowings from international financial institutions are recognized at cost rather than fair value as required by IAS 39.

a. Interest and commission recognition

Interest income and expense are recognized in profit or loss on an accrual basis. Interest income and expense include the interest earned on coupons, as well as the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on a straight line basis.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Fee and commission income and expenses arise on financial services provided by the Bank and are recognized when the corresponding service is provided. Other operating income/expense includes gains and losses arising from disposals and changes in the fair value of available for sale assets.

b. Foreign currency transactions

Transactions in foreign currencies are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Some non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are initially recognized in profit or loss in the period in which they arise, and are then transferred to 'Revaluation reserves' in capital and reserves, according to the Law No. 8269, dated 23 December 1997 'On the Bank of Albania'.

The Bank during the normal course of business enters into foreign exchange transactions with settlement dates 1 or 2 days after the trade date. These transactions are recorded in the financial statements on the settlement date. Foreign currency differences are recognised in profit or loss on the settlement date.

The applicable official Bank rate (LEK to the foreign currency unit) for the principal currencies as at 31 December 2009 and 2008 were as below:

	31 December 2009	31 December 2008
United States dollar (USD)	95.81	87.91
European Union currency unit (EUR)	137.96	123.80
British pound (GBP)	154.64	127.66
Special Drawing rights (SDR)	149.65	136.07
Japanese yen (JPY)	1.0372	0.9743
Gold ('XAU') per 1 onz	105,774.24	76,042.15

c. Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, and foreign exchange differences.

d. Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are

recognised as an integral part of the total lease expense, over the term of the lease.

e. Taxation and Profit distribution policy of the Bank

The Bank is not subject to income tax based on the law 'On the Bank of Albania'.

The Bank's policy of distribution of profit from banking operations is defined in the Law 'On the Bank of Albania'. According to this law, the Bank allocates all the realized profit to the State Budget after having fulfilled its requirement for reserve fund as required from the Supervisory Council of the Bank.

According to Article 64, point (a) of the Law 'On the Bank of Albania', the net gain / losses arising from the revaluation of assets and liabilities denominated in foreign currencies, is transferred to the equity to a revaluation reserve account 'Revaluation reserves'. According to Article 64, point (b), the Government of Albania issues debt securities at market interest rates to cover any negative balance of the revaluation reserve arising from the Bank's activity.

According to the requirements of Article 9 of the Law 'On the Bank of Albania', the Bank sets aside 25 per cent of the net profit for the year into a Legal Reserve until the reserve amounts to 500% of the capital (see accounting policy 3.f).

According to Article 11 of the Law 'On the Bank of Albania' no transfer, redemption or payment under Articles 8, 9 or 10 of this law shall be made if the assets of the Bank are less than the sum of its liabilities and paid-up capital. If such conditions arise, based on the Law 'On the Bank of Albania' under article 7, the Ministry of Finance might have to transfer interest bearing negotiable government securities to the Bank, in such amount as would be necessary to remedy the deficiency.

f. Legal reserve

Subsequent to the allocation of reserves as required by the Law 'On the Bank of Albania' (see accounting policy 3.e), the Bank stipulates the remainder to be paid into the State Budget.

g. Financial assets and liabilities

(i) Recognition

All financial assets held-to-maturity, or financial assets available-for-sale are initially recognised on the settlement date. The investments held-for-trading are accounted for on the trade date. The Bank initially recognises loans and advances, deposits, and financial liabilities on the date at which they are originated.

A financial asset or financial liability is initially measured at cost. The cost of financial assets approximates their fair value.

(ii) Classification

See accounting policies 3(h), (i), (j) and (k).

(iii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Bank writes off certain loans and investment securities when they are determined to be uncollectible (see note 4).

(iv) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting policies of the Bank, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(v) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

For investments traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the reporting date. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same.

(vi) Identification and measurement of impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Financial assets, other than those 'Held for trading', are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, as follows:

- For loans originated by the Bank – the recoverable amount of originated loans is calculated based on the year-end evaluations of loans, including the accrued interest. In determining the recoverable amounts of loans to employees, management considers particular factors, including the review of repayment history of the debt by its former employees. The provision for impairment losses on loans is reported in profit or loss as a charge and is deducted from the relevant asset category in the statement of financial position. When it is determined that a loan cannot be recovered, all the necessary legal procedures have been completed and the final loss has been determined, the loan is written off.
- For financial assets held to maturity – the carrying amount of the asset is reduced to its estimated recoverable amount either directly or through the use of an allowance account and the amount of the loss is included in profit or loss.
- For financial assets available for sale – when a decline in the fair value of an available-for-sale financial asset has been recognized directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized directly in other comprehensive income shall be removed from other comprehensive income and recognized in profit or loss even though the financial asset has not been derecognized.

(vii) Securities lending agreements

Investments lent under securities lending agreements are reported in the statement of financial position and are valued in accordance with the accounting policies applicable to assets held for trading and assets available-for-sale. Investments lent under securities lending agreements continue to be recognized in the Bank's statement of financial position. The Bank receives cash or securities collateral for such lendings. Income arising from the securities lending agreements is reported as interest income.

h. Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand and current accounts and time deposits with original maturities of less than three months. These assets are carried at amortised cost in the statement of financial position.

For the purposes of the statement of cash flows, the Bank includes gold and precious metals as part of cash and cash equivalents (See accounting policy 3.m).

i. Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised at cost and subsequently measured at fair value in the statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

j. Available for sale investments

Investment securities are initially measured at cost. Available-for-sale investments are subsequently carried at fair value. Interest income is recognised in profit or loss on an accrual basis.

Fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are recognised in profit or loss.

k. Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

Interest income is recognised in profit or loss on an accrual basis.

l. Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

m. Gold and other precious metals

Gold and other precious metals are valued at market value based on the official London Bullion Market price at the reporting date. This valuation is in line with local legislation.

n. Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, except for land and buildings, which are stated at revalued amount, calculated using the replacement cost method.

Any revaluation increase arising on the revaluation of land and buildings is credited in other comprehensive income to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such land and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. Cost includes expenditures that are directly attributable to the acquisition of the asset.

(ii) Subsequent costs

The cost of replacing a part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land and work in progress are not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

• Buildings, Head Office	40 years
• Buildings, branches	25 years
• Vehicles	5 - 10 years
• Furniture, fixtures and equipment	3 - 20 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

o. Intangible assets

(i) Printing and minting costs

The costs of printing banknotes and minting coins are capitalized as intangible assets and amortized over 2.5 years and 10 years, respectively.

(ii) Software

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of software is two years.

p. Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to

determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

q. Grants

Grants are recognised initially as deferred income when there is reasonable assurance that they will be received and the Bank will comply with the conditions associated with the grant. Grants that compensate the Bank for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Bank for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

r. Borrowings from the International Monetary Fund (IMF)

The borrowings of the Government of the Republic of Albania from the IMF are undertaken through the Bank and are shown on the statement of financial position of the Bank. The interest on these borrowings is paid directly by the Bank. Borrowings from the IMF are denominated in Special Drawing Rights. Borrowings from IMF are initially measured at cost.

s. Repurchase agreements

When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ("repo"), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements.

Repurchase agreements are included in 'Due to domestic Banks'. Based on the Bank's regulation on repurchase agreements, the Bank is not required to put up any collateral for these securities.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is recognized as interest income or interest expense, over the life of each agreement using the interest rate approved by the Supervisory Council of the Bank of Albania.

t. Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

u. Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

The Bank makes compulsory social security contributions that provide pension benefits for employees upon retirement. The local authorities are responsible for providing the legally set minimum threshold for pensions in Albania under a defined contribution pension plan.

(ii) Termination benefits

Termination benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

v. Comparative information

When necessary, comparative figures are reclassified for the purposes of comparability. The Bank has not reclassified comparatives in these financial statements.

4. USE OF ESTIMATES AND JUDGEMENTS

These disclosures supplement the commentary on financial risk management (see note 33).

Key sources of estimation uncertainty
Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(g)(vi).

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that

are expected to be received. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and an estimate of cash flows considered recoverable is independently approved.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

Accounting judgements in applying the Bank's accounting policies

Accounting judgements made in applying the Bank's accounting policies include:

Printing House

At 31 December 2007 the Bank controlled the operations of the Printing House. The activity of the Printing House was terminated on 30 September 2008, based on the Decision of the Council of Ministers No.598 dated 5 September 2007 'On the termination of the economic and financial activities of the Printing House of the Bank of Albania', amended by Decision No. 862 dated 18 June 2008.

According to points 7 and 8 of Decision No. 598, the inventory and intangible assets of the Printing House were transferred to the Ministry of Finance, and the machinery used in the printing of fiscal stamps was transferred to the Tax Office. According to point 10 of the same decision the ownership of the Buildings of the Printing House was transferred to the Bank.

Following termination, the Bank has included in 'Other domestic liabilities' (see Note 18) an amount of LEK 231 million (2007: LEK 215 million), which represents the amounts payable to the Printing House at termination date, plus an additional amount of LEK 8 million (2007: nil), which represents other transfers between the Bank and Printing House upon termination. These transfers were based on the above mentioned decisions. The Bank has not yet taken a decision on the settlement of the total liabilities.

Valuation of financial instruments

The Bank measures fair values using the following hierarchy of methods:

- Level 1: Quoted market price in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed securities, exchange traded derivatives like interest rate futures and simple over the counter derivatives. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Balances with Banks

The fair value of these instruments is based on the Level 2 method described above.

Investment securities

Fair value of investment securities is based on market prices or broker/dealer price quotations. The fair value of these instruments is based on the Level 1 method described above. Where this information is not available, fair value has been estimated using the Level 2 method described above.

5. GOLD AND PRECIOUS METALS

	31 December 2009	31 December 2008
Gold – foreign	7,324	5,265
Gold and precious metals - domestic	3,477	2,462
Total	10,801	7,727

As at 31 December 2009, the value of gold owned by the Bank placed in gold time deposits and current accounts abroad was LEK 7,324 million (2008: LEK 5,265 million).

Other gold and precious metals included within domestic assets include non-monetary gold, platinum and silver held in a domestic vault, valued at the London fixing rate on the reporting date, amounting to LEK 3,477 million as at 31 December 2009 (2008: LEK 2,462 million).

The increase of LEK 3,074 million compared to prior year (2008: decrease of LEK 301 million) results from the revaluation of gold and precious metals and is recorded in the revaluation reserve.

6. ACCOUNTS WITH THE INTERNATIONAL MONETARY FUND

	31 December 2009	31 December 2008
Quotas in the International Monetary Fund (IMF)	7,191	6,269
Special Drawing Rights (SDR) holdings	7,543	639
Accrued interest	3	2
Total	14,737	6,910

Accounts with the IMF resulted from the membership of the Republic of Albania in the IMF, according to Law No.8269 dated 23 December 1997 'On the Bank of Albania'. These deposits have as counterparty accounts due to the IMF (see Note 13).

The Republic of Albania's quotas in the IMF are LEK 7,191 million or SDR 49 million at 31 December 2009. LEK 495 million or SDR 3 million of the Republic of Albania's quotas in the IMF represents the reserve tranche held with the IMF. The IMF pays remuneration (interest) to those members who have a remunerated reserve tranche position at 0.23% annual floating rate.

The Special Drawing Rights (SDR) holdings represent deposits placed with the International Monetary Fund. The SDR holdings bear interest, which is determined on a weekly basis. The interest rate prevailing as at 31 December 2009 was 0.23% p.a. (2008: 0.82% p.a.).

An amount of LEK 6,951 million or SDR 46 million included in SDR Holdings represents the amounts acquired through the SDR allocations at 31 December 2009 (see Note 13). The SDR allocations represent amounts received from

IMF, the purpose of which was the timely response to the current and longer term needs for liquidity of the member countries. The amount of holdings above allocations was LEK 592 million or SDR 4 million at 31 December 2009.

7. DEPOSITS WITH NON RESIDENT BANKS

	31 December 2009	31 December 2008
Current accounts	38,953	53,509
Short-term deposits	8,146	5,292
Future contracts	11	-
Accrued interest	3	23
Total	47,113	58,824

Short-term deposits and current accounts earn interest at rates mostly based on the currency of the deposit or current account. The interest rate of overnight deposits is 0.04% p.a.

8. INVESTMENTS IN FOREIGN CURRENCY

8.1 AVAILABLE FOR SALE INVESTMENTS

The portfolio of available for sale investments in foreign currency is accounted for at market value as follows:

	31 December 2009	31 December 2008
Foreign Governments treasury notes	122,083	75,473
Bank for International Settlements (BIS): medium-term investments	7,311	39,011
Fixed rate investments (FIX BIS)	-	8,723
Agencies treasury bills	14,120	5,269
Agencies notes	10,974	3,863
Total	154,488	132,339

Foreign Government treasury notes have coupon rates varying between 0.875% and 8% (2008: 0.875% and 9%). Interest is paid semi-annually (USD and GBP) and annually (EUR) and maturities vary between January 2010 and June 2021. The yields vary between 0.364% and 5.166% (2008: 0.74% and 5.81%).

Bank for International Settlements – medium term investments comprised of fixed coupon securities denominated in EUR, USD and GBP with coupon rates varying between 2.75% and 5.85% (2008: 2.5% and 5.85%). Interest is payable annually for investments in EUR and semi-annually for investments in GBP and USD, and maturities range between March 2010

and March 2014. The yields vary between 2.94% and 5.88% (2008: 2.84% and 5.88%).

Agencies notes are denominated in USD and EUR with coupon rates between 0.585% and 5.375% (2008: USD 2.75% and 4.75%). Interest is paid semi-annually and maturities range between February 2010 and November 2014. The yield is between 0.42% and 3.15% (2008: 2.11% and 3.26%).

Agencies Treasury Bills are denominated in USD and EUR with yields that vary between 0.27% and 1% and maturities that vary between February 2010 and September 2010.

8.2. HELD FOR TRADING INVESTMENTS

Held for trading portfolio in foreign currency measured at market value is presented as follows:

	31 December 2009	31 December 2008
Government treasury notes	3,141	5,667
Agencies notes	8,109	4,752
Government treasury bills	115	195
Total	11,365	10,614

Government treasury notes, denominated in USD, have coupon rates varying between 0.875% and 4.75% (2008: 1.125% and 7.5%). Interest is paid semi-annually and maturities range between March 2011 and August 2014.

Agencies notes are denominated in USD with fixed coupon rates varying between 0.645% and 5.875% (2008: 2.25% and 5%) and floating rates varying between 0.55% and 0.56% (2008: 0.56% and 4.59%). Interest payments vary from quarterly to annual, and maturities range between June 2010 and October 2012.

Government treasury bills have zero-coupon and are denominated in USD with maturity October 2010.

This portfolio is administrated by International Bank for Reconstruction and Development (IBRD) as stated in the agreement 'On the administration and technical assistance on investing the foreign reserve of Bank of Albania (Reserves and Advisory Management Program) signed between Bank of Albania and IBRD on 23 September 2005. Investments from this portfolio are accounted for on the trade date.

9. OTHER ASSETS (IN FOREIGN CURRENCY)

	31 December 2009	31 December 2008
Quotas in international financial institutions		
International Bank for Reconstruction and Development subscriptions (IBRD)	358	355
International Development Agency subscriptions (IDA)	12	12
Multilateral Investment Guarantee Agency subscriptions (MIGA)	6	6
International Finance Corporation subscriptions (IFC)	71	65
European Bank for Reconstruction and Development subscriptions (EBRD)	56	52
Islamic Development Bank subscriptions (IDB)	22	20
Total Quotas	525	510
Cash on hand in foreign currency	671	1,067
Total other assets in foreign currency	1,196	1,577

As at 31 December 2009, other foreign assets comprised subscriptions for participation of the Bank of Albania in International Financial Institutions of LEK 525 million (2008: LEK 510 million) (see Note 30), and cash on hand in foreign currency of LEK 671 million (2008: LEK 1,067 million).

10. LOANS DISBURSED TO THIRD PARTIES

10.1. TRANSIT CREDITS

The total of LEK 46 million (2008: LEK 69 million) represent credits for services provided to the former Italian-Albanian Bank (Intesa SanPaolo Bank) for further distribution to ultimate borrowers to support state development programs. This loan has not been secured by any collateral.

10.2. LOANS TO ALBANIAN GOVERNMENT

The loan to Albanian Government is a short-term loan. At the end of 2009 this loan was fully repaid. As at 31 December 2008 the loan balance was LEK 3,000 million.

10.3. LOANS TO RESIDENT BANKS

Loans to resident banks represent reverse repurchase agreements signed between the Bank of Albania and second-tier banks in amount of LEK 32,326 million (2008: LEK 20,072 million), with maturing terms between one week and three months (2007: one week). On 31 December 2009, the annual interest rates of reverse repurchase agreement vary from between 5.25% to 6% (2008: 6.25% to 7.65%).

11. AVAILABLE FOR SALE INVESTMENTS (DOMESTIC ASSETS)

	31 December 2009	31 December 2008
Short-term treasury bills	76,589	74,594
Total	76,589	74,594

Short-term treasury bills as at 31 December 2009 relate to Government of Albania zero-coupon treasury bills, with short-term maturity, ranging between January - December 2010, with yields varying between 5.61% and 9.3% (2008: 6.05% and 8.65%).

12. OTHER DOMESTIC ASSETS

	31 December 2009	31 December 2008
Property and equipment, net	2,825	2,645
Intangible assets, net	421	305
Loans to employees	1,500	1,167
Other debtors	80	333
Numismatic	39	38
Inventory	40	48
Other	22	11
Total	4,927	4,547

At 31 December 2009, the Bank has included within the category 'Land, buildings and general constructions' as part of property and equipment, the value of the Printing House building. The revaluation method used was the replacement cost method which showed a revalued amount of the building of LEK 234 million, from a net book value of LEK 4 million. The revaluation increase of LEK 230 million was credited directly to the Revaluation reserve. In this category is also included the value of the branch buildings reconstructed in 2008 with a value of LEK 176 million.

Loans to employees include a provision for legal claims of LEK 13 million at 31 December 2009 (2008: LEK 10 million).

Loans to employees are collateralized by security such as mortgages, totalling approximately LEK 1,747 million at 31 December 2009 (2008: LEK 1,352 million). At 31 December 2009, commitments for loans to employees (in accordance with the Regulation on Loans No. 77, dated 25 October 2006) amount to LEK 167 million (2008: Lek 267 million).

The net book values of property and equipment by category at 31 December 2009 are comprised of:

	Land, buildings and general constructions	General equipment	Transport vehicles	Work in Progress	Total
Cost / Valuation					
Balance at 1 January 2009	2,382	855	253	36	3,526
Additions	54	145	2	140	341
Disposals	-	(51)	(69)	-	(120)
Balance at 31 December 2009	2,436	949	186	176	3,747
Accumulated depreciation					
Balance at 1 January 2009	45	650	186	-	881
Charge for the year	56	85	18	-	159
Disposals	-	(49)	(69)	-	(118)
Balance at 31 December 2009	101	686	135	-	922
Net carrying amount					
Balance at 31 December 2009	2,335	263	51	176	2,825
Balance at 31 December 2008	2,337	205	67	36	2,645

The net book values of property and equipment by category at 31 December 2008 are comprised of:

	Land, buildings and general constructions	General equipment	Transport vehicles	Work in Progress	Total
Cost / Valuation					
Balance at 1 January 2008	1,942	778	241	48	3,009
Additions	264	77	12	164	517
Transfers	176	-	-	(176)	-
Balance at 31 December 2008	2,382	855	253	36	3,526
Accumulated depreciation					
Balance at 1 January 2008	-	576	170	-	746
Charge for the year	45	74	16	-	135
Balance at 31 December 2008	45	650	186	-	881
Net carrying amount					
Balance at 31 December 2008	2,337	205	67	36	2,645
Balance at 31 December 2007	1,942	202	71	48	2,263

The net book values of intangible assets by category at 31 December 2009 are comprised of:

	Computer software	Banknotes printed and coins minted	Total intangible Assets
Cost / Valuation			
Balance at 1 January 2009	377	2,707	3,084
Additions	6	389	395
Balance at 31 December 2009	383	3,096	3,479
Accumulated amortization			
Balance at 1 January 2009	352	2,427	2,779
Charge for the year	20	259	279
Balance at 31 December 2009	372	2,686	3,058
Net carrying amount			
Balance at 31 December 2009	11	410	421
Balance at 31 December 2008	25	280	305

The net book values of intangible assets by category at 31 December 2008 are comprised of:

	Computer software	Banknotes printed and coins minted	Total intangible assets
Cost / Valuation			
Balance at 1 January 2008	353	2,453	2,806
Additions	24	254	278
Balance at 31 December 2008	377	2,707	3,084
Accumulated amortization			
Balance at 1 January 2008	338	2,357	2,695
Charge for the year	14	70	84
Balance at 31 December 2008	352	2,427	2,779
Net carrying amount			
Balance at 31 December 2008	25	280	305
Balance at 31 December 2007	15	96	111

13. DUE TO THE INTERNATIONAL MONETARY FUND

	31 December 2009	31 December 2008
SDR Allocations	6,951	-
Poverty Reduction and Growth Facility ('PRGF')	5,549	6,116
IMF securities account	5,786	4,871
IMF account in LEK	2,160	1,878
Accrued interest	6	4
Total	20,452	12,869

PRGF borrowings relate to the Republic of Albania's IMF quotas and were drawn down on behalf of the Government for macroeconomic reforms. These loans are compounded from the following component facilities:

- The loan 'Poverty Reduction and Growth Facility 2' was approved from the agreement dated 13 May 1998 totalling SDR 45,040,000 and was drawn down during the period 1999 to 2001. The outstanding balance as at 31 December 2009 was SDR 4,956,700 (2008: SDR 11,241,400), equivalent of LEK 742 million (2008: LEK 1,530 million). This facility is repayable by 2011 in 10 semi-annual installments commenced in 2004. Interest is payable, at 0.5% semi-annually.
- The loan 'Poverty Reduction and Growth Facility 3' is approved from the agreement dated 21 June 2002 totalling SDR 28,000,000 and the last disbursement was made on 20 June 2005. The balance as of 31 December 2009 is SDR 23,600,000 (2008: SDR 26,400,000), equivalent of LEK 3,532 million (2008: LEK 3,592 million), with an interest rate of 0.5% payable semi-annually. This facility is repayable after a grace period of five and a half years in 10 semi-annual equal installments.
- The loans 'Poverty Reduction and Growth Facility 4 (PRGF 4)' and 'Extended Fund Facility' are approved from a three year agreement signed on 27 January 2006 in amount of SDR 17,045,000. The

disbursement of the last entrenchment of PRGF 4 loan in the amount of SDR 1,217,500, was made during 2009, with a semi annual interest payable of 0.5% and the balance as of 31 December 2009 is SDR 8,522,500 (2008: SDR 7,305,000), equivalent of LEK 1,275 million (2008: LEK 994 million). This facility is repayable after a grace period of five and a half years in 10 semi-annual equal installments.

The IMF accounts represent liabilities against Albania's participation in the IMF. As at 31 December 2009, these liabilities amount to LEK 7,946 million or SDR 54 million (as at 31 December 2008: LEK 6,749 million or SDR 53 million). Liabilities related to Albania's IMF quota are non-interest bearing with no stated maturity. These liabilities include No.1 and No.2 accounts and the securities account, where non-interest bearing and nonnegotiable promissory notes are deposited. Balances in these accounts are created by the payment of the national currency component of the quota subscription and purchases of the Fund's resources in exchange for domestic currency.

Included in the IMF accounts is the loan 'Extended Fund Facility' (EFF) of LEK 1,257 million (2008: LEK 936 million). The loan was disbursed during the period 2006 - 2009 and is the equivalent of SDR 8,522,500 (2008: SDR 7,305,000). The facility is repayable after a grace period of four and a half years and will be repaid within 10 years. The interest on these loans is floating and payable each three months. As at 31 December 2009 the annual interest rate was 1.24% (2008: 1.84%).

14. DUE TO NON-RESIDENT FINANCIAL INSTITUTIONS

	31 December 2009	31 December 2008
Transit credits (Note 10.1)	46	69
Loan from the Republic of Greece	1,215	1,090
Due to the World Bank	13	14
Accrued interest	5	5
Total	1,279	1,178

Transit credits of LEK 46 million or EUR 0.3 million represents the outstanding loan received from the European Investment Bank (Note 10.1). Interest is paid by the recipients of these transit credits (Banks and domestic companies) directly to the providers of the funds.

The loan from the Republic of Greece in amount of LEK 1,215 million or EUR 8.8 million was granted for the purpose of funding the balance of payments of the Republic of Albania. The interest rate is 1.17% per annum, payable semi-annually. The loan matures in 2018.

Due to the World Bank represents amounts owing to international organizations such as International Bank for Reconstruction and Development (IBRD), International Development Agency (IDA), Multilateral Investment Guarantee Agency (MIGA).

15. CURRENCY IN CIRCULATION

The exclusive rights of issuing Albanian currency are vested with the Bank. This item comprises valid domestic banknotes and coins in circulation issued by the Bank.

The following Bank notes and coins were in circulation as at 31 December 2009 and 2008:

	31 December 2009		31 December 2008	
Nominal value LEK	Number in thousand	Total LEK (million)	Number in thousand	Total LEK (million)
100	3,536	354	4,121	412
200	12,043	2,409	16,022	3,204
500	56,156	28,078	61,830	30,915
1,000	78,000	78,000	84,030	84,030
2,000	9,284	18,568	502	1,004
5,000	17,345	86,725	16,349	81,744
Coins		2,605		2,404
		216,739		203,713

16. DUE TO RESIDENT BANKS

	31 December 2009	31 December 2008
Foreign currency		
Compulsory reserve and current accounts	29,258	26,660
Domestic currency (LEK)		
Compulsory reserve and current accounts	37,141	35,984
Overnight deposits	1,648	5,120
Accrued interest	28	39
Total	68,075	67,803

Interest on compulsory reserves is calculated as follows:

- LEK balances: 70% of the yield on the repurchase agreements: 3.675% as at 31 December 2009 (2008: 4.375%);
- USD balances: 70% of the Federal Bank rate: 0.09% as at 31 December 2009 (2008: 0.7%);
- EUR balances: 70% of the European Bank rate: 0.7% as at 31 December 2009 (2008: 2.28%).

Overnight deposits from domestic banks bear annual interest of 3.5% (2008: 4.5%).

17. DUE TO THE GOVERNMENT

	31 December 2009	31 December 2008
Profit to be distributed to the Government	2,436	1,741
Deposits received on behalf of the Government	10,897	19,335
Other	22	20
Total	13,355	21,096

Deposits received on behalf of the Government in the amount of LEK 10,897 million, comprise the main account of LEK 1,300 million, international donor funds deposited at the Bank for subsequent transfer to aid projects in Albania, of LEK 1,679 million, an amount of LEK 2,498 million representing a reserve fund account of the government on behalf of the Social Insurance Institute and Health Insurance Institute and funds for other financing activities in the amount of LEK 5,420 million.

'Other' comprises funds received by the Bank of LEK 22 million (2008: LEK 20 million) from a loan granted to the Government by the Islamic Arabian Bank of Development.

18. OTHER DOMESTIC LIABILITIES

	31 December 2009	31 December 2008
Deposits of individuals from the participation in Treasury Bills	693	891
Net Pension fund obligation	13	-
Due to financial institutions	1	206
Due to third parties	239	239
Other	194	144
Total	1,140	1,480

Pension plan scheme is based on employee contribution of 2% of gross salary and employer contribution of 15% on the total payroll amount. On 31 December 2009 the amount of pension funds assets invested in treasury bills maturing within 12 months, is LEK 231 million (2008: LEK 272 million) and the amount invested in Albanian Government bonds maturing within 5-7 years, is LEK 469 million (2008: LEK 302 million).

Total amount of contributions paid by the Bank's employees till 31 December 2009 is LEK 53 million (2008: LEK 43 million) and the total amount of contributions paid by the Bank till 31 December 2009 is LEK 431 million (2008 LEK 359 million). The movements in such contributions and changes in net assets available for pension fund benefits are as follows:

	31 December 2009	31 December 2008
Assets at 1 January	574	466
Income from investment		
Interest	59	43
Net income from investment	59	43
Employees contribution	10	8
Employer contribution	72	57
Total contribution	82	65
Payment to pensioners	(2)	-
Net increase	139	108
Assets at 31 December	713	574
Liabilities at 31 December	(700)	(574)
Net Pension fund obligation	13	-

Third party transactions of LEK 239 million consist of the capital, reserves and retained earnings from the activity of the printing house following its closure (see Note 4).

'Other' includes accrued expenses of LEK 40 million (2008: LEK 54 million) related to expenses for a variety of services provided such as the electronic security system and other services. This includes provisions for litigations incurred in the normal course of the business. The provision at 31 December 2009 is LEK 108 million (2008: LEK 39 million).

Movements in the provisions for litigations are as follows:

	Year ended 31 December 2009	Year ended 31 December 2008
Balance at the beginning of the period	39	21
Additional provision for the period	78	20
Provision reversal for the period	(9)	(2)
Balance at the end of the period	108	39

The additional provision for the year ended 31 December 2009 was recognized in equity, as a deduction from profit.

19. LEGAL RESERVE

According to the Law 'On the Bank of Albania', at the end of each financial year the Bank shall allocate an amount equivalent to 25 percent of the net profits for that year to the general reserve until the General Reserve Fund amounts to 500 percent of the paid-up capital of the Bank of Albania.

In 2009 the Bank transferred an amount of LEK 2,479 million to the legal reserve (2008: LEK 2,334 million).

20. REVALUATION RESERVE

The components of the revaluation reserve are as follows:

	31 December 2009	31 December 2008
Revaluation/(devaluation) of foreign currency and gold balances	1,798	(18,870)
Security revaluation reserve	646	2,916
Other (devaluations)/revaluations	(45)	117
Total	2,399	(15,837)

During 2009, the net gain arising from the revaluation of foreign currency and gold balances was LEK 20,668 million (2008: net gain of LEK 4,670 million).

The revaluation of securities at market value during the year ended 31 December 2009 resulted in a loss of LEK 2,270 million (2008: gain of LEK 2,169 million).

In accordance with the Law 'On the Bank of Albania' Article 64, point (a), the net gain / losses arising from the revaluation of assets and liabilities denominated in foreign currencies, is transferred to equity to a revaluation reserve account 'Revaluation of foreign currency balances'.

Pursuant to the above article, point (b), during the year 2009 the Ministry of Finance reissued securities of LEK 18,870 million (2008: LEK 23,540 million), to cover the negative balance of the revaluation reserve arising from Bank's activity at the end of year 2008. These securities have a renewable maturity of six months (see Note 33). The total amount of LEK 18,870 million covers the loss for the period 2003 to 2008.

21. OTHER RESERVES

The components of other reserves are as follows:

	31 December 2009	31 December 2008
Special reserve for Balance of Payments	7,209	7,209
Reserve of gold and precious metals	7,042	7,042
Investment fund	301	301
Other	1,196	1,196
Total	15,748	15,748

The special reserve for the Balance of Payments relates to funds provided by the European Community as financial assistance to support Albania in its transition towards a market economy. These funds have been transferred during the period 1992 – 1993 supporting the long-standing of the Balance

of Payments and reserve balance and no movement has been incurred in this reserve since 1995.

Investment fund consists of a fund created with decision of Supervisory Council with the aim to purchase a new building for the Bank of Albania.

'Other' includes reserves created from the allocation of profits for years 2002 - 2007 based on the Supervisory Council decisions in the respective following years.

22. INTEREST AND COMMISSION INCOME (NON - RESIDENTS)

	Year ended 31 December 2009	Year ended 31 December 2008
Interest income from securities	4,797	4,492
Interest income from time deposits	165	1,587
Interest from SDR deposits with IMF	9	29
Interest from "Security Lending"	10	-
Other (discounts)	188	395
Total	5,169	6,503

23. INTEREST AND COMMISSION EXPENSE (NON -RESIDENTS)

	Year ended 31 December 2009	Year ended 31 December 2008
Amortization of premium on securities	1,685	499
Interest expenses on loans of foreign institutions	14	13
Interest expenses on IMF accounts	54	64
Other	39	31
Total	1,792	607

24. INTEREST AND COMMISSION INCOME (RESIDENTS)

	Year ended 31 December 2009	Year ended 31 December 2008
Interest income from securities	5,310	4,571
Interest income from Government loans	131	-
Income from repurchase and reverse repurchase agreements	1,624	351
Other	69	50
Total	7,134	4,972

25. INTEREST AND COMMISSION EXPENSE (RESIDENTS)

	Year ended 31 December 2009	Year ended 31 December 2008
Interest expense on compulsory reserve	1,622	2,270
Interest expenses on REPO agreements	-	103
Interest expenses on Government deposits	62	206
Other	29	172
Total	1,713	2,751

26. OTHER OPERATING INCOME, NET

	Year ended 31 December 2009	Year ended 31 December 2008
Net profit/(loss) from the sale of available for sale investments	2,771	1,881
Grant depreciation	-	3
Other	77	7
Total	2,848	1,891

27. NET TRADING INCOME

	Year ended 31 December 2009	Year ended 31 December 2008
Interest income from trading assets	239	337
Gains less loss related to sale of trading assets	75	307
Unrealized fair value changes	(176)	29
Total	138	673

28. PERSONNEL EXPENSES

Personnel expenses consist of employee salaries, social insurance, pension plan contribution and other costs.

Social costs represent mainly compulsory contributions to the Social Security Fund. As at 31 December 2009, the Bank had 448 employees (2008: 418 employees).

29. CASH AND CASH EQUIVALENTS

	31 December 2009	31 December 2008
Deposits with foreign banks (Note 7)	47,110	58,801
Domestic currency on hand	17,261	14,287
Foreign currency on hand (Note 9)	671	1,067
Gold held abroad (Note 5)	7,324	5,265
Gold and other precious metals held domestically (Note 5)	3,477	2,462
Total	75,843	81,882

30. CONTINGENCIES AND COMMITMENTS

(i) Participation in International Financial Institutions

In the past the Republic of Albania has subscribed to a number of subscriptions in International Financial Institutions, including International Bank for Reconstruction and Development ('IBRD'), International Development Agency ('IDA'), Multilateral Investment Guarantee Agency ('MIGA'), International Finance Corporation ('IFC'), European Bank for Reconstruction and Development ('EBRD') and Islamic Development Bank ('IDB'). As detailed in Note 9, "Other Assets (in foreign currency)" the Bank has paid an amount of LEK 525 million (2008: Lek 510 million).

The total amount of paid in subscriptions confirmed by IBRD, MIGA, EBRD, IDA and IFC as at 31 December 2009 (2008: confirmed by IBRD, MIGA, EBRD) was LEK 1,004 million (2008: LEK 820 million) of which LEK 503 million (2008: LEK 412 million) was paid by the Bank of Albania and is included in the statement of financial position as part of Other foreign assets of LEK 525 million. The difference of LEK 495 million (2009 : LEK 402 million) which was paid by the Albanian Government and LEK 6 million (2008 : LEK 6 million) of paid in subscriptions in Multilateral Investment Guarantee Agency, which are supported by promissory notes, are not included in the Bank's statement of financial position.

The total amount of callable subscriptions to support the Republic of Albania, confirmed by IBRD, and MIGA as at 31 December 2009 was LEK 9,334 million (2008: LEK 8,565 million).

The Bank and the Government of Albania have not signed a Memorandum of Understanding for the purpose of allocating the original contributions and ownership of the subscriptions in the International Financial Institutions between both parties.

(ii) Treasury bills issued by the Albanian Ministry of Finance

On 31 December 2009 treasury bills issued by the Ministry of Finance for the purpose of covering the negative revaluation reserve created during the period 2003 - 2008 in the amount of LEK 18,870 million has a renewable maturity of six months. This amount equals the total negative revaluation of foreign currency and gold balances at 31 December 2008 (see Note 20).

(iii) Reverse repurchase agreements

Reverse repurchase agreements as at 31 December 2009, represented collateralized loans (see note 10.3). The nominal value of the securities used as collateral as at 31 December 2009 was LEK 37,590 million (2008: LEK 23,690 million). The market value of the collateral as at 31 December 2009, was LEK 36,768 million (2008: LEK 22,759 million).

31. MANAGED ASSETS

As at 31 December 2009, the Bank acted as custodian for short-term treasury bills, at nominal value LEK 255 billion and government bonds with maturity of between 2 and 7 years at a nominal value LEK 153 billion. These securities are issued by the Albanian Government.

32. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial and other decisions.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

The only related parties of Bank of Albania are the relations with directors and the members of the Supervisory Council. As at 31 December 2009 and 2008 transactions made with related parties comprised:

	31 December 2009	31 December 2008
Loans to directors		
- Directors	116	132
Total assets	116	132

The loans have an annual interest rate of 0.5% and are repayable after a grace period of two years within 30 years by monthly equal installments. The home loans are collateralized:

	Year ended 31 December 2009	Year ended 31 December 2008
Administrative expenses		
- Mobile expenses		
- Directors and Supervisory Council Members	5	5
- Salaries and Bonuses		
- Directors and Supervisory Council Members	111	101
- Bank contribution to pension plan scheme		
- Directors	8	8
Total of administrative expenses	124	114

33. FINANCIAL RISK MANAGEMENT

(a) Risk management framework

The Supervisory Board has overall responsibility for the establishment and oversight of the Bank's risk management framework.

The foreign reserve is under the administration of the Bank of Albania and its investment is performed by the Monetary Operations Department, which is based on the regulation 'On foreign reserve management policy', approved by the Supervisory Board. Its investment strategy depends mainly on the specific function of a central bank which is strictly regulated and in accordance with the requirements of the Law 'On the Bank of Albania'.

The reserve, in accordance with the liquidity needs, is invested in short-term securities and fixed coupon instruments. The remaining portion is held in SDRs, and monetary gold.

The Bank has exposure to the following risks from financial instruments:

- liquidity risk
- credit risk
- market risks
- operational risks

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk.

(b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities.

Management of liquidity risk

Policies to monitor and address liquidity risk are set by the Supervisory Council of the Bank. The Bank manages its liquidity risk by investing in short term deposits with foreign banks and in debt securities in liquid and serious markets.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation, and to comply with its monetary and exchange policy. The portfolio is defined annually based on the forecasts of the monthly and annual liquidity needs for each currency. The investments in securities are considered as sufficiently liquid instruments.

Because of the specifics of a central bank, the Bank is not exposed to liquidity risk in relation to liabilities in local currency.

The following table shows the Bank's financial liabilities on the basis of their contractual maturity and the financial assets on the basis of their earliest possible expected maturity. The Bank's expected cash flows on these instruments may vary from this analysis.

31 December 2009	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	Over five years	Undefined maturity	Total
Due to IMF	7,123	130	166	480	4,029	1,573	6,951	20,452
Due to non-resident financial institutions	-	-	-	-	46	1,233	-	1,279
Currency in circulation	-	-	-	-	-	-	216,739	216,739
Due to resident Banks	68,075	-	-	-	-	-		68,075
Due to the Government	1,300	2,436	-	-	-	-	9,619	13,355
Other domestic liabilities	447	-	-	693	-	-		1,140
Total Liabilities 2009 (contractual maturity date)	76,945	2,566	166	1,173	4,075	2,806	233,309	321,040
Total assets 2009 (expected maturity date)	100,113	45,227	38,628	38,769	97,399	7,389	26,063	353,588

31 December 2008	Up to one month	One to three months	Three to six months	Six months to one year	One to five years	Over five years	Undefined maturity	Total
Due to IMF	361	118	281	476	4,266	7,367	-	12,869
Due to non-resident financial institutions	-	-	-	-	69	1,109	-	1,178
Other foreign liabilities	261	-	-	-	-	-	-	261
Currency in circulation	-	-	-	-	-	-	203,713	203,713
Due to resident Banks	67,803	-	-	-	-	-	-	67,803
Due to the Government	6,408	1,741	-	-	-	-	12,947	21,096
Domestic liabilities & deferred income	589	-	-	891	-	-	-	1,480
Total Liabilities 2008 (contractual maturity date)	75,422	1,859	281	1,367	4,335	8,476	216,660	308,400
Total assets 2008 (expected maturity date)	102,122	36,821	41,838	33,601	83,169	7,575	15,147	320,273

(c) Credit risk

Credit Risk is the risk of the decrease in value of the foreign currency reserve as result of insolvency of a financial institution or the bankruptcy or insolvency of a debt issuer, in whose debt instruments the Bank has invested its own funds.

The investment limits of the Bank set a system of limits of maximum exposures to individual financial institutions and debt issuers. The set limits are calculated on the basis of credit ratings of the counterparty. The internal credit rating is based on criteria which are approved by the Supervisory Council. Credit risk is also mitigated through the diversification of the portfolio.

Loans to domestic Banks are secured by Albanian Government Treasury bills.

The financial assets which represent credit risk at the reporting date are shown below:

Assets	2009	2008
Gold - foreign (Note 5)	7,324	5,265
Special Drawing Rights with IMF (see below)	592	639
Deposits with non-resident banks (Note 7)	47,113	58,824
Available for sale investments (foreign currency) (Note 8.1)	154,488	132,339
Held-for-trading investment (foreign currency) (Note 8.2)	11,365	10,614
Loans to Government (Note 10.2)	-	3,000
Loans to resident banks (note 10.3)	32,326	20,072
Available for sale investments - domestic (Note 11)	76,589	74,594
Total assets	329,797	305,347

An amount of LEK 6,951 million which is included in SDR Holdings (see Note 6) does not represent credit risk for the Bank since it represents the counter-account of the amounts acquired through the SDR allocations (see Note 13). Only the amount of holdings above allocations of LEK 592 million is included in the assets which represent credit risk.

An analysis of concentrations of financial assets by type of counterparty at the reporting date is shown below:

Credit rating	Gold	Special Drawing Rights with IMF	Deposits with non-resident banks	Available for sale investments (foreign currency)	Held-for-trading investment (foreign currency)	Loans to domestic banks	Available for sale investments (domestic assets)	Total
Central bank	6,170	592	14,035	-	-	-	-	20,797
BIS Basle	-	-	31,664	7,311	-	-	-	38,975
Foreign Government & Agencies Securities	-	-	-	147,177	11,365	-	-	158,542
Commercial Banks	1,154	-	1,414	-	-	-	-	2,568
Albanian Government B1	-	-	-	-	-		76,589	76,589
Unrated	-	-	-	-	-	32,326		32,326
Total 31 December 2009	7,324	592	47,113	154,488	11,365	32,326	76,589	329,797

The Albanian Government is rated based on the Standard & Poor's ratings or equivalents.

Credit rating	Gold	Special Drawing Rights with IMF	Deposits with non-resident banks	Available for sale investments (foreign currency)	Held-for-trading investment (foreign currency)	Loans to Government	Loans to domestic banks	Available for sale investments (domestic assets)	Total
Central Banks	4,436	639	17,620	-	-	-	-	-	22,695
BIS Basle	-	-	37,474	47,734	-	-	-	-	85,208
Commercial Banks	-	-	-	84,605	10,614	-	-	-	95,219
Foreign Government & Agencies Securities	829	-	3,730	-	-	-	-	-	4,559
Albanian Government B1	-	-	-	-	-	3,000		74,594	77,594
Unrated	-	-	-	-	-	-	20,072		20,072
Total 31 December 2008	5,265	639	58,824	132,339	10,614	3,000	20,072	74,594	305,347

An analysis of concentrations of credit risk by geographic location is shown below:

	Europe	USA	Republic of Albania	Other	Total
Gold - foreign	7,324	-	-	-	7,324
Special Drawing Rights with IMF	-	-	-	592	592
Deposits with non-resident banks	44,745	2,368	-	-	47,113
Available for sale investments (foreign currency)	125,763	28,725	-	-	154,488
Held-for-trading investment (foreign currency)	-	11,365	-	-	11,365
Loans to resident banks	-	-	32,326	-	32,326
Available for sale investments – domestic	-	-	76,589	-	76,589
31 December 2009	177,832	42,458	108,915	592	329,797

	Europe	USA	Republic of Albania	Other	Total
Gold - foreign	5,265	-	-	-	5,265
Special Drawing Rights with IMF	-	-	-	639	639
Deposits with non-resident banks	53,521	5,303	-	-	58,824
Available for sale investments (foreign currency)	101,600	30,739	-	-	132,339
Held-for-trading investment (foreign currency)	-	10,614	-	-	10,614
Loans to Government	-	-	3,000	-	3,000
Loans to resident banks	-	-	20,072	-	20,072
Available for sale investments – domestic	-	-	74,594	-	74,594
31 December 2008	160,386	46,656	97,666	639	305,347

(d) Market risk (continued)

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The key elements of price risk affecting the Bank are:

- currency risk associated with fluctuations in the fair value of financial instruments due to changes in foreign exchange rates; and
- interest rate risk associated with fluctuations in the fair value of financial instruments due to changes in market interest rates.

The Bank's exposure to currency risk is monitored on a continual basis by the Monetary Operations Department. Financial assets and liabilities denominated in foreign currencies are disclosed in each relevant note to the financial statements.

Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations which affect the prices of interest-earning assets (including investments) and interest-bearing liabilities. A primary objective of the Bank is to control price stability; hence the monetary policy of the Bank is guided by this objective. The Monetary Operations Department of the Bank monitors interest rate risk. The Bank mitigates such risks by maintaining a significant excess of interest bearing assets over liabilities. The Bank maintains a portfolio of interest bearing financial assets and liabilities such that the net interest income is significantly higher than operating needs, in order to minimize the potential adverse effects of interest rate fluctuations. Interest rates applicable to financial assets and liabilities are disclosed in each relevant note to the financial statements.

The assets and liabilities with floating interest rates involve the risk of changes in the base which serves to determine the interest rates. Floating rate instruments are detailed as follows:

31 December 2009	Average rate	Six to twelve months	One to five years	Over five years	Total
Assets					
Held for trading investments	0.40%	-	3,267	-	3,267
Available for sale investments	0.55%	-	2,493	-	2,493
Total		-	5,760	-	5,760
Liabilities					
Due to the IMF	1.24%	-	-	1,257	1,257
Total		-	-	1,257	1,257
Floating Interest gap		-	5,760	(1,257)	4,503
Sensitivity to 100 b.p. increase		-	58	(13)	45
31 December 2008					
Assets					
Held for trading investments	2.6%	439	533	-	972
Total		439	533	-	972
Liabilities					
Due to the IMF	1.84%	-	-	936	936
Total		-	-	936	936
Floating Interest gap		439	533	(936)	36
Sensitivity to 100 b.p. increase		4	5	(9)	-

A summary of the Bank's interest-earning assets and interest-bearing liabilities (including the floating rate instruments above) by maturity dates as at 31 December 2009 and 2008 is as follows:

	Up to one month	One to three months	Three to six months	Six to twelve months	One to five years	Over five years	Non-interest earning/ bearing	Total
Assets								
Gold and precious metals – foreign	-	-	-	-	-	-	7,324	7,324
Accounts with the IMF	7,543	-	-	-	-	-	7,194	14,737
Deposits with non resident Banks	8,146	-	-	-	-	-	38,967	47,113
Available for sale investments – foreign	3,666	12,861	15,305	32,066	87,946	2,644	-	154,488
Held for trading investments	479	-	487	992	9,407	-	-	11,365
Other foreign assets	-	-	-	-	-	-	1,196	1,196
Gold and precious metals - domestic	-	-	-	-	-	-	3,477	3,477
Transit Credits	-	-	-	-	-	-	46	46
Loans to resident banks	32,195	-	-	-	-	-	131	32,326
Available for sale investments - domestic	15,676	32,366	22,836	5,711	-	-	-	76,589
Other domestic assets	-	-	-	-	-	1,513	3,414	4,927
Total	67,705	45,227	38,628	38,769	97,353	4,157	61,749	353,588
Liabilities and equity								
Due to the IMF	7,379	130	166	480	4,029	1,573	6,695	20,452
Due to non-resident institutions	-	-	-	-	-	1,215	64	1,279
Currency in circulation	-	-	-	-	-	-	216,739	216,739
Due to resident Banks	68,047	-	-	-	-	-	28	68,075
Due to the Government	-	-	-	-	-	-	13,355	13,355
Other domestic liabilities	-	-	-	-	-	-	1,140	1,140
Capital and reserves	-	-	-	-	-	-	32,548	32,548
Total	75,426	130	166	480	4,029	2,788	270,569	353,588
Gap as at 31 December 2009	(7,721)	45,097	38,462	38,289	93,324	1,369	(208,820)	-
Cumulative gap – 2009	(7,721)	37,376	75,838	114,127	207,451	208,820	-	-

	Up to one month	One to three months	Three to six months	Six to twelve months	One to five years	Over five years	Non-interest earning/ bearing	Total
Assets								
Gold and precious metals – foreign	829	-	-	-	-	-	4,436	5,265
Accounts with the IMF	639	-	-	-	-	-	6,271	6,910
Deposits with non resident Banks	58,801	-	-	-	-	-	23	58,824
Available for sale investments - foreign	-	8,183	17,892	29,038	74,264	2,962	-	132,339
Held for trading investments	-	-	-	1,282	8,836	496	-	10,614
Other foreign assets	-	-	-	-	-	-	1,577	1,577
Gold and precious metals – domestic	-	-	-	-	-	-	2,462	2,462
Transit credits	-	-	-	-	-	-	69	69
Loans to Government	-	3,000	-	-	-	-	-	3,000
Loan to resident banks	14,566	5,438	-	-	-	-	68	20,072
Available for sale investments - domestic	27,167	20,200	23,946	3,281	-	-	-	74,594
Other domestic assets	-	-	-	-	-	1,177	3,370	4,547
Total	102,002	36,821	41,838	33,601	83,100	4,635	18,276	320,273
Liabilities and equity								
Due to the IMF	361	118	281	476	4,266	1,550	5,817	12,869
Due to non-resident institutions	-	-	-	-	-	1,090	88	1,178
Other foreign liabilities	261	-	-	-	-	-	-	261
Currency in circulation	-	-	-	-	-	-	203,713	203,713
Due to resident Banks	67,764	-	-	-	-	-	39	67,803
Due to the Government	-	-	-	-	-	-	21,096	21,096
Other domestic liabilities	206	-	-	-	-	-	1,274	1,480
Capital and reserves	-	-	-	-	-	-	11,873	11,873
Total	68,592	118	281	476	4,266	2,640	243,900	320,273
Gap at 31 December 2008	33,410	36,703	41,557	33,125	78,834	1,995	(225,624)	-
Cumulative gap – 2008	33,410	70,113	111,670	144,795	223,629	225,624	-	-

Future contracts

A future contract is a standardised contract to buy or sell a financial or non financial asset, at a certain date in the future and at a market determined price. To minimize the credit risk, depended on the type of instrument, the investor should post a margin to the clearing house. This margin or performance bond, is valued every day according to the prices in the market (marked to market), which means that every change in value is shown in the account of investor at the end of each trading day until the expiry day.

During the year 2009, the Bank was involved in future contract transactions. The notional amount of these contracts as at 31 December 2009, resulted in a short position of Lek 2,778 million. At 31 December 2009, the net valuation result for these contracts was LEK 11 million (see Note 7).

Exchange rate risk

Currency risk exists where there is a difference between the currency structure of assets and that of liabilities. From an accounting point of view, the Bank is exposed to currency risk when conducting transactions in financial instruments denominated in currencies other than the Bank's base currency.

The foreign currency reserve structure is determined by the currency structure of the liabilities of the Central bank and the Government. The main foreign currency reserves are in EUR and USD.

	LEK	USD	EURO	GBP	Other	Total
Assets						
Gold and precious metals – foreign	-	-	-	-	7,324	7,324
Accounts with the IMF	-	-	-	-	14,737	14,737
Deposits with non resident Banks	-	6,554	26,362	912	13,285	47,113
Available for sale investments – foreign	-	45,780	99,237	9,471	-	154,488
Held for trading investments	-	11,365	-	-	-	11,365
Other foreign assets	335	192	669	-	-	1,196
Gold and precious metals – domestic	3,477	-	-	-	-	3,477
Transit Credits	-	-	46	-	-	46
Loans to resident banks	32,326	-	-	-	-	32,326
Available for sale investments - domestic	76,589	-	-	-	-	76,589
Other domestic assets	4,849	7	71	-	-	4,927
Total assets	117,576	63,898	126,385	10,383	35,346	353,588
Liabilities						
Due to the IMF	7,946	-	-	-	12,506	20,452
Due to non-resident financial institutions	13	-	1,266	-	-	1,279
Currency in circulation	216,739	-	-	-	-	216,739
Due to resident banks	38,814	6,145	23,116	-	-	68,075
Due to the Government	12,131	108	1,115	1	-	13,355
Other domestic liabilities	1,091	43	6	-	-	1,140
Total liabilities	276,734	6,296	25,503	1	12,506	321,040
Net currency position as at 31 December 2009	(159,158)	57,602	100,882	10,382	22,840	32,548
Net currency position as at 31 December 2008	(157,734)	53,935	88,991	8,352	18,329	11,873

	LEK	USD	EURO	GBP	Other	Total
Assets						
Gold and precious metals – foreign	-	-	-	-	5,265	5,265
Accounts with the IMF	-	-	-	-	6,910	6,910
Deposits with non resident Banks	-	10,536	39,865	1,023	7,400	58,824
Available for sale investments – foreign	-	38,867	81,270	7,329	4,873	132,339
Held for trading investments – foreign	-	10,614	-	-	-	10,614
Other foreign assets	335	616	625	-	1	1,577
Gold and precious metals – domestic	2,462	-	-	-	-	2,462
Transit Credits	-	-	69	-	-	69
Loans to Government	3,000	-	-	-	-	3,000
Loans to resident banks	20,072	-	-	-	-	20,072
Available for sale investments - domestic	74,594	-	-	-	-	74,594
Other domestic assets	4,211	2	334	-	-	4,547
Total assets	104,674	60,635	122,163	8,352	24,449	320,273
Liabilities						
Due to the IMF	6,749	-	-	-	6,120	12,869
Due to non-resident financial institutions	14	-	1,164	-	-	1,178
Other foreign liabilities	-	261	-	-	-	261
Currency in circulation	203,713	-	-	-	-	203,713
Due to resident banks	41,133	6,172	20,498	-	-	67,803
Due to the Government	9,345	248	11,503	-	-	21,096
Other domestic liabilities	1,454	19	7	-	-	1,480
Total liabilities	262,408	6,700	33,172	-	6,120	308,400
Net Position as at 31 December 2008	(157,734)	53,935	88,991	8,352	18,329	11,873
Net Position as at 31 December 2007	(134,948)	50,563	72,351	9,816	3,509	1,291

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

Operational risk management is supported by the development of overall Bank standards for the management of operational risk and a wide range of common policies, staff management regulations, obligatory requirements, and the internal control systems on several activities of the Bank.

34. SUBSEQUENT EVENTS

There are no significant events after the reporting date that may require adjustment or disclosure in the financial statements.

"40th Anniversary of the First Albanian Railway"
50 lekë. Silver coin, issue of 1988.

STATISTICAL APPENDIX

1. PRICES, OUTPUT AND LABOUR MARKETS

1.1 CONSUMER PRICE INDEX

(Indexes)

	CPI Total December 2007=100	Food and non-alcoholic beverages	Alcoholic beverages and tobacco	Clothing and footwear	Rent, water, fuel and power	Furniture household and maintenance	Medical care	Transport	Communication	Recreation and culture	Education service	Hotels, coffee-house and restaurants	Goods and various services
	1	2	3	4	5	6	7	8	9	10	11	12	13
2005[1)]	92.8	92.2	85.1	103.1	90.7	101.7	97.0	93.6	102.7	101.1	92.4	92.1	98.1
2006	95.0	93.2	89.9	100.3	95.3	100.4	100.3	96.8	101.9	102.1	97.7	94.3	99.2
2007	97.8	95.9	98.5	99.3	99.5	100.0	99.8	97.3	100.0	101.5	100.3	97.6	99.5
2008	101.1	100.9	100.7	96.5	103.3	100.1	100.8	104.7	94.4	103.5	100.3	101.0	100.4
2009	103.4	105.9	104.2	94.6	105.1	100.5	102.6	102.5	80.8	110.7	102.6	103.0	101.2
2009 January	102.6	105.0	103.1	94.9	104.9	100.0	101.5	99.4	80.7	110.0	101.1	102.4	101.1
February	103.4	106.6	103.2	94.7	105.1	100.2	101.7	99.7	80.6	110.5	101.6	102.6	101.2
March	104.0	108.1	103.4	94.4	105.3	100.3	101.9	100.5	80.5	110.7	101.7	102.6	101.2
April	103.9	107.8	103.4	94.3	105.2	100.2	101.5	101.0	80.5	110.7	101.6	102.8	101.3
May	103.1	105.8	103.4	94.3	105.1	100.4	102.1	101.5	80.5	110.1	101.6	102.8	101.2
June	102.5	104.0	103.2	94.5	104.9	100.5	102.0	102.5	80.6	110.5	101.7	102.8	101.2
July	101.8	101.9	103.5	94.4	104.8	100.6	103.2	102.4	81.1	110.5	101.8	102.9	101.8
August	102.4	103.5	103.8	93.9	104.9	100.6	103.2	103.5	81.1	110.4	101.8	103.0	101.1
September	103.2	105.2	104.5	94.2	104.9	100.7	103.2	104.4	81.0	111.3	102.3	103.0	101.1
October	103.6	105.7	105.5	95.0	105.3	100.8	103.4	104.5	81.0	111.5	104.8	103.4	101.2
November	104.1	106.5	106.6	95.1	105.4	100.8	103.6	105.2	81.0	111.5	105.8	103.5	101.2
December	105.8	110.5	106.6	95.1	105.8	100.9	103.7	105.6	81.0	111.3	105.8	103.6	101.3

Source: INSTAT

[1)] Annual CPI data are average annual indices of consumer prices by main commodities, while monthly data reflect the consumer price index.

1.2 YEAR ON YEAR CONSUMER PRICE INDEX, MAIN GROUPS

(In percentage)

	CPI Total December 2007=100	Food and non-alcoholic beverages	Alcoholic beverages and tobacco	Clothing and footwear	Rent, water, fuel and power	Furniture household and maintenance	Medical care	Transport	Communication	Recreation and culture	Education service	Hotels, coffee-house and restaurants	Goods and various services
	1	2	3	4	5	6	7	8	9	10	11	12	13
2005[1]	2.0	-1.9	1.5	-3.4	9.0	-1.7	7.0	5.1	-0.2	0.0	8.0	2.8	0.7
2006	2.5	0.2	12.1	-2.8	7.0	-0.9	1.2	1.1	-2.5	1.3	3.8	1.8	1.9
2007	3.1	5.4	4.0	0.1	1.0	-0.1	0.0	2.8	0.0	-2.6	-0.7	5.2	0.5
2008	2.2	3.5	2.3	-3.9	4.9	0.1	1.1	1.2	-19.3	10.2	1.1	2.3	1.1
2009	3.5	6.8	4.1	-1.1	0.9	0.7	2.6	4.3	0.4	1.0	4.7	1.3	0.2
2009[2] January	2.1	4.0	3.1	-3.9	4.4	-0.2	1.1	-1.1	-19.3	10.0	1.1	2.0	1.1
February	1.9	2.9	3.1	-3.5	5.0	0.0	1.0	-1.2	-19.4	10.3	1.6	2.1	0.9
March	1.6	3.6	3.1	-3.1	1.3	0.1	1.0	-1.2	-19.4	10.2	1.6	2.1	0.8
April	1.9	4.2	3.1	-2.9	1.4	0.1	0.7	-0.7	-19.4	10.7	1.6	2.4	0.9
May	2.1	5.0	3.4	-2.6	1.3	0.3	1.3	-2.1	-19.5	10.2	1.6	2.4	0.9
June	2.3	6.0	3.3	-2.3	1.5	0.4	1.3	-4.9	-19.3	10.7	1.6	2.4	0.9
July	2.2	5.6	3.6	-1.0	1.5	0.6	2.6	-6.7	-18.9	10.7	1.7	2.4	1.5
August	2.2	5.6	3.5	-1.0	1.2	0.6	2.6	-5.2	-18.9	10.3	1.7	2.2	0.8
September	2.0	5.1	2.9	-1.0	0.7	0.6	2.1	-3.8	-10.8	0.9	1.8	1.9	0.7
October	2.3	4.7	3.9	-0.5	1.0	0.6	2.3	-2.3	0.3	1.1	3.9	1.2	0.6
November	2.8	5.4	5.0	-1.0	0.9	0.7	2.5	0.9	0.3	1.1	4.7	1.2	0.4
December	3.5	6.8	4.1	-1.1	0.9	0.7	2.6	4.3	0.4	1.0	4.7	1.3	0.2

Source: INSTAT

[1] Yearly data (for this and consecutive years), measure the variation of December index of year n with December index of year n-1.

[2] Monthly data (for this and consecutive years) measure yearly index changes in percentage.

1.3 PRODUCER PRICE INDEX AND CONSTRUCTION COST INDEX

(Index)

	CPI	Producer price index, excluding construction			Construction cost index
	Index Total 2005=100	Mining and quarrying industry	Manufacturing industry	Electricity, gas and water supply	Total 4-th quarter 1999=100
	1	2	3	4	5
2005[1)]	100.0	100.0	100.0	100.0	122.3
2006	100.1	108.7	100.7	94.5	123.7
2007	104.2	114.1	110.4	91.1	126.8
2008	111.1	121.9	113.9	91.6	128.4
2009[2)] Q 1	108.8	123.7	113.5	92.1	128.5
Q 2	108.6	124.4	113.3	92.1	128.4
Q 3	109.4	123.6	114.4	92.1	128.3

Source: INSTAT

[1)] Annual data (and consecutive years data) represent yearly average producer price indexes.

[2)] Quarterly data (and consecutive quarters' data) represent producer price indexes by economic activities.

1.4 YEAR ON YEAR CHANGES OF PRODUCER PRICE INDEX AND CONSTRUCTION COST INDEX

(In percentage)

	CPI	Producer price index, excluding construction			Construction cost index[2)]
	Index Total 2005=100	Mining and quarrying industry	Manufacturing industry	Electricity, gas and water supply	Total 4-th quarter 1999=100
	1	2	3	4	5
2005	5.1	4.5	4.9	7.2	1.4
2006	0.1	8.7	0.7	-5.5	1.1
2007	4.1	5.0	7.3	-3.6	2.5
2008	6.5	6.8	3.2	0.5	1.2
2009[1)] Q 1	0.9	5.1	0.6	0.6	0.9
Q 2	-0.5	5.8	-1.2	0.6	0.0
Q 3	0.0	-0.9	-0.1	0.6	-0.4

Source: INSTAT

[1)] Quarterly data of producer price index (for this and consecutive quarters) measure the change of current quarter with the same quarter of the previous year.

[2)] Annual average changes of construction cost index.

1.5 GROSS DOMESTIC PRODUCT BY EXPENDITURE APPROACH

(In million of ALL)

	Gross domestic product *(by expenditure approach)*	Domestic demand	Final consumption	Final consumption of households	Final consumption of general government	Consumption of NPISHs	Gross fixed capital formation	Net export	Goods and services exports (f.o.b)	Goods and services imports (f.o.b)	Change in inventories & statistical discrepancy
	1 = 2 + 8 + 11	2 = 3 + 7	3 = 4+ 5 + 6	4	5	6	7	8 = 9-10	9	10	11
1996	346,403	442,922	369,642	337,561	31,852	229	73,279	-72,151	38,782	110,934	-24,367
1997	346,198	443,090	372,151	336,678	35,167	306	70,939	-84,626	33,739	118,365	-12,267
1998	409,209	505,182	419,152	376,824	41,987	340	86,030	-97,362	44,376	141,738	1,389
1999	471,578	545,403	437,004	389,573	47,023	408	108,399	-77,321	74,588	151,910	3,497
2000	523,043	615,863	449,879	399,935	49,454	490	165,984	-105,583	93,453	199,036	12,764
2001	583,369	695,596	471,816	410,448	60,667	700	223,780	-119,983	107,524	227,507	7,755
2002	622,711	771,573	535,551	465,180	69,572	800	236,021	-154,037	122,044	276,081	5,175
2003	694,098	878,374	597,453	520,954	75,585	914	280,921	-171,642	141,290	312,931	-12,635
2004	750,785	947,566	668,187	584,659	82,484	1,044	279,378	-168,169	165,097	333,265	-28,612
2005	814,797	1,025,525	724,171	634,471	88,508	1,192	301,354	-200,824	185,970	386,794	-9,904
2006	882,209	1,114,987	771,105	680,323	89,411	1,371	343,882	-208,067	219,974	428,040	-24,712
2007[1)]	966,651	1,249,793	874,918	775,081	98,352	1,485	374,876	-258,520	272,164	530,683	-24,623

Source: INSTAT.

[1)] 2007 Semi final data.

1.6 VALUE ADDED BY ECONOMIC ACTIVITY

(In million of ALL)

	Growth domestic product *(by economic activity)*	Gross value added (basic prices)	Agriculture, hunting and forestry	Industry	Construction	Total services	Financial intermediation services indirectly measured (-)	Tax on products (-) less subsidies
	1 = 2 + 8	2 = 3 + 4 + 5 + 6 - 7	3	4	5	6	7	8
								GDP (in current prices in billion of ALL)
1996	346,403	324,861	121,757	32,835	17,011	161,317	8,058	21,542
1997	346,198	319,588	104,506	28,973	20,172	177,085	11,148	26,610
1998	409,209	363,515	110,782	28,322	19,335	225,808	20,731	45,694
1999	471,578	424,067	114,997	32,320	26,943	271,232	21,424	47,512
2000	523,043	463,971	122,908	37,529	39,979	282,063	18,508	59,072
2001	583,369	523,613	128,039	39,449	56,450	317,570	17,895	59,756
2002	622,711	554,994	134,508	39,592	69,165	330,981	19,252	67,717
2003	694,098	612,398	149,013	54,927	87,047	342,260	20,849	81,699
2004	750,785	660,668	151,324	68,031	94,432	365,611	18,729	90,117
2005	814,797	714,128	151,640	78,319	101,759	405,917	23,508	100,669
2006	882,209	764,739	154,648	88,207	113,724	438,606	30,446	117,470
2007[1)]	966,651	832,940	164,924	81,100	127,224	498,388	38,697	133,710
2008[2)]	1,087,867	931,364	179,596	97,639	134,918	560,113	40,902	156,503

Source: INSTAT.

[1)] 2007 Semi final data.

[2)] 2008 Preliminary data.

1.7 EMPLOYMENT, UNEMPLOYMENT AND WAGES

(In thousands, unless otherwise indicated)

	Labor force	Total employment	In public sector	In agricultural private sector	In non agricultural private sector	Unemployment: Total registered unemployment	Wages: Average monthly wage in state sector (in ALL)	Wages: Minimum monthly wage approved (in ALL)
	1 = 2 + 6	2 = 3 + 4 + 5	3	4	5	6	7	8
2005	1,085	932	175	542	215	153	26,808	11,800
2006[1)]	1,084	935	169	542	224	150	28,822	14,000
2007	1,383	1,198	167	569	230	185	33,750	16,100
2008 Q1	1,080	939	167	542	231	141	35,800	16,000
Q2	1,106	966	167	569	231	140	35,943	16,000
Q3	1,110	970	167	569	235	140	36,093	17,000
Q4	1,116	974	167	569	239	142	38,310	17,000
2009 Q1	1,114	973	167	569	238	141	39,396	17,000
Q2	1,114	973	166	569	238	141	40,100	18,000
Q3	1,114	972	166	569	237	142	42,000	18,000

Source: INSTAT

[1)] From Q4 2006 to Q1 2008 source of information is Living Standard Measurement Survey 2005.

After Q1 2008, source of information is Labor Force Survey 2007.

2. GOVERNMENT FINANCE

2.1 GOVERNMENT BUDGET REVENUE

(Progressive data in million of ALL, end of period)

	Total revenue	Grants	Tax revenue	Revenue from tax offices and customs	Revenue from local government	Revenue from social contributions	Non tax revenue
	1 = 2 + 3 + 7	2	3 = 4 + 5 + 6	4	5	6	7
2005	204,163	6,168	183,816	135,605	12,019	36,192	14,178
2006	229,444	8,025	205,523	155,102	11,112	39,309	15,895
2007	251,555	1,280	228,164	176,808	9,366	41,989	22,112
2008	291,238	4,228	264,421	205,292	11,307	47,822	22,588
2009[1)] January	23,170	-	21,394	15,372	1,025	4,998	1,776
February	44,396	55	41,343	30,720	1,718	8,905	2,998
March	72,214	231	64,242	48,261	3,011	12,971	7,740
April	97,509	576	88,620	65,486	5,217	17,916	8,313
May	120,493	623	110,621	82,728	6,102	21,791	9,249
June	145,172	1,196	133,001	100,719	6,885	25,396	10,975
July	171,333	1,196	157,478	119,572	8,045	29,861	12,659
August	194,907	1,708	180,315	138,108	8,600	33,607	12,884
September	221,186	2,121	203,738	156,949	9,499	37,289	15,327
October	245,566	2,156	227,718	175,303	10,442	41,973	15,692
November	268,195	2,517	248,608	191,999	11,106	45,503	17,070

Source: Ministry of Finance

[1)] Preliminary data.

2.2 GOVERNMENT BUDGET EXPENDITURE

(Progressive data, in million of ALL, end of period)

	Total expenditure	Current expenditure								Capital expenditure	Capital transfer	Other expenditure
			Personnel expenditure	Interest	Operational & maintenance	Subsidies	Social insurance outlays	Local budget expenditure	Other current expenditure			
	1=2+10+11+12	2=3+4+5+6+7+8+9	3	4	5	6	7	8	9	10	11	12
2005	232,339	193,964	53,674	26,029	24,515	3,653	55,876	19,999	10,218	38,375	0	0
2006	258,816	204,860	56,709	25,006	22,794	3,835	60,029	22,713	13,775	51,108	2,848	0
2007	285,674	224,976	59,087	25,594	25,259	3,536	69,892	21,340	20,268	57,040	658	3,000
2008	351,492	252,688	66,621	31,307	28,788	2,555	76,199	27,079	20,140	93,783	2,500	2,520
2009[1] January	21,711	17,337	4,971	3,454	992	117	5,941	1,091	772	4,373	0	0
February	47,910	37,300	9,087	6,668	2,802	396	13,489	2,913	1,945	10,610	0	0
March	76,042	57,842	14,075	8,434	5,348	474	20,997	5,264	3,250	18,201	0	0
April	107,447	80,177	19,298	10,803	7,982	608	28,711	8,159	4,616	27,186	84	0
May	140,886	103,916	24,299	13,816	10,793	1,069	36,616	11,402	5,922	36,885	84	0
June	178,243	129,606	29,611	17,423	13,931	1,184	44,939	15,083	7,436	48,552	85	0
July	211,376	154,765	35,371	21,030	16,952	1,306	53,514	17,932	8,660	56,527	85	0
August	242,516	177,328	40,234	23,803	18,726	1,422	62,378	20,786	9,979	65,103	85	0
September	269,862	199,253	45,441	25,631	20,637	1,541	70,635	23,615	11,754	70,525	85	0
October	295,182	221,746	50,642	27,911	23,216	1,761	78,740	26,416	13,061	73,351	85	0
November	332,649	247,682	55,934	32,345	26,244	1,833	86,775	29,276	15,275	84,883	85	0

Source: Ministry of Finance

[1] Preliminary data.

2.3 FISCAL DEFICIT AND ITS FINANCING

(Progressive data, in million of ALL, end of period)

	Budget deficit/ surplus	Deficit financing	Domestic financing						Foreign Financing		
				Treasury bills	Bonds	Change of statement accounts	Privatization receipts	Other liabilities		Long term loan	Change of statement accounts
	1	2 = 3 + 9	3=4+5+6+7+8	4	5	6	7	8	9=10+11	10	11
2005	-28,176	28,176	23,298	-4,047	-	513	887	25,945	4,878	5,857	-979
2006	-29,372	29,372	23,623	-20,045	-	-1,932	1972	43,628	5,749	5,346	403
2007	-34,119	34,119	28,829	-23,662	46,250	-2,476	13246	-4,529	5,289	5,010	279
2008	-60,254	60,254	24,417	-7,986	22,999	-4,269	5,538	8,135	35,837	35,546	292
2009[1] January	1,459	-1,459	-1,440	-2,153	-2,900	-5,226	9,802	-963	-19	-101	83
February	-3,514	3,514	3,538	-3,175	-400	-2,413	9,815	-288	-24	188	-212
March	-3,832	3,832	3,009	-6,586	-500	-2,812	9,825	3,082	823	1,284	-461
April	-9,938	9,938	8,177	-4,877	1,317	-5,682	15,380	2,038	1,761	1,808	-47
May	-20,393	20,393	18,415	-603	6,517	-10,927	15,440	7,988	1,978	1,716	262
June	-33,071	33,071	29,312	1,453	6,517	-11,990	20,779	12,554	3,760	4,470	-711
July	-40,043	40,043	35,966	1,233	3,717	-15,025	21,902	24,139	4,077	4,936	-859
August	-47,609	47,609	43,075	-405	6,422	-7,232	22,855	21,436	4,533	5,341	-808
September	-48,668	48,668	41,328	1,152	6,422	-10,576	22,935	21,395	7,340	7,861	-521
October	-49,615	49,615	42,531	8,312	5,022	-15,713	23,022	21,887	7,085	7,668	-583
November	-64,455	64,455	55,953	8,852	8,422	-13,737	27,642	24,774	8,502	8,953	-451

Source: Ministry of Finance. According to "Economy and Budget" publication, November 2009, on March 3, 2010

[1] Preliminary data.

2.4 EXPENDITURE BY FUNCTIONS (COFOG)

(Progressive data, in million of ALL, end of period)

	Total Expenditure	General public services[1]	Defense	Public order and safety	Economic affairs	Environmental protection	Housing and community amenities	Health	Recreation, culture and religion	Education	Social protection	Other
	1=2+3+4+5+6+7+8+9+10+11+12	2	3	4	5	6	7	8	9	10	11	12
2007	285,674	54,385	11494	15,171	51,833	88	12,671	24,104	3,219	31,630	77,421	3,658
2008	351,492	63,054	11970	16,204	80,216	203	16,536	26,713	3,999	37,923	86,112	8,561
2009[2] January	21,711	5,102	467	906	4,561	5	413	1,428	198	2,482	6,149	0
February	47,910	10,520	1,596	2,112	10,333	12	1,299	3,636	441	5,120	12,842	0
March	76,042	15,212	2,211	3,423	17,860	33	2,421	6,151	720	8,161	19,850	0
April	107,447	20,344	3,184	4,758	26,785	47	3,649	8,562	1,083	11,609	27,341	84
May	140,886	26,061	3,925	6,212	37,620	65	4,956	10,776	1,477	14,617	35,090	84
June	178,243	32,772	4,680	7,564	48,527	79	7,556	13,202	1,929	18,017	43,833	85
July	211,376	39,550	5,662	8,983	56,748	103	8,981	15,936	2,141	21,431	51,757	85
August	242,516	44,672	6,328	10,362	65,874	132	10,045	18,153	2,438	24,429	59,999	85
September	269,862	49,906	7,196	11,770	69,312	146	12,252	20,599	2,755	27,482	67,848	595
October	295,182	53,731	8,715	13,157	72,321	187	13,645	23,391	3,166	30,745	75,529	595
November	332,649	61,175	10,045	14,781	82,838	210	15,782	26,119	3,529	34,076	82,998	1,095

Source: Ministry of Finance

[1] Comprise interest expenditure.

[2] Preliminary data.

2.5 DOMESTIC DEBT

(Progressive data, in million of ALL, end of period)

	Domestic debt stock	Treasury bills	2 year bonds	3 year bonds	5 year bonds	7 year bonds	Revaluation bonds of foreign currency with BoA	Other
	1 = 2 + 3 + 4 + 5 + 6 + 7+ 8	2	3	4	5	6	7	8
2005	327,353	275,917	32,210	6,000	-	-	11,500	1,726
2006	348,935	261,241	53,120	16,050	6,360	-	12,164	-
2007	369,536	232,211	66,460	25,250	24,110	6,000	15,505	-
2008	400,456	224,224	65,730	21,100	45,910	12,000	23,540	7,952
2009[1] Q 1	394,669	217,638	64,730	19,100	48,410	12,000	23,540	9,251
Q 2	401,045	225,677	65,747	20,100	53,410	12,000	18,870	5,241
Q 3	400,797	225,376	65,547	17,300	56,315	12,000	18,870	5,389

Source: Ministry of Finance

[1] Preliminary data.

3. MONETARY AND BANKING STATISTICS

3.1 MONETARY AGGREGATES AND THEIR COMPONENTS

	M3						
			M1		M2		
	Currency in Circulation Outside Depository Corporations	Current accounts and non-term deposits in national currency		Time deposits in national currency		Deposits in foreign currency	
	1	2	3 (1+2)	4	5 (4+3)	6	7
	Stock at end of period (millions of Albanian ALL)						
2007 December	154,956.2	87,719.3	242,675.5	263,461.7	506,137.2	251,472.3	757,609.5
2008 December	195,817.3	87,045.0	282,862.3	272,142.4	555,004.7	260,699.9	815,704.6
2009 January	196,663.1	78,762.0	275,425.1	274,453.6	549,878.7	266,772.5	816,651.2
February	200,187.8	72,248.1	272,435.9	274,646.5	547,082.4	263,777.1	810,859.5
March	200,983.8	70,967.4	271,951.3	273,338.4	545,289.7	260,078.1	805,367.8
April	202,816.5	72,473.4	275,289.9	273,055.1	548,345.0	262,225.2	810,570.2
May	202,188.4	73,547.9	275,736.3	277,355.5	553,091.8	263,341.4	816,433.2
June	207,580.2	74,992.9	282,573.1	279,545.0	562,118.1	257,294.3	819,412.3
July	209,688.8	79,125.6	288,814.4	277,676.1	566,490.5	254,977.1	821,467.6
August	207,892.4	79,585.6	287,478.0	279,738.7	567,216.7	277,819.5	845,036.2
September	202,407.7	75,172.4	277,580.2	285,894.2	563,474.4	280,153.5	843,627.9
October	200,634.5	71,609.5	272,244.0	291,467.7	563,711.7	288,350.0	852,061.7
November	200,788.0	71,963.9	272,751.9	294,563.7	567,315.6	291,162.5	858,478.0
December	209,043.7	75,461.8	284,505.5	293,675.9	578,181.5	293,288.0	871,469.5
	Annual percentage changes						
2007 December	(5.09)	10.86	0.12	12.12	6.03	32.99	13.68
2008 December	26.37	(0.77)	16.56	3.29	9.65	3.67	7.67
2009 January	33.83	(0.01)	22.02	(0.61)	9.57	3.79	7.61
February	36.06	(2.50)	23.15	(1.77)	9.24	1.06	6.44
March	36.90	3.76	26.37	(3.43)	9.44	1.49	6.74
April	38.76	4.34	27.68	(4.05)	9.63	1.15	6.73
May	39.48	3.90	27.80	(3.29)	10.06	3.03	7.69
June	42.37	1.93	28.81	(2.85)	10.84	(3.48)	5.91
July	39.02	5.32	27.82	(4.39)	9.70	(5.81)	4.37
August	36.54	6.75	26.75	(4.82)	8.93	(3.41)	4.54
September	32.55	(0.18)	21.74	(2.99)	7.80	(5.87)	2.84
October	21.38	(3.77)	13.57	2.39	7.50	2.15	5.63
November	15.89	(6.34)	9.06	6.09	7.50	6.80	7.26
December	6.75	(13.31)	0.58	7.91	4.18	12.50	6.84

Source: Bank of Albania

3.2 COUNTERPARTS OF MONETARY AGGREGATES

	Net foreign assets	Domestic assets			Other Items net
		Net claims on central government	Claims on other sectors*		
	1	2	3	4 (2+3)	5
	Stock at end of period (millions of ALL)				
2007 December	232,100.7	314,296.9	294,114.6	608,411.5	(6,748.9)
2008 December	206,667.6	322,065.6	396,615.1	718,680.7	(6,315.5)
2009 January	216,369.1	316,693.9	402,924.1	719,618.0	(6,408.5)
February	209,568.6	315,778.3	412,440.0	728,218.2	(5,580.7)
March	197,304.9	317,023.9	416,809.4	733,833.3	(4,535.0)
April	201,192.0	318,345.5	418,377.0	736,722.5	(2,664.4)
May	202,748.3	318,844.6	423,713.9	742,558.5	(1,786.0)
June	216,066.1	313,361.3	418,395.1	731,756.4	(2,456.2)
July	221,358.1	308,994.3	419,602.9	728,597.2	(1,538.3)
August	240,606.2	315,628.2	423,691.3	739,319.5	(186.2)
September	242,711.4	314,121.9	428,082.4	742,204.3	1,601.4
October	251,797.7	315,071.0	433,496.7	748,567.7	3,110.9
November	246,993.3	328,556.8	436,479.2	765,036.0	5,573.8
December	244,442.7	341,292.4	440,650.4	781,942.8	3,516.5

	Net foreign assets	Domestic assets		
		Net claims on central government	Claims on other sectors*	
	1	2	3	4 (2+3)
	Annual percentage changes			
2007 December	(0.49)	7.49	50.18	24.61
2008 December	(10.96)	2.47	34.85	18.12
2009 January	(10.06)	4.03	36.03	19.81
February	(11.24)	3.65	33.37	18.62
March	(8.59)	4.76	31.65	18.51
April	(3.72)	4.82	28.12	16.89
May	3.32	3.59	26.62	15.59
June	9.02	1.82	20.06	11.50
July	10.40	(0.67)	17.45	9.01
August	6.16	2.62	15.98	9.88
September	2.64	2.36	13.24	8.37
October	13.71	1.51	12.12	7.39
November	9.54	12.32	10.32	11.17
December	18.28	5.97	11.10	8.80

Source: Bank of Albania

**"Claims on other sectors" include credit to economy and other claims on broad money holding sectors.*

3.3 ALL DENOMINATED CURRENT ACCOUNTS AND DEMAND DEPOSITS BY SECTORS OF ECONOMY*

(Millions of ALL)

						Total (1+2+3+4+5)
	Local Government	Public Nonfinancial Corporations	Other Financial Corporations	Other Nonfinancial Corporations	Other Resident Sectors	
	1	2	3	4	5	6
2007 December	478.7	11,459.8	557.2	31,871.7	43,351.8	87,719.3
2008 December	482.8	7,233.9	698.2	33,582.0	45,048.2	87,045.0
2009 January	514.2	7,395.5	1,159.0	27,071.3	42,622.0	78,762.0
February	489.7	7,685.6	686.3	21,461.9	41,924.6	72,248.1
March	1,066.9	8,610.2	461.6	20,380.6	40,448.1	70,967.4
April	757.5	8,261.9	534.3	21,204.2	41,715.4	72,473.4
May	855.5	9,178.5	495.7	21,853.5	41,164.7	73,547.9
June	875.5	7,878.2	456.4	23,149.1	42,633.6	74,992.9
July	730.6	7,861.4	883.5	24,133.2	45,516.9	79,125.6
August	785.7	8,397.3	515.5	25,978.0	43,909.0	79,585.6
September	739.7	8,983.3	191.4	21,396.1	43,861.9	75,172.4
October	635.6	8,899.4	489.0	19,331.0	42,254.4	71,609.5
November	678.1	8,726.6	531.3	19,096.3	42,931.5	71,963.9
December	478.1	7,795.6	675.3	20,879.3	45,633.5	75,461.8

3.4 ALL DENOMINATED TIME DEPOSITS BY SECTORS OF ECONOMY*

(Millions of ALL)

						Total (1+2+3+4+5)
	Local Government	Public Nonfinancial Corporations	Other Financial Corporations	Other Nonfinancial Corporations	Other Resident Sectors	
	1	2	3	4	5	6
2007 December	206.4	2,476.6	300.4	5,777.0	254,701.3	263,461.7
2008 December	17.7	1,331.5	831.8	9,428.6	260,532.8	272,142.4
2009 January	8.0	1,720.6	1,339.2	10,042.9	261,342.9	274,453.6
February	8.1	2,066.3	783.6	10,415.2	261,373.3	274,646.5
March	10.6	1,489.0	539.0	11,014.7	260,285.1	273,338.4
April	10.7	1,769.5	782.5	11,102.2	259,390.3	273,055.1
May	10.7	2,294.4	1,136.4	11,724.8	262,189.2	277,355.5
June	9.1	2,800.8	965.6	11,060.4	264,709.0	279,545.0
July	9.2	2,017.3	805.6	11,010.8	263,833.3	277,676.1
August	9.2	2,124.4	669.6	10,583.5	266,352.0	279,738.7
September	8.2	1,952.9	836.4	13,402.4	269,694.2	285,894.2
October	8.3	2,482.9	1,289.2	13,194.8	274,492.4	291,467.7
November	23.3	3,252.6	901.0	12,507.0	277,879.7	294,563.7
December	8.4	3,378.4	786.6	9,898.3	279,604.3	293,675.9

Source: Bank of Albania

Deposits included in broad money.

3.5 FOREIGN CURRENCY DENOMINATED CURRENT ACCOUNTS AND DEMAND DEPOSITS BY SECTORS OF ECONOMY*

(Millions of ALL)

						Total (1+2+3+4+5)
	Local Government	Public Nonfinancial Corporations	Other Financial Corporations	Other Nonfinancial Corporations	Other Resident Sectors	
	1	2	3	4	5	6
2007 December	221.8	3,440.4	299.0	23,003.6	42,497.6	69,462.3
2008 December	108.8	2,609.4	608.7	23,225.7	38,561.2	65,113.8
2009 January	100.5	2,818.0	443.3	23,724.4	38,705.0	65,791.2
February	76.7	2,840.9	310.2	22,884.3	39,280.7	65,392.7
March	75.5	2,901.2	289.7	22,312.7	38,172.8	63,751.9
April	80.3	2,702.8	235.9	22,754.9	37,600.6	63,374.4
May	42.8	2,507.7	281.1	23,072.4	38,364.2	64,268.2
June	57.4	2,908.3	611.4	21,692.3	38,095.5	63,364.9
July	55.8	2,891.8	413.7	22,394.7	40,983.0	66,739.0
August	73.1	2,630.0	472.5	25,320.3	45,685.6	74,181.6
September	316.9	2,322.8	537.6	23,709.2	45,454.6	72,341.0
October	337.5	3,017.2	624.1	23,765.9	44,103.8	71,848.5
November	320.3	2,941.3	291.4	23,417.9	44,216.7	71,187.6
December	153.7	2,771.9	426.8	25,627.3	46,443.0	75,422.6

3.6 FOREIGN CURRENCY DENOMINATED TIME DEPOSITS BY SECTORS OF ECONOMY*

(Millions of ALL)

						Total (1+2+3+4+5)
	Local Government	Public Nonfinancial Corporations	Other Financial Corporations	Other Nonfinancial Corporations	Other Resident Sectors	
	1	2	3	4	5	6
2007 December	149.7	4,523.3	1,270.4	22,787.9	153,278.8	182,010.0
2008 December	170.7	5,480.3	1,731.1	22,697.2	165,506.9	195,586.2
2009 January	196.1	5,164.6	1,817.0	22,605.3	171,198.3	200,981.3
February	194.0	5,526.4	2,048.5	16,986.6	173,628.8	198,384.4
March	196.5	5,600.6	2,153.1	18,271.3	170,104.8	196,326.2
April	195.9	5,626.8	2,184.3	22,455.0	168,388.7	198,850.8
May	199.3	5,239.2	2,277.4	23,248.5	168,108.9	199,073.2
June	143.6	5,347.4	2,290.6	19,479.7	166,668.0	193,929.3
July	142.3	4,707.5	2,274.5	14,753.2	166,360.6	188,238.2
August	145.4	4,865.9	2,395.2	18,797.4	177,434.0	203,637.9
September	150.4	5,153.3	2,910.3	16,238.4	183,360.0	207,812.5
October	153.8	4,786.1	2,940.0	17,383.3	191,238.4	216,501.5
November	157.6	4,003.3	2,887.2	19,668.2	193,258.6	219,974.8
December	159.3	3,999.1	3,246.0	13,955.6	196,505.4	217,865.3

Source: Bank of Albania

Deposits included in broad money.

3.7 BUSINESS LOANS BY PURPOSE AND CURRENCY

(Millions of ALL)

	Loans to business (5+10+15+16)																
	In ALL (ALL)					In US dollars (USD)					In euro (EUR)					In other currencies	
	Overdraft	Working capital	Machineries and appliances	Real estate		Overdraft	Working capital	Machineries and appliances	Real estate		Overdraft	Working capital	Machineries and appliances	Real estate			
	1	2	3	4	5 (1+2+3+4)	6	7	8	9	10 (6+7+8+9)	11	12	13	14	15 (11+12+13+14)	16	17
2007 December	8,535.4	8,322.3	10,480.4	7,768.8	35,106.9	7,984.0	4,979.7	4,047.0	3,087.2	20,097.8	31,430.9	24,488.7	45,031.2	26,851.2	127,801.9	1,519.3	184,526.0
2008 December	15,587.5	12,799.1	12,700.5	11,475.9	52,563.0	10,707.3	5,943.6	4,213.2	4,482.1	25,346.2	48,901.0	29,940.2	51,011.3	45,043.6	174,896.1	1,203.8	254,009.1
2009 January	16,542.2	12,251.9	12,525.7	11,523.6	52,843.4	11,545.8	6,494.3	4,601.4	5,094.2	27,735.6	49,736.9	29,391.0	51,423.5	46,081.5	176,632.9	1,219.4	258,431.2
February	18,256.9	12,686.2	12,896.3	11,810.5	55,650.0	12,448.6	6,479.2	4,704.3	5,274.5	28,906.6	50,912.4	31,824.1	52,947.7	44,089.1	179,773.4	1,241.3	265,571.2
March	23,273.9	12,280.7	12,038.0	11,799.9	59,392.4	12,103.0	6,236.9	4,453.7	5,065.4	27,858.9	51,352.9	31,033.4	54,804.6	43,731.9	180,922.7	815.7	268,989.8
April	24,720.1	12,688.5	11,644.4	12,522.1	61,575.0	12,663.4	5,718.5	4,348.1	4,915.8	27,645.7	54,297.7	26,131.2	46,345.4	53,120.1	179,894.4	796.0	269,911.1
May	24,908.0	13,409.5	11,801.1	12,444.0	62,562.6	12,911.4	5,401.5	4,452.0	4,609.9	27,374.8	54,628.7	26,661.5	48,267.7	53,785.2	183,343.1	790.8	274,071.4
June	25,808.7	14,468.6	12,965.8	12,019.7	65,262.7	12,702.3	5,494.2	4,374.2	4,454.6	27,025.3	52,050.0	25,486.0	47,130.3	52,403.9	177,070.3	761.0	270,119.3
July	27,495.3	15,894.3	14,576.1	12,170.9	70,136.6	11,926.3	5,010.0	4,433.7	4,687.6	26,057.6	50,524.3	25,579.0	46,775.6	52,546.6	175,425.6	715.6	272,335.4
August	28,715.5	16,033.6	14,885.0	12,412.0	72,046.2	11,895.8	4,998.3	4,274.4	4,955.4	26,123.8	49,941.3	26,314.2	47,020.7	53,346.8	176,623.0	728.9	275,522.0
September	29,852.9	15,737.2	17,724.8	10,170.6	73,485.6	11,953.8	4,754.8	4,572.3	4,476.9	25,757.8	50,500.8	26,156.1	49,407.0	53,410.3	179,474.3	736.2	279,453.9
October	30,027.8	16,485.1	17,720.3	10,079.4	74,312.6	11,883.6	4,932.3	4,653.3	4,437.9	25,907.1	52,567.2	25,624.0	51,582.8	52,133.3	181,907.4	716.7	282,843.8
November	30,007.1	16,627.9	17,837.5	10,022.7	74,495.2	12,381.8	5,052.5	4,483.3	4,540.8	26,458.4	53,421.5	25,440.5	54,758.9	49,726.2	183,347.1	712.8	285,013.6
December	30,976.5	17,237.7	18,494.7	10,025.4	76,734.3	12,115.4	5,787.9	4,493.4	4,435.4	26,832.1	53,528.5	26,575.6	53,511.5	53,326.4	186,942.0	705.8	291,214.2

3.8 HOUSEHOLD LOANS BY PURPOSE AND CURRENCY[1)]

(Millions of ALL)

	Loans to households (6+12+18+19)																		
	In ALL (ALL)						In US dollars (USD)						In euro (EUR)					In other currencies	
	Overdraft	Nondurable goods	Durable goods	Real estate	Business activity		Overdraft	Nondurable goods	Durable goods	Real estate	Business activity		Overdraft	Nondurable goods	Durable goods	Real estate	Business activity		
	1	2	3	4	5	6 (1+2+3+4+5)	7	8	9	10	11	12 (7+8+9+10+11)	13	14	15	16	17	18 (13+14+15+16+17)	19	20
2007 December	2,747.7	1,650.9	15,429.2	17,508.4	7,221.3	44,557.5	112.5	27.6	120.0	2,141.8	139.8	2,541.7	1,698.7	433.4	4,038.5	46,223.3	3,518.2	55,912.1	(81.4)	102,929.9
2008 December	4,048.9	2,390.6	18,515.6	22,238.3	7,977.6	55,171.1	829.2	69.9	236.0	1,796.0	115.1	3,046.3	2,637.4	1,422.1	3,526.0	64,177.6	3,944.8	75,708.0	391.8	134,317.1
2009January	3,807.4	2,357.9	18,047.3	22,453.6	8,118.0	54,784.2	826.1	90.9	80.8	2,154.0	133.1	3,284.9	2,535.0	1,455.0	3,546.5	65,452.6	3,983.6	76,972.8	444.0	135,485.9
February	3,785.3	2,379.2	17,954.0	22,861.8	8,156.0	55,136.3	663.5	107.4	79.8	2,250.4	136.3	3,237.4	2,558.3	1,532.1	3,572.4	67,042.2	3,939.2	78,644.1	469.7	137,487.5
March	3,943.7	14,142.9	5,440.0	23,812.8	8,186.2	55,525.5	284.0	43.5	126.5	2,176.6	126.8	2,757.4	2,597.9	1,644.3	2,941.0	67,662.8	5,020.4	79,866.5	465.8	138,615.2
April	3,920.2	14,684.9	5,637.6	23,346.6	8,314.2	55,903.4	284.8	48.5	137.5	2,108.5	124.6	2,703.9	2,829.5	2,009.3	3,008.4	66,975.6	5,019.0	79,841.8	466.0	138,915.1
May	3,960.2	14,726.6	5,746.3	23,597.7	8,375.8	56,406.5	262.1	28.3	131.4	1,997.6	120.1	2,539.5	2,867.8	1,704.5	3,104.6	67,538.2	5,046.4	80,261.5	466.4	139,673.9
June	3,919.6	14,721.8	5,690.1	24,696.6	7,776.0	56,804.1	255.2	20.2	113.0	1,937.0	121.8	2,447.1	2,969.6	1,704.7	3,083.9	67,919.4	3,719.3	79,397.0	465.0	139,113.1
July	3,867.1	14,666.3	5,648.2	25,102.2	7,711.0	56,994.9	234.1	20.9	105.3	1,897.4	118.8	2,376.5	2,653.8	1,657.1	2,909.8	67,098.0	3,644.3	77,963.0	448.4	137,782.8
August	3,941.1	14,533.4	5,467.4	25,129.6	7,527.4	56,598.9	245.0	34.4	97.3	1,890.1	123.7	2,390.4	2,363.5	1,641.6	2,953.2	68,252.9	3,592.7	78,803.8	448.4	138,241.5
September	3,739.2	14,686.1	5,162.7	25,260.8	7,389.8	56,238.6	236.1	34.6	101.6	1,851.1	94.3	2,317.6	2,151.2	1,565.5	2,925.5	69,519.6	3,567.5	79,729.3	450.2	138,735.7
October	3,806.5	14,395.4	5,279.0	25,371.6	7,313.8	56,166.3	233.6	45.4	104.3	1,829.6	91.6	2,304.4	2,349.5	1,887.0	2,642.9	70,880.9	3,854.9	81,615.2	456.9	140,542.8
November	3,772.7	14,283.3	5,337.7	25,464.5	7,216.1	56,074.4	244.4	40.2	95.6	1,780.9	88.6	2,249.7	2,428.8	1,778.1	2,966.0	70,652.2	4,098.4	81,923.6	455.1	140,702.8
December	3,859.5	14,338.2	5,228.1	25,591.3	7,222.4	56,239.5	243.0	40.1	104.5	1,846.1	97.1	2,330.8	2,029.3	1,666.4	2,899.4	70,031.3	4,121.9	80,748.3	461.0	139,779.6

Source: Bank of Albania

[1)] Data on loans do not include acrued interests.

3.9 LOANS BY ECONOMIC ACTIVITY

(Millions of ALL)

	Loans to business (1+2+3+4+5+6+7+8+9+10+11+12+13+14+15+16)																
	Agriculture, hunting and forestry	Fishing	Mining and quarrying	Manufacturing	Electricity, gas and water supply	Construction	Trade, repair of motor vehicles and personal and household goods	Hotels and restaurants	Transport, storage and telecommunications	Financial intermediation	Real estate, renting, etc.	Public administration	Education	Health and social work	Other community, social and personal service activities	Other	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
2007 December	2,126.6	338.7	5,246.1	31,524.9	11,415.5	38,884.8	60,498.4	9,872.7	4,347.9	3,858.1	2,185.0	17.8	1,472.7	1,310.8	6,723.3	4,702.8	184,526.0
2008 December	2,781.0	453.0	5,816.5	35,717.3	21,226.8	55,684.9	83,542.6	12,728.8	5,920.2	7,338.3	2,734.6	360.7	2,401.1	1,787.9	9,067.1	6,448.3	254,009.1
2009 January	2,738.6	450.3	5,936.8	38,386.8	21,345.0	56,158.1	84,185.1	12,667.2	6,195.7	7,260.6	3,194.3	369.3	2,724.0	1,766.9	10,143.5	4,909.1	258,431.2
February	3,007.6	442.3	5,953.1	39,461.5	23,118.7	57,218.2	87,586.6	12,876.3	6,130.3	7,582.4	2,212.3	394.0	2,800.6	1,998.2	10,182.2	4,607.1	265,571.2
March	3,093.4	447.7	7,453.2	38,381.9	23,620.0	57,999.5	89,076.2	12,576.9	6,692.0	7,667.0	2,252.3	476.3	2,788.0	2,017.7	9,790.0	4,657.8	268,989.8
April	3,004.4	486.2	6,880.2	37,735.4	24,477.0	57,200.5	89,738.2	12,886.4	6,407.4	7,850.9	2,894.0	476.0	2,776.4	2,172.9	10,333.7	4,591.7	269,911.1
May	2,958.5	509.5	7,305.4	38,305.4	24,494.6	58,311.3	91,624.4	13,024.5	6,574.3	7,792.6	2,886.7	389.2	2,788.2	2,204.0	9,962.0	4,940.7	274,071.4
June	2,990.1	523.5	7,178.5	37,964.1	22,903.1	56,669.6	90,943.2	12,920.6	6,402.2	7,979.9	2,716.2	365.8	2,734.7	2,632.6	10,250.9	4,944.1	270,119.3
July	2,951.1	517.5	6,920.2	37,986.6	23,111.0	56,628.9	90,908.7	12,848.3	6,450.9	7,909.9	2,659.2	357.1	2,752.7	3,022.3	11,170.5	6,140.4	272,335.4
August	2,995.7	582.6	7,115.8	38,969.9	21,906.5	57,296.2	92,534.2	13,010.5	6,398.1	7,727.2	2,674.2	364.5	2,884.2	3,024.0	11,358.0	6,680.5	275,522.0
September	3,086.8	624.8	6,974.3	41,083.9	22,288.0	56,659.0	93,555.9	13,089.7	6,828.7	7,896.2	2,702.5	338.0	2,867.6	3,056.1	11,553.7	6,848.7	279,453.9
October	3,197.8	642.2	6,798.1	41,281.5	22,856.0	56,802.0	94,962.4	13,434.9	7,005.6	8,253.9	2,713.5	386.8	2,791.7	3,106.9	13,192.9	5,417.7	282,843.8
November	3,064.9	580.4	7,032.3	40,780.4	21,575.6	58,756.3	95,282.3	13,655.3	7,256.7	9,203.0	2,216.1	391.2	2,777.7	3,196.0	13,738.3	5,507.2	285,013.6
December	3,060.1	569.5	6,727.8	42,215.8	22,392.1	59,332.5	98,050.8	13,800.8	7,391.1	9,055.7	2,374.7	423.1	3,280.5	3,261.5	13,575.4	5,702.8	291,214.2

Source: Bank of Albania

3.10 LOANS BY DISTRICTS[1)]

(Millions of ALL)

	Total loans (1+2+3+4+5+6+7+8+9)									
	Tirana	Durrës	Elbasan	Shkodër	Korçë	Vlora	Fier	Lezhë	Other	
	1	2	3	4	5	6	7	8	9	10
2007 Q4	193,316.1	21,939.0	9,888.9	7,309.8	6,298.5	10,900.4	10,893.3	6,908.4	20,001.2	287,455.8
2008 Q4	263,703.1	28,769.9	12,272.0	10,237.4	7,912.8	14,724.4	13,244.0	8,708.3	28,754.4	388,326.2
2009 Q1	276,822.5	31,762.1	12,628.3	10,955.9	8,137.1	15,255.8	13,935.9	8,787.4	29,320.1	407,605.0
Q2	278,360.8	31,054.1	12,884.2	11,219.4	8,505.8	15,399.4	12,577.4	9,187.1	30,044.2	409,232.4
Q3	286,107.7	32,325.9	13,528.8	10,983.2	8,431.6	15,259.0	12,723.9	9,075.7	29,753.7	418,189.6
Q4	296,368.6	33,631.9	13,740.3	10,995.7	8,421.8	15,726.9	12,859.3	9,363.0	29,886.2	430,993.8

Source: Bank of Albania

[1)] Data on loans do not include acrued interests.

3.11 SECTORIAL BALANCE SHEET OF DEPOSIT MONEY BANKS

(Millions of ALL)

	Total assets (1+2+6+9+18+21+22+23)																							
	National currency	Foreign currency	Deposits (3+4+5)				Securities other than shares (7+8)			Loans (10+11+12+13+14+15+16+17)										Shares and other capital (19+20)			Other receivable accounts	Nonfinancial assets	
			Nonresidents	Bank of Albania	Deposit Money Banks		Nonresidents	Central Government		Non residents	Bank of Albania	Deposit Money Banks	Other Financial Corporations	Central Government	Public Nonfinancial Corporations	Other Nonfinancial Corporations	Other Resident Sectors		Non residents	Residents				
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
2007 December	6,214.6	9,698.0	83,653.3	66,426.5	2,388.0	152,467.7	7,451.5	254,729.9	262,181.5	2,923.6	-	200.1	97.4	-	3,923.0	182,049.1	103,376.0	292,569.1	1,499.2	96.9	1,596.1	2,978.9	11,230.7	738,936.7
2008 December	7,901.2	11,621.6	55,812.2	68,645.1	2,097.5	126,554.8	13,533.1	259,034.3	272,567.3	3,642.5	-	280.2	376.2	1,868.9	12,899.1	242,050.6	135,873.0	396,990.4	1,977.1	97.2	2,074.3	4,040.0	15,248.6	836,998.2
2009 January	7,728.4	10,263.1	60,027.0	64,535.7	4,553.9	129,116.5	12,998.3	253,133.1	266,131.4	3,797.8	-	1,070.3	341.9	1,915.5	13,328.3	246,435.7	137,375.3	404,264.8	2,000.0	97.8	2,097.7	4,428.9	15,346.9	839,377.8
February	7,414.2	9,605.4	56,562.5	62,254.8	3,638.5	122,455.8	12,248.3	252,818.3	265,066.6	4,005.9	-	1,013.3	405.0	1,949.5	14,575.6	252,542.1	139,448.4	413,939.7	1,999.9	98.0	2,097.9	4,727.1	15,318.1	840,624.9
March	8,200.6	9,869.3	55,101.5	62,343.7	4,581.7	122,027.0	12,481.7	249,138.4	261,620.1	4,244.3	-	625.0	392.4	1,972.6	14,227.6	256,301.3	140,333.6	418,096.7	1,983.9	97.8	2,081.7	4,841.6	15,462.5	842,199.4
April	8,002.9	10,655.8	55,970.2	61,075.2	5,601.4	122,646.8	11,125.4	252,548.8	263,674.1	4,018.6	-	595.0	378.6	1,978.7	14,791.9	256,898.9	140,734.2	419,396.0	2,000.4	97.8	2,098.2	5,167.0	15,626.3	847,267.0
May	7,887.8	9,447.1	56,304.8	61,063.6	4,360.0	121,728.4	11,439.4	260,657.0	272,096.4	4,131.4	-	1,445.4	400.7	3,979.3	14,651.3	261,618.7	141,438.3	427,665.1	2,017.8	207.2	2,225.0	4,804.0	15,724.4	861,578.2
June	7,725.8	10,044.1	36,966.8	63,653.2	7,640.4	108,260.4	11,152.5	261,790.7	272,943.2	4,365.0	-	595.4	388.0	3,948.6	12,634.4	259,162.6	140,551.7	421,645.8	1,939.9	207.1	2,147.0	4,738.9	15,769.8	843,275.1
July	7,545.8	11,447.0	38,733.1	60,949.0	6,258.9	105,941.0	11,058.9	258,033.8	269,092.7	3,147.9	-	805.0	372.8	7,269.9	12,597.1	261,594.3	139,331.0	425,118.1	1,905.4	207.1	2,112.5	4,970.1	15,780.4	842,007.6
August	9,332.0	13,120.9	52,393.8	61,243.0	7,013.1	120,649.9	11,700.9	260,830.9	272,531.9	5,741.6	-	280.0	364.0	7,465.7	12,840.3	264,990.7	139,699.3	431,381.6	1,948.4	307.1	2,255.5	4,893.6	15,800.3	869,965.6
September	8,462.9	11,976.1	48,872.8	64,934.4	9,459.7	123,267.0	13,111.1	260,970.9	274,082.0	6,493.3	-	310.0	357.2	7,653.6	12,814.9	268,609.8	140,243.7	436,482.5	1,931.2	307.1	2,238.3	6,291.8	14,622.1	877,422.5
October	7,975.9	11,481.3	51,347.9	64,057.3	8,919.1	124,324.3	9,064.5	261,885.0	270,949.5	11,130.1	-	745.1	4,199.6	7,863.5	13,044.7	268,005.8	142,169.7	447,158.6	1,973.7	307.1	2,280.8	6,286.8	14,565.8	885,023.0
November	7,871.1	10,959.6	46,700.4	65,864.2	10,597.4	123,162.0	13,137.4	264,534.4	277,671.8	12,385.2	-	685.4	6,187.1	7,833.4	12,012.3	269,873.0	142,325.3	451,301.7	1,954.5	307.1	2,261.5	6,322.6	14,413.3	893,963.8
December	7,707.7	12,931.0	43,335.1	68,007.2	7,774.0	119,116.3	14,179.6	265,279.4	279,459.0	14,325.7	-	220.0	6,032.3	7,775.9	12,056.3	275,479.8	141,015.7	456,905.6	1,914.9	307.3	2,222.2	5,829.5	14,619.3	898,790.5

	Total liabilities and capital (6+15+16+23+24+25)																									
	Deposits included in broad money (1+2+3+4+5)						Deposits excluded from broad money (7+8+9+10+11+12+13+14)									Securities other than shares	Loans (17+18+19+20+21+22)							Other accounts payable	Shares and other equity	
	Other Financial Corporations	Local Government	Public Nonfinancial Corporations	Other Nonfinancial Corporations	Other Resident Sectors		Nonresidents	Bank of Albania	Other Depository Corporations	Central Government	Other Financial Corporations	Public Nonfinancial Corporations	Other Nonfinancial Corporations	Other Resident Sectors			Nonresidents	Bank of Albania	Other Depository Corporations	Central Government	Other Financial Corporations	Other Nonfinancial Corporations				
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26
2007 December	2,411.3	1,056.6	21,900.1	83,440.2	492,833.4	601,641.6	14,780.9	66.4	2,847.8	1,669.9	0.4	262.8	8,544.5	9,784.2	37,956.9	-	29,371.0	1,605.2	608.9	131.1	243.6	492.2	32,452.0	7,191.8	59,694.4	738,936.7
2008 December	3,664.2	780.0	16,655.0	88,933.6	508,323.9	618,356.6	13,422.0	505.3	1,405.8	2,271.7	0.4	77.3	6,395.6	11,637.3	35,715.5	-	68,092.5	20,145.3	1,741.3	58.6	383.5	-	90,421.2	17,996.1	74,508.9	836,998.2
2009 January	4,158.9	818.7	17,098.8	83,444.0	512,542.9	618,063.3	13,549.3	467.4	2,895.5	2,138.7	0.4	82.8	6,217.4	12,183.1	37,534.5	-	68,529.3	15,506.7	3,979.3	56.9	380.3	-	88,452.6	18,495.5	76,831.8	839,377.8
February	3,828.6	768.5	18,119.1	71,748.0	514,882.5	609,346.8	14,977.5	1,293.6	1,774.3	2,757.3	0.4	87.3	6,106.8	12,711.5	39,708.8	-	71,736.5	18,494.6	3,655.7	58.0	392.3	-	94,337.0	20,465.3	76,766.9	840,624.9
March	3,443.4	1,349.4	18,601.0	71,979.4	507,656.5	603,029.7	15,754.6	1,191.9	2,613.7	3,916.3	0.4	78.7	6,280.4	12,797.5	42,633.5	-	71,673.0	22,250.6	3,379.3	58.8	397.3	-	97,758.9	21,864.2	76,913.1	842,199.4
April	3,577.3	1,044.5	18,360.9	77,516.3	505,740.6	606,239.6	13,369.7	320.6	3,045.4	3,663.4	0.4	79.1	5,776.9	12,878.9	39,134.3	-	69,593.1	28,245.1	4,156.6	105.0	398.9	-	102,498.8	22,961.6	76,432.6	847,267.0
May	4,190.6	1,108.3	19,219.8	79,899.1	508,472.5	612,890.3	15,321.0	890.4	2,920.9	2,967.0	0.4	78.9	5,537.8	12,932.3	40,648.8	-	70,280.5	31,265.6	3,652.5	162.9	404.7	-	105,766.3	24,171.7	78,101.1	861,578.2
June	4,316.7	1,085.7	18,934.8	75,381.5	510,727.8	610,446.4	13,492.1	1,715.6	2,483.3	2,915.8	0.4	82.8	5,579.4	12,307.3	38,576.7	-	51,672.2	31,330.0	6,523.0	166.0	392.5	-	90,083.7	22,931.6	81,236.6	843,275.1
July	3,850.1	937.9	17,478.0	72,291.8	515,315.6	609,873.4	13,734.8	274.7	2,640.2	2,618.2	0.4	92.5	5,406.8	12,385.7	37,153.4	-	50,979.7	32,562.7	5,407.8	153.9	389.7	-	89,493.8	24,713.6	80,773.4	842,007.6
August	4,052.9	1,013.4	18,017.6	80,679.3	532,002.6	635,765.7	14,300.2	834.2	1,691.3	2,729.1	0.4	104.5	5,597.6	10,971.7	36,229.2	-	44,745.6	36,687.6	6,776.3	196.7	398.9	-	88,805.1	26,277.4	82,888.2	869,965.6
September	4,475.0	1,215.2	18,412.2	74,746.2	540,883.8	639,732.4	14,358.7	20.5	3,291.0	2,455.6	0.4	119.6	5,875.7	11,238.7	37,360.2	-	44,126.6	34,234.0	8,313.5	198.4	3.5	-	86,876.1	28,390.6	85,063.3	877,422.5
October	5,078.2	1,135.2	19,185.6	73,675.0	550,603.3	649,677.4	15,257.6	1,238.1	2,153.0	2,564.3	0.4	241.2	6,088.0	11,113.7	38,656.2	-	40,882.3	31,056.8	9,713.4	202.7	3.5	-	81,858.8	28,157.3	86,673.4	885,023.0
November	4,609.8	1,179.5	18,923.8	74,689.4	556,801.9	656,204.4	16,228.2	404.2	3,583.2	2,397.1	0.4	113.7	6,302.5	11,216.2	40,245.6	-	38,483.2	32,066.3	9,825.7	204.0	3.6	-	80,582.7	29,913.6	87,017.6	893,963.8
December	5,133.6	799.4	17,945.0	70,360.5	566,647.2	660,885.7	15,509.2	113.4	1,805.2	2,294.3	0.4	234.3	5,466.5	11,525.7	36,949.0	-	42,785.1	32,377.0	8,606.3	218.1	1.0	-	83,987.5	27,654.3	89,314.0	898,790.5

Source: Bank of Albania

3.12 SECTORIAL BALANCE SHEET OF BANK OF ALBANIA

(Millions of ALL)

	Total assets (1+2+3+6+10+11+12+13)													
	Holdings of SDRs	Foreign currency	Deposits	Securities other than shares (4+5)			Loans (7+8+9)				Financial derivatives	Other receivable accounts	Nonfinancial assets	
				Nonresidents	Central Government		Central Government	Other Depository Corporations	Other Resident Sectors					
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
2007 December	163.3	5.1	45,773.8	132,843.0	72,892.2	205,735.1	-	1,603.5	1,047.9	2,651.4	-	13,406.0	4,573.4	272,308.1
2008 December	641.8	1,068.6	64,087.6	142,952.5	75,167.2	218,119.8	3,000.0	20,141.0	1,177.6	24,318.6	-	12,891.3	5,278.7	326,406.4
2009 January	751.3	1,130.6	56,331.5	158,844.6	74,878.7	233,723.3	3,018.3	15,499.5	1,201.1	19,718.9	-	7,586.9	5,671.3	324,913.8
February	603.1	1,169.8	51,028.3	166,780.2	74,976.9	241,757.1	-	18,486.7	1,227.0	19,713.7	-	7,573.8	6,096.7	327,942.5
March	528.7	1,154.3	46,017.5	160,102.5	75,113.7	235,216.2	7,034.0	22,246.6	1,227.2	30,507.9	-	7,879.8	5,895.3	327,199.7
April	531.2	1,051.5	52,790.4	152,140.2	75,058.0	227,198.2	7,019.3	28,240.1	1,243.0	36,502.4	-	7,818.7	5,832.6	331,725.0
May	517.6	663.0	58,874.9	151,917.6	75,087.7	227,005.3	-	31,249.7	1,275.2	32,525.0	-	9,737.3	5,981.8	335,304.8
June	269.0	653.4	84,249.1	137,504.6	75,031.6	212,536.2	-	31,324.1	1,278.2	32,602.3	-	12,933.3	5,937.0	349,180.5
July	856.5	645.4	59,686.4	165,079.0	74,777.3	239,856.3	-	32,556.5	1,328.1	33,884.6	19.2	9,556.3	5,837.0	350,341.9
August	5,973.0	664.8	47,424.5	173,322.1	71,186.4	244,508.5	-	36,679.6	1,415.9	38,095.5	7.3	9,550.0	5,911.0	352,134.7
September	7,416.9	688.4	59,098.1	165,345.5	71,338.4	236,683.9	-	34,228.7	1,453.0	35,681.8	14.0	11,158.1	6,036.3	356,777.4
October	7,524.0	686.6	62,710.8	164,874.8	75,184.9	240,059.8	-	31,046.7	1,473.6	32,520.3	11.7	10,575.1	6,220.6	360,309.0
November	7,558.4	690.3	58,616.2	161,922.9	75,394.9	237,317.8	-	32,041.9	1,478.5	33,520.4	11.1	10,645.1	6,614.8	354,974.1
December	7,546.1	705.8	54,391.6	165,853.4	77,289.4	243,142.8	-	32,371.7	1,513.5	33,885.2	10.7	13,279.2	6,590.9	359,552.4

	Total liabilities and capital (1+2+8+12+13+14+15)															
	Currency in circulation	Deposits included in broad money	Deposits excluded from broad money (3+4+5+6+7)						Loans (9+10+11)				Other accounts payable	SDR Allocations	Shares and other equity	
			Non residents	Central Government	Other Depository Corporations	Other Nonfinancial Corporations	Other Resident Sectors		Non residents	Central Government	Other Depository Corporations					
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
2007 December	161,181.9	13.4	7,150.5	20,775.7	67,035.6	8.2	586.7	95,556.8	1,186.4	-	-	1,186.4	7,590.1	-	6,779.5	272,308.1
2008 December	203,732.8	203.1	6,783.7	19,334.8	67,793.3	12.2	890.7	94,814.7	1,173.4	-	-	1,173.4	7,024.2	-	19,458.1	326,406.4
2009 January	204,405.8	597.1	6,942.1	13,196.2	64,333.7	13.5	791.6	85,277.0	1,193.2	-	-	1,193.2	7,409.2	-	26,031.5	324,913.8
February	207,616.3	(2.7)	6,943.1	10,082.6	61,318.3	13.8	616.6	78,974.4	1,217.3	-	-	1,217.3	7,630.5	-	32,506.6	327,942.5
March	209,200.2	(2.5)	6,942.2	10,681.5	61,686.2	14.5	809.6	80,134.0	1,218.9	-	-	1,218.9	7,197.9	-	29,451.2	327,199.7
April	210,835.2	157.3	6,940.7	13,519.6	61,086.8	14.9	1,205.3	82,767.2	1,218.6	-	-	1,218.6	6,886.5	-	29,860.2	331,725.0
May	210,092.0	(2.4)	7,980.8	17,519.8	60,611.1	14.5	675.8	86,802.1	1,232.4	-	-	1,232.4	8,364.4	-	28,816.3	335,304.8
June	215,331.8	5.2	7,980.9	24,434.6	62,142.7	14.9	712.8	95,285.8	1,216.8	-	-	1,216.8	10,716.8	-	26,624.1	349,180.5
July	217,260.4	524.9	7,980.7	28,436.0	60,919.1	15.3	1,175.6	98,526.8	1,207.6	-	-	1,207.6	6,997.4	-	25,824.9	350,341.9
August	217,250.1	(2.4)	7,980.9	20,793.1	60,935.5	15.6	1,260.4	90,985.5	1,227.6	-	-	1,227.6	7,867.2	5,232.4	29,574.3	352,134.7
September	210,895.1	(0.1)	7,980.7	24,467.6	65,179.0	15.7	1,269.4	98,912.5	1,233.5	-	-	1,233.5	7,011.7	6,734.0	31,990.7	356,777.4
October	208,634.8	262.0	7,980.9	28,782.6	63,060.3	16.7	1,209.9	101,050.3	1,261.5	-	-	1,261.5	6,525.8	6,831.2	35,743.3	360,309.0
November	208,683.7	(2.2)	7,980.7	18,622.1	65,694.7	16.3	981.7	93,295.5	1,271.9	-	-	1,271.9	6,657.1	6,865.8	38,202.3	354,974.1
December	216,767.6	0.6	7,981.6	10,897.5	68,071.5	17.0	692.9	87,660.4	1,269.2	-	-	1,269.2	6,903.5	6,954.1	39,997.0	359,552.4

Source: Bank of Albania

4. FINANCIAL MARKETS

4.1 CURRENCY BREAKDOWN OF INTEREST RATES ON NEW LOANS*

In percentage

	Interest rates on loans in ALL				
	Up to 6 months	6 months - 1 year	1-3 years	3 - 5 years	Over 5 years
2007 December	13.85	13.55	14.55	14.64	13.72
2008 December	11.18	11.11	13.29	13.35	13.60
2009 January	11.74	12.85	15.49	14.82	14.08
February	11.31	3.12	16.26	15.39	14.75
March	11.12	12.96	17.01	16.37	14.84
April	12.75	12.79	18.06	16.55	14.42
May	11.81	12.78	16.71	16.50	13.44
June	12.47	12.03	17.34	11.40	13.72
July	11.93	11.99	13.22	16.10	13.76
August	12.86	12.16	13.58	15.65	13.66
September	15.89	12.67	15.95	16.31	13.98
October	14.95	13.04	16.78	16.76	14.13
November	12.91	12.29	16.66	15.48	14.16
December	12.20	12.04	15.71	16.20	13.75

	Interest rates on loans in USD				
	Up to 6 months	6 months - 1 year	1-3 years	3 - 5 years	Over 5 years
2007 December	8.78	8.46	7.79	8.81	8.91
2008 December	6.84	6.98	6.96	7.29	6.02
2009 January	6.44	6.45	3.40	5.72	5.93
February	7.45	6.02	8.18	4.07	3.61
March	7.38	8.00	5.49	5.89	6.87
April	7.24	6.57	6.43	10.00	6.15
May	7.82	8.74	5.74	6.74	5.34
June	6.32	8.68	9.19	6.86	6.81
July	6.96	9.33	5.47	7.00	6.31
August	7.77	9.36	7.57	5.36	7.45
September	6.54	7.03	7.64	7.92	10.07
October	7.95	7.33	9.00	8.10	9.16
November	8.46	7.79	7.10	8.26	9.46
December	8.02	6.37	9.33	8.68	6.79

	Interest rates on loans in Euro				
	Up to 6 months	6 months - 1 year	1-3 years	3 - 5 years	Over 5 years
2007 December	8.73	8.88	9.30	9.23	8.26
2008 December	8.18	6.72	7.89	6.83	7.42
2009 January	8.73	7.28	7.45	7.51	6.95
February	8.80	7.12	8.39	7.56	6.77
March	7.66	7.42	9.67	7.40	7.53
April	8.18	7.23	8.89	8.41	7.52
May	9.09	7.98	6.08	8.03	7.70
June	8.53	6.23	9.60	7.88	7.18
July	9.49	7.29	8.55	8.63	7.76
August	7.65	8.12	6.57	7.83	7.57
September	8.39	7.50	9.21	8.28	7.68
October	9.31	7.82	8.18	8.25	7.41
November	8.23	8.09	8.80	8.94	7.87
December	8.14	8.31	9.24	8.15	8.44

Source: Bank of Albania

**Weighted average interest rates.*

4.2 CURRENCY BREAKDOWN OF INTEREST RATE ON NEW DEPOSITS*

In percentage

	Interest rates in ALL								
	60 months	48 months	36 months	24 months	12 months	6 months	3 months	1 months	Current accounts
2007 December	8.00	-	7.30	6.59	6.33	5.50	4.85	3.21	0.11
2008December	7.51	-	7.49	6.83	6.86	5.76	5.23	3.95	0.26
2009 January	7.93	-	7.61	6.98	6.93	6.05	6.32	3.95	0.27
February	6.85	-	7.51	6.79	6.68	5.69	5.13	3.94	0.26
March	8.97	-	7.88	6.48	6.57	5.52	4.97	4.29	0.29
April	7.57	-	7.87	6.76	6.67	5.86	4.96	3.85	0.30
May	7.40	-	8.27	7.25	6.92	6.10	4.85	4.87	0.29
June	7.28	-	8.11	7.22	6.80	5.91	4.68	4.92	0.29
July	7.53	-	7.95	6.94	6.74	5.76	4.75	4.82	0.29
August	7.01	-	7.62	7.38	6.79	5.74	4.67	4.95	0.30
September	7.91	8.30	7.75	7.74	6.80	5.49	4.85	4.91	0.25
October	7.47	-	7.61	7.32	6.85	5.71	4.84	4.62	0.29
November	7.03	-	7.99	7.43	6.77	5.76	5.04	4.41	0.27
December	8.06	8.30	7.66	7.58	6.75	5.50	4.96	4.65	0.27

	Interest rates in USD								
	60 months	48 months	36 months	24 months	12 months	6 months	3 months	1 months	Current accounts
2007 December	5.20	-	5.04	4.43	4.10	3.63	3.37	3.59	0.11
2008 December	-	-	1.80	2.44	2.55	2.20	2.07	1.76	0.14
2009 January	-	-	1.68	2.61	2.68	2.07	2.65	1.33	0.08
February	-	-	1.92	1.95	2.25	1.77	1.74	1.48	0.07
March	2.50	-	1.86	3.06	1.89	1.74	1.73	1.19	0.07
April	-	-	1.68	2.42	2.34	1.78	1.57	1.27	0.08
May	-	-	2.59	2.53	2.39	2.09	1.85	1.02	0.09
June	2.07	-	2.66	2.32	2.35	2.02	1.64	1.12	0.08
July	3.70	-	2.54	2.15	2.48	1.86	1.63	1.28	0.09
August	3.30	-	2.59	2.28	2.97	1.88	1.63	1.19	0.09
September	2.15	-	6.94	2.32	2.31	1.75	1.24	1.07	0.07
October	2.29	-	3.47	1.85	1.98	1.50	1.16	1.12	0.09
November	3.85	-	2.52	2.88	2.06	1.53	1.22	0.96	0.08
December	2.40	-	2.71	2.12	1.91	1.35	1.18	1.08	0.08

	Interest rates in EURO								
	60 months	48 months	36 months	24 months	12 months	6 months	3 months	1 months	Current accounts
2007 December	5.61	-	4.51	4.44	4.23	3.92	3.59	2.69	0.11
2008 December	4.71	-	4.80	4.71	4.70	4.24	4.13	2.94	0.15
2009 January	5.03	-	4.85	4.74	4.71	4.33	4.80	2.66	0.15
February	3.95	-	4.18	4.54	4.47	3.98	3.98	2.22	0.15
March	4.92	-	4.25	5.30	4.42	4.21	3.63	2.38	0.15
April	5.57	-	5.40	4.86	4.45	3.97	3.71	2.62	0.15
May	5.77	-	5.15	5.08	4.75	4.58	3.77	2.19	0.15
June	4.99	4.90	5.09	5.18	4.63	4.33	3.25	1.92	0.15
July	5.66	-	4.45	4.96	4.34	3.88	3.26	1.74	0.13
August	5.58	-	4.86	4.84	3.95	3.93	3.24	1.70	0.15
September	4.92	-	5.56	5.17	4.22	3.72	2.98	1.86	0.11
October	5.22	-	5.31	4.88	4.38	3.85	3.17	2.04	0.13
November	5.43	-	5.16	4.62	4.25	3.77	3.18	1.73	0.15
December	5.04	-	4.57	4.57	3.75	3.40	3.04	1.79	0.13

Source: Bank of Albania

**Weighted average interest rates.*

4.3 TREASURY BILLS YIELDS*

In percentage

	Maturity breakdown of Treasury bill yields		
	3 month	6 month	12 month
2007 January	6.32	7.18	7.87
February	6.17	7.07	7.72
March	5.76	6.70	7.16
April	5.76	6.98	7.67
May	5.75	7.20	7.99
June	5.68	7.21	7.96
July	5.81	7.26	7.99
August	5.78	7.25	7.97
September	5.74	7.27	7.99
October	6.06	7.38	8.10
November	6.04	7.35	8.07
December	6.32	7.41	8.26
2008 January	6.27	7.36	8.23
February	6.26	7.29	8.00
March	6.25	7.36	8.02
April	6.29	7.41	8.12
May	6.28	7.48	8.16
June	6.27	7.46	8.20
July	6.28	7.46	8.21
August	6.26	7.39	8.15
September	6.25	7.33	8.02
October	6.23	7.20	7.94
November	6.05	7.42	8.10
December	6.27	7.45	8.56
2009 January	6.30	7.46	8.84
February	5.99	7.46	8.87
March	6.08	7.61	9.07
April	6.31	7.68	9.13
May	6.28	7.67	9.15
June	6.37	7.67	9.23
July	6.31	7.67	9.26
August	6.31	7.67	9.28
September	6.34	7.70	9.33
October	6.36	7.73	9.42
November	6.32	7.65	9.30
December	6.30	7.52	9.14

Source: Bank of Albania

**Weighted average interest rates.*

5. EXCHANGE RATE

5.1 THE ALL OFFICIAL EXCHANGE RATE VERSUS FOREIGN CURRENCIES

(ALL per unit of foreign currencies)

Main foreign currencies	Period weighted average				End of period			
	US Dollar (USD)	European currency (EUR)	British pound sterling (GBP)	Swiss Franc (CHF)	US Dollar (USD)	European currency (EUR)	British pound sterling (GBP)	Swiss Franc (CHF)
	1	2	3	4	5	6	7	8
2004	102.78	127.67	188.22	82.70	92.64	126.35	178.69	81.87
2005	99.87	124.19	181.58	80.23	103.58	122.58	178.65	78.86
2006	98.10	123.08	180.56	78.29	94.14	123.85	184.65	77.17
2007	90.43	123.62	180.83	75.31	82.89	121.78	166.02	73.65
2008	83.89	122.80	154.37	77.50	87.91	123.80	127.66	82.97
2009 January	94.62	125.18	136.52	83.80	98.10	126.30	140.12	84.91
February	100.65	128.79	145.01	86.37	102.49	129.84	145.31	87.35
March	100.50	130.67	142.37	86.98	98.63	131.02	140.86	86.54
April	98.83	130.46	145.12	86.09	98.48	131.08	146.06	86.76
May	96.80	132.05	149.32	87.39	94.45	132.50	152.14	87.58
June	93.59	131.16	152.99	86.59	92.73	130.76	153.99	85.80
July	92.08	129.66	150.59	85.32	91.90	129.61	152.24	84.63
August	91.89	131.01	151.90	86.00	92.67	132.37	150.12	87.37
September	92.05	133.94	150.30	88.48	91.88	134.51	147.73	89.27
October	92.42	136.90	149.53	90.50	92.62	137.49	153.26	91.16
November	92.34	137.70	153.38	91.17	91.76	138.44	151.98	91.82
December	93.98	137.17	152.48	91.32	95.81	137.96	154.64	93.04

Source: Bank of Albania

6. INTEREST RATES OF MONETARY POLICY INSTRUMENTS

6.1 KEY INTEREST RATES OF THE BANK OF ALBANIA

(In percentage)

		Overnight deposit		Weekly repurchase agreement		Overnight credit		Lombard credit	
		Level	Change	Level	Change	Level	Change	Level	Change
		1	2	3	4	5	6	7	8
2004	29 Apr.	3.25	-	6.25	-	8.75	-	12.25	-
	12 May	3	-0.25	6	-0.25	8.5	-0.25	12	-0.25
	24 Jun.	2.75	-0.25	5.75	-0.25	8.25	-0.25	11.75	-0.25
	28 Jul.	2.5	-0.25	5.5	-0.25	8	-0.25	11.5	-0.25
	04 Nov.	2.25	-0.25	5.25	-0.25	7.75	-0.25	11.25	-0.25
2005	31 Mar.	2	-0.25	5	-0.25	7.5	-0.25	11	-0.25
	27 Jul.	3.25	1.25	5	-	6.75	-0.75	11	-
2006	12 Jul.	3.5	0.25	5.25	0.25	7	0.25	11.25	0.25
	30 Nov.	3.75	0.25	5.5	0.25	7.25	0.25	11.5	0.25
2007	28 Jun.	4	0.25	5.75	0.25	7.5	0.25	11.75	0.25
	27 Sep.	4.25	0.25	6	0.25	7.75	0.25	12	0.25
	30 Nov.	4.5	0.25	6.25	0.25	8	0.25	12.25	0.25
2008	24 Dec.	4.5	-	6.25	-	7	-1	12.25	-
2009	28 Jan.	4.5	-	6.25	-	7	-	12.25	-
	29 Jan.	4	-0.5	5.75	-0.5	6.5	-0.5	11.75	-0.5
	28 Oct.	3.5	-0.5	5.25	-0.5	6	-0.5	11.25	-0.5

Source: Bank of Albania

7. EXTERNAL SECTOR STATISTICS

7.1 BALANCE OF PAYMENTS (EUR MILLIONS)

	Current Account									
				Trade Balance	Services		Income		Private Transfers	Official Transfers
		Export of goods (fob)	Import of goods (fob)		Credit	Debit	Credit	Debit		
	1=4+5+6+7+8+9+10	2	3	4=2+3	5	6	7	8	9	10
2005	-589.1	530.2	-2,006.9	-1,476.7	967.3	-1,107.7	168.2	-37.0	835.5	61.4
2006	-471.0	630.7	-2,289.6	-1,659.0	1,156.6	-1,188.1	263.2	-54.4	968.1	42.5
2007	-831.0	786.3	-2,890.4	-2,104.0	1,415.2	-1,402.3	278.6	-61.4	982.8	60.1
2008	-1,370.3	917.5	-3,348.9	-2,431.5	1,687.8	-1,618.3	321.4	-266.5	905.4	31.4
2009	-1,327.0	750.7	-3,054.4	-2,303.7	1718.5	-1597.5	274.1	-352.8	907.4	27.1

	Capital Account	Financial Account					Net Errors and Omissions	Overall Balance	Reserve Assets	Total change in Reserve Assets	Of which: Revaluation
			Foreign Direct Investment	Portfolio Investment	Other Capital*	Use of Fund Credit and Loans					
	11	12=13+14+15+16	13	14	15	16	17	18=1+11+12+17	19	20	21
2005	99.2	351.8	209.3	-2.0	135.1	9.4	262.9	124.8	-124.8	-47.4	-77.4
2006	143.4	415.0	250.3	27.2	131.8	5.8	119.2	206.6	-206.6	-159.2	-47.9
2007	90.1	758.3	470.1	18.5	264.3	5.5	131.2	148.6	-148.6	99.1	-49.6
2008	78.2	1,502.7	620.0	-44.5	932.4	-5.2	-18.7	191.9	-191.9	218.4	26.5
2009	84.9	933.4	664.2	14.2	262.4	-7.4	276.7	-32.0	32.0	-33.1	-1.1

Source: Bank of Albania

1/ Excluding Use of Fund Credit and Loans.

7.2 GEOGRAPHICAL BREAKDOWN OF EXPORTS OF GOODS*

(EUR millions)

	European Union															
	Total	Austria	Belgium	United Kingdom	Denmark	Finland	France	Germany	Greece	Ireland	Italy	Luxemburg	Netherlands	Portugal	Spain	Sweden
	1=sum (2-16)	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
2004	436.5	1.6	0.3	0.2	0.1	-	2.5	15.0	58.4	-	354.6	-	0.9	-	0.5	2.4
2005	466.7	1.2	0.3	0.7	0.2	-	3.7	17.6	55.4	-	383.9	-	0.7	-	0.5	2.5
2006	553.5	1.8	0.5	0.5	0.4	0.0	4.4	19.9	60.7	0.1	457.9	-	1.4	-	0.8	5.3
2007	642.9	1.9	0.3	1.8	0.2	0.1	4.9	19.2	65.0	-	535.0	0.2	0.5	-	1.3	12.5
2008	715.7	6.2	0.4	0.6	0.4	3.4	7.8	24.6	80.4	6.9	566.6	-	13.3	-	1.4	3.8
2009	576.1	9.8	1.9	0.9	0.3	0.2	7.0	25.0	56.4	-	459.6	1.3	4.9	-	8.3	0.8

	Countries of the region										Others
	Total	Bulgaria	Bosnia and Herzegovina	Croatia	Serbia and Montenegro	Serbia	Montenegro	Macedonia FYR	Romania	Turkey	
	1=sum(2-10)	2	3	4	5	6	7	8	9	10	11
2004	19.2	1.3	0.3	0.3	1.8	-	-	6.0	0.2	9.2	29.9
2005	27.2	2.9	0.9	0.2	4.5	-	-	8.3	1.3	9.1	36.4
2006	35.0	2.6	3.4	1.8	8.5	-	-	10.1	0.5	8.0	42.2
2007	65.1	5.4	3.2	0.7	-	14.1	3.5	18.5	2.4	17.3	81.8
2008	74.8	6.6	1.5	1.5	-	0.5	19.0	27.0	1.5	17.1	127.0
2009	48.2	4.7	0.8	0.9	-	0.0	10.4	23.9	3.3	4.3	126.2

7.3 EXPORTS BY PRODUCT GROUPS (SITC)

(EUR millions)

	Total										
	Total	Food and live animals	Beverages and tobacco	Crude materials, inedible, except fuels	Mineral fuels, lubricants and related materials	Animal and vegetable oils, fats and waxes	Chemicals and related products, n.e.s.	Manufactured goods classified chiefly by material	Machinery and transport equipment	Miscellaneous manufactured articles	Commodities and transactions not classified
	1=sum(2-11)	2	3	4	5	6	7	8	8	10	11
2004	485.6	19.8	7.6	18.5	13.2	0.3	2.8	97.3	19.1	307.0	-
2005	530.2	20.4	9.6	25.6	15.4	0.2	4.8	114.3	22.2	317.7	-
2006	630.7	26.8	8.3	34.8	27.3	0.4	6.2	141.5	24.5	360.9	-
2007	786.3	28.4	11.0	75.6	62.5	0.7	8.2	167.4	33.1	399.4	-
2008	917.5	32.3	2.6	108.3	81.9	0.2	10.3	232.3	38.0	411.6	-
2009	750.7	36.0	3.4	81.2	90.8	0.3	12.6	136.2	34.8	355.5	-

Source: General Directory of Customs. Statistics are compiled in concordance with the BoP methodology framework.

7.4 GEOGRAPHICAL BREAKDOWN OF IMPORTS OF GOODS*

(EUR millions)

	European Union															
	Total	Austria	Belgium	United Kingdom	Denmark	Finland	France	Germany	Greece	Ireland	Italy	Luxemburg	Netherlands	Portugal	Spain	Sweden
	1=sum(2-16)	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
2004	1,190.25	20.5	14.3	10.5	4.1	3.9	25.7	113.8	340.9	5.9	596.6	0.6	13.7	1.3	27.7	10.9
2005	1,258.03	35.9	15.9	18.2	4.0	11.4	25.3	112.8	346.2	8.9	610.8	0.9	17.7	2.1	35.7	12.3
2006	1,385.32	29.0	20.4	33.6	3.6	6.2	23.1	136.2	380.7	7.4	677.2	0.8	12.1	1.8	41.2	12.0
2007	1,647.24	39.6	10.2	37.6	3.7	10.2	30.2	166.9	444.4	8.4	826.2	2.2	16.1	2.6	40.4	8.4
2008	1,928.30	45.3	10.1	37.0	4.9	12.9	42.6	215.9	523.7	7.1	945.8	0.4	19.2	2.3	49.8	11.4
2009	1,849.39	40.3	10.9	39.6	4.7	7.4	67.6	209.4	504.9	8.2	850.1	0.3	36.6	2.8	51.7	15.0

	Countries of the region										Others
	Total	Bulgaria	Bosnia and Herzegovina	Croatia	Serbia and Montenegro	Serbia	Montenegro	Macedonia FYR	Romania	Turkey	
	1=sum(2-10)	2	3	4	5	6	7	8	9	10	11
2004	229.5	36.9	0.9	23.8	10.7	-	-	19.1	8.0	130.1	410.7
2005	296.5	59.2	2.7	25.0	13.2	-	-	25.8	15.3	155.3	529.3
2006	392.1	66.3	6.6	34.6	21.6	-	-	38.9	41.9	182.4	633.5
2007	452.8	54.3	9.2	29.7	-	63.7	2.6	59.1	13.1	221.3	947.2
2008	432.4	68.5	10.3	35.6	-	0.3	6.0	78.9	19.4	213.4	1,209.4
2009	401.8	61.3	7.8	32.2	-	0.0	5.9	59.8	26.2	208.6	997.6

7.5 IMPORTS BY PRODUCT GROUPS (SITC)

(EUR millions)

	Total										
	Total	Food and live animals	Beverages and tobacco	Crude materials, inedible, except fuels	Mineral fuels, lubricants and related materials	Animal and vegetable oils, fats and waxes	Chemicals and related products, n.e.s.	Manufactured goods classified chiefly by material	Machinery and transport equipment	Miscellanous manufactured articles	Commodities and transactions not classified
	1=sum(2-11)	2	3	4	5	6	7	8	9	10	11
2004	1,830.5	266.1	61.5	58.8	141.1	26.5	166.6	427.5	431.5	250.9	-
2005	2,083.9	272.3	64.7	75.9	181.8	28.5	201.8	509.8	489.0	260.1	-
2006	2,410.9	320.9	77.3	86.1	254.9	31.5	252.5	618.2	484.7	284.7	-
2007	3,044.7	379.3	89.4	68.2	446.4	34.0	302.2	754.9	630.9	339.5	-
2008	3,570.2	424.6	112.8	74.4	573.6	51.6	346.7	848.6	783.8	354.2	-
2009	3,248.8	395.1	123.8	95.7	382.6	39.2	362.5	811.9	741.9	296.0	-

Source: General Directory of Customs. Statistics are compiled in concordance with the BoP methodology framework.

Imports are valued in c.i.f.

7.6 INTERNATIONAL INVESTMENT POSITION

(EUR millions)

		International investment position												
		Assets												
			Direct investment abroad			Portfolio investment			Financial derivatives	Other investments					Reserve assets
				Equity capital and reinvested earnings	Other capital		Equity securities	Debt securities			Trade credits	Loans	Currency and deposits	Other assets	
	1=2-16	2=3+6+9+10+15	3=4+5	4	5	6=7+8	7	8	9	10=11+12+13+14	11	12	13	14	15
2005	-504.1	1,939.9	8.1	8.1	-	121.6	-	121.6	-	601.5	-	14.6	585.0	1.9	1,208.7
2006	-581.9	2,275.1	31.0	31.0	-	85.4	-	85.4	-	790.4	-	43.9	734.3	12.2	1,368.2
2007	-1,299.5	2,390.0	50.6	50.6	-	61.2	-	61.2	-	801.5	-	30.2	754.8	16.6	1,476.7
2008	-2,219.1	2,523.8	104.7	102.9	1.8	133.9	-	133.9	-	591.5	-	30.8	542.4	18.3	1,693.8

	Liabilities											
		Direct investment in the reporting economy			Portfolio investment			Financial derivatives	Other investments			
			Equity capital and reinvested earnings	Other capital		Equity securities	Debt securities		24=25+26+27+28	Trade credits	Loans	Currency and deposits	Other liabilities
	16=17+20+23+24	17=18+19	18	19	20=21+22	21	22	23		25	26	27	28
2005	2,444.0	846.2	806.1	40.0	60.2	20.4	39.8	-	1,537.6	64.1	1,391.8	67.8	13.9
2006	2,857.0	1,054.3	982.4	71.9	64.6	22.1	42.5	-	1,738.0	71.7	1,460.0	92.9	113.4
2007	3,689.5	1,688.5	1,621.6	66.9	110.1	60.8	49.3	-	1,890.9	86.8	1,604.3	166.6	33.2
2008	4,742.9	1,986.0	1,857.6	128.4	131.7	72.6	59.2	-	2,625.2	100.1	2,332.1	161.8	31.2

Source: Bank of Albania

7.7 EXTERNAL DEBT

(EUR millions)

	Gross external debt												
		General government			Monetary authorities			Banks			Other sectors			Direct investment - intercompany lending
			Short term	Long term		Short term	Long term		Short term	Long term		Short term	Long term	
	1=2+5+8 +11+14	2=3+4	3	4	5=6+7	6	7	8=9+10	9	10	11=12+13	12	13	14
2005	1,648.4	971.2	-	971.2	88.1	-	88.1	127.3	127.3	-	390.8	70.9	319.9	71.0
2006	1,877.9	975.8	-	975.8	80.3	-	80.3	306.7	306.7	-	417.8	79.7	338.1	97.4
2007	2,089.6	987.5	-	987.5	70.8	-	70.8	417.1	417.1	-	464.8	96.3	368.5	149.4
2008	3,077.7	1,323.9	-	1,323.9	66.8	-	66.8	714.3	714.3	-	579.4	107.5	471.9	393.3
2009	3,310.6	1,645.2	-	1,645.2	109.0	-	109.0	479.4	479.4	-	651.6	98.7	552.9	425.4

Source: Bank of Albania